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# Indirect Tax Newsletter

## Egypt

# General Overview



- The government of Egypt has released the VAT Law on 7 September 2016 and enacted it as of the following day of being published in the official Gazette i.e. on 8 September 2016. VAT is to be levied on all commodities and services including the local or imported commodities and services listed in the table attached to the tax law in all its circulated stages.



- The VAT Law number 67 of 2016 shall supersede the sales tax law number 11 of 1991.



- A transitional period of three (3) months period shall be applied to set the house in order without imposing surcharge provided; that the tax differences are relatively connected to setting the house in order.



## Scope of VAT Application

All commodities and services would be subject to VAT with the eligibility to set off the tax that was previously paid on direct and indirect inputs of such commodities and services during its all circulated stages as the burden of tax is ultimately borne by consumer.

# Registration Threshold & Requirements



The company's annual turnover registration threshold required for VAT purposes would be **EGP 500K**.



Voluntary registration is available for whom so ever desires.



Automatic repeal of registration for the registrants who are not reached the threshold required for VAT registration purposes shall take place, unless they apply to continue being registered within sixty (60) days and those whose registration had been repealed, must submit a tax return for the last tax period.



A registrant under the repealed sales tax law who reaches the threshold required for VAT registration will continue to maintain its registration number.

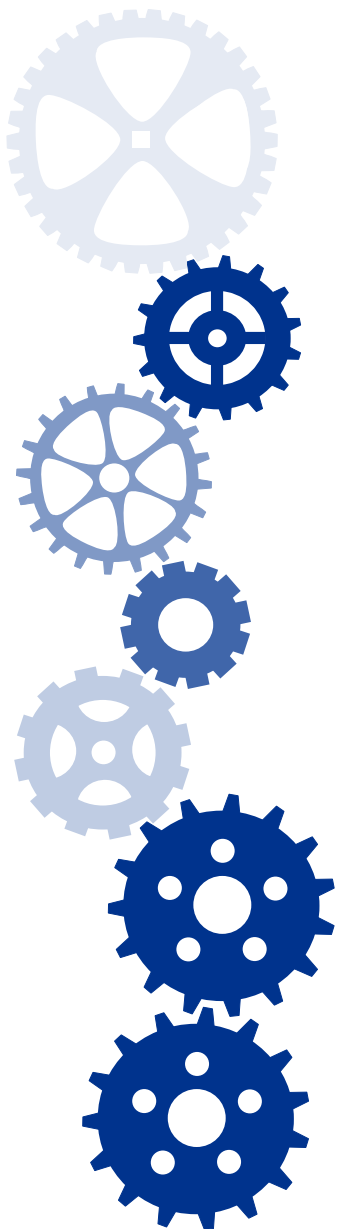


The producer or importer of any commodity listed in the table attached to the VAT Law would be required to register for VAT purposes regardless of the volume of its transactions.



Importer who is engaged in importing taxable commodity or service would be required to register for VAT purposes.

# VAT Rate Patterns



1

> 13% would be the general VAT rate for the current governmental fiscal year which ends on 30 June 2017;

2

> 14% would be the general VAT rate as from the governmental fiscal year commences on the first of July 2017;

3

> 5% on machinery & equipment which are used to produce a commodity or render a service;

4

> 0% on exports; and

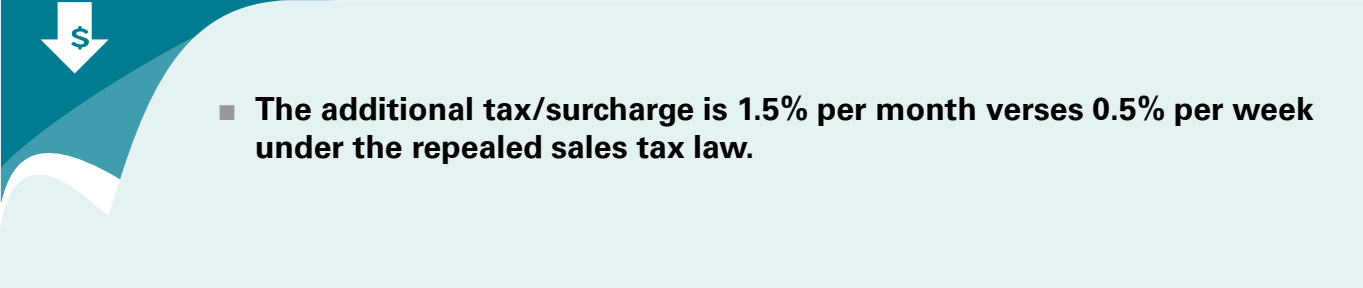
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> Table tax is to be imposed using special rates or specific amounts on commodities and services included in the table attached to the VAT Law.

## All commodities and services are subject to VAT in addition to the following:

- A** Certain commodities and services listed under section number one (1) of the table attached to the VAT Law shall be subject to table tax only.
- B** Certain commodities and services listed under section number two (2) of the table attached to the VAT Law shall be subject to the table tax in addition to the general VAT rate.

# Additional Tax/Surcharge

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- **The additional tax/surcharge is 1.5% per month versus 0.5% per week under the repealed sales tax law.**

## Tax Event

- The tax event takes place when the sale is occurred to either commodities or services in all its circulated stages.
- As for the imported commodities, the tax event occurs when goods are released from customs. In this regard, the tax base shall include all expenses collected by the seller.
- As for the imported services, the tax event occurs when the service is provided to a residing recipient of such service in Egypt.
- Personal consumption and the private usage of a commodity or a service shall be regarded as a sale.

## Statute of Limitation

Under the VAT Law, the Statute of Limitation would be five (5) years and in case of tax evasion, it would be six (6) years.

## Retention of Documents

Tax registrants are required to maintain their accounting books and records for five (5) years.

## Filing Dates of VAT Returns

Dates for filing the VAT returns would be two months following the end of each month except for the month of April where the tax return is required to be filed by 15th June at the maximum.

## Taxable Value

- Such value includes all amounts obtained by the seller in return for the commodity or the service and what would be imposed by the seller as incidental/contingent expenses.
- The value according to which the related parties' transactions are made should not be less than the value determined by the market forces and the circumstances of transactions.
- As for the imported commodities value, it shall be the CIF value including customs, other taxes & duties and the services related to the imported commodities.
- As for the used commodities, the value shall be 30% of the selling price provided the commodity was brand new when purchased and it was used locally for two years and the input VAT deduction provisions would not apply in such case.

# Input Tax Deduction

• **The due tax amount on sales of commodities and services shall enjoy the deduction of inputs VAT and the VAT calculated for sales returns. Such deduction shall prevail on:**

- Sales of commodities to entities, which are tax exempted under international treaties.
- Tax exempted entities which are stipulated under article 23 of the law e.g. the diplomatic missions.
- Sales of commodities, which are financed through grants where a law was issued to exempt such sales.

• **The deduction is limited to the tax due and the remaining balance would be carried forward to the subsequent periods until the deduction is completely used/covered**

• **The deduction would not apply to the following:**

- a. Tax levied on commodities and services listed in the table attached to the VAT Law whether subject to tax by itself or used as inputs in other commodities or services.
- b. Tax on inputs included in the costs.
- c. Tax exempted commodities and services.

# Tax Refund

**Tax would be refunded within 45 days from the date on which an application is filed provided that the supporting documents are available in the following cases:**



a. Tax paid for exported commodities and services according to the conditions stipulated in the law.



b. Erroneously collected tax.



c. The credit balance due to the tax registrant, which has been retained by the registrant for six (6) consecutive tax periods.



d. Tax that was previously paid on machinery & equipment used in producing a taxable commodity or providing a taxable service.



**In all cases, a certificate must be issued to this effect by an Egyptian certified public accountant registered in the records of the Ministry of Finance Register of Chartered Accounts and Auditors.**

# Reverse Charge Mechanism

**A**

Every non-resident, who is not registered at the Egyptian Tax Authority and does not carry out any activity through a Permanent Establishment operating in Egypt and sells commodities or provides services subject to tax to a person who is not registered in Egypt, is required to appoint a representative or an agent thereto in Egypt to be responsible for carrying out all the obligations as stipulated by virtue of the VAT Law which includes registration, remittance of the tax, surcharge and other due taxes.

**B**

In a presence of a non-resident person who is not registered at the Egyptian Tax Authority and engaged to sell a service to a registrant inside of Egypt and such service is not required for carrying out the business or to a governmental body or to a public/economic entity or any other entities, then the beneficiary of the service would be required to calculate the tax due on it and remit it to the tax authority within thirty (30) days as from the date of selling such service. This would be the case if the non-resident person who is not registered with the tax authority has failed to assign a representative or an agent to handle the VAT registration, remittance of tax, surcharge & other due taxes as per the provision of the law.

**C**

In case the registrant imports a service, which is required for carrying out its taxable activity, then it would be regarded as an importer and supplier for such service within the same time.





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