Corporate and personal income tax developments in Egypt – new legislation now in force

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The draft law that was issued by the Egyptian Ministry of Finance last month to amend certain provisions of the current Egyptian Income Tax Law (Law no. 53 of 2014) has now been finalised and has entered into force on 21 August 2015. Notable aspects of the new law include a reduction in the corporate income tax rate and changes in the tax treatment of dividend income.

The law also addresses the treatment of capital gains on listed and unlisted shares – confirming the two (2) year suspension of capital gains tax on the disposal of listed shares.

There are a number of areas in the new law that are still unclear. This newsalert is based on our interpretation of the amendments to the Egyptian tax law and is subject to further clarifications from the Egyptian tax authority.

In detail

Corporate Tax

The corporate income tax rate is reduced from 25% to 22.5%. PwC's interpretation is that this change will be effective from the current fiscal year (2015).

The temporary 5% surtax which was introduced in 2014, is abolished for any fiscal year ending after 5 June 2015.

Dividend income

Dividends distributed by resident companies to resident or non-resident individuals or companies are subject to a 10% withholding tax. The withholding tax rate is reduced to 5% for qualifying dividends (dividends earned from participations representing more than 25% of the shares or voting rights of the subsidiary company, subject to a two year minimum holding period).

The law clarifies that dividend income earned by resident companies and resident individuals from Egyptian companies is excluded from taxable income for income tax purposes, and any associated costs are non-deductible. Note that the provision in the law stating that associated costs with respect to qualifying dividends are 10% of the dividend received (i.e. 90% participation exemption) has not been eliminated. PwC's interpretation is that the tax authorities will need to define associated costs with respect to non-qualifying dividends.

Profits of foreign companies operating in Egypt through a permanent establishment ("PE") are deemed to have been distributed within 60 days following the PE's fiscal yearend. Such profits also attract a 5% withholding tax.

Dividends in the form of shares (i.e. stock dividends) are not subject to dividend withholding tax.

Distributions made by free zone companies are not subject to dividend withholding tax.

Capital gains

Sale of listed shares

Capital gains realised from the sale of listed Egyptian shares by both resident and non-resident shareholders are subject to a 10% withholding tax. However, the application of this tax is suspended for two years, as of the 17th of May 2015 (i.e. the date of the official announcement made by the Cabinet of Ministers regarding this exemption).

Sale of unlisted shares

Capital gains realised from the sale of unlisted Egyptian shares by both resident and non-resident shareholders are subject to the regular tax rate for corporate shareholders (22.5%) and individual shareholders (progressive rates of up to 22.5%).

The 6% withholding tax applicable to capital gains realised by non-residents from the sale of shares of Egyptian companies is eliminated. The new law provides that "the party executing the transaction shall notify the tax authority of the amount of capital gains realised" and that "a reconciliation shall be made for the amount of tax due and payable by the non-resident at the end of the fiscal year". The executive regulations that will be issued in connection with the amended provisions of the law are expected to clarify the mechanism for notification and payment of tax on the disposal of Egyptian shares by non-residents.

Foreign tax credits

Resident individuals may deduct foreign taxes paid on income from commercial and industrial activities, non-commercial professions, dividends and capital gains derived from abroad, from taxes due in Egypt on such income, and within the limits of the taxes due in Egypt.

Amendments to the annual personal income tax brackets

The personal income tax brackets are amended as follows:

Bracket	Range	Tax rate
First	Up to EGP 6,500	Exempt
Second	Exceeding EGP 6,500 and up to EGP 30,000	10%
Third	Exceeding EGP 30,000 and up to EGP 45,000	15%
Fourth	Exceeding EGP 45,000 and up to EGP 200,000	20%
Fifth	Exceeding EGP 200,000	22.5%

PwC's interpretation is that these brackets and rates will be effective from the current fiscal year (2015) and a reconciliation will be required at year end.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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