

Doing Business in Egypt

Presented to:
Egyptian Businessmen Association (EBA) - Egypt Korea Business Forum
BDO Khaled & Co.
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AGENDA

- Companies/Entities in Egypt
- Accounting Guidelines and Regulations
- Tax System
- Access to Finance

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Companies/Entities in Egypt

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Laws Governing Companies/Entities in Egypt

- ☐ Companies Law No. 159 for the year 1981 (and amendments)
- ☐ Investment Guarantees and Incentives Law No. 8 for the year 1997 (and amendments)
- ☐ Capital Market Law No. 95 for the year 1992
- ☐ Other Laws for specific sectors (e.g. Banking, Financial Leasing, Real Estate Financing, Insurance, etc.)

Characteristics of Most Common Entities

	LIMITED LIABILITY COMPANY (LLC)	JOINT STOCK COMPANY (SAE)	Foreign Branch
Period needed to Establish	10-15 days from the date of receiving all required documents.	10-15 days from the date of receiving all required documents	4-6 weeks from the date of receiving all required documents
Minimum numbers of Founders	2 Founders	3 Founders	A foreign company that has a contract with an Egyptian entity.
Minimum Capital amount	LE 1,000 or its equivalent in any foreign currency	LE 250,000 or its equivalent in any foreign currency.	USD 5,000 that represent the credit balance of the head office.
Company's Management	The company shall be managed by one or more directors selected among the partners or others, at least one of them must be Egyptian.	The company shall be managed by a Board of Directors (at least three members); the board of directors have to meet at least two times per year.	The branch shall be managed by one or more managers.

Accounting & Auditing Regulations

Accounting & Auditing Regulations

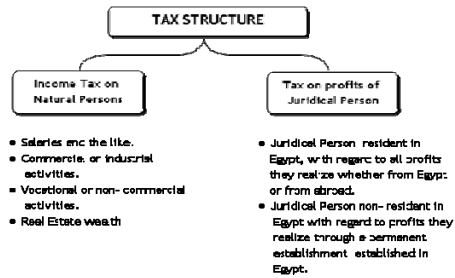
- ☐ **Accounting Standards:** Egyptian Accounting Standards (EAS)
- ☐ Largely Based on International Financial Reporting Standards (IFRS)
- ☐ Minimal manual Financial Records (legal books) required:
 - General Journal book (to be notarized before any entries)
 - Inventory book (to be notarized before any entries)
- ☐ Such books are subject to inspection by the Tax Authority
- ☐ Companies can use their own chart of accounts (complying with that of their parent companies, if desired), electronically or otherwise
- ☐ Financial Statements are the responsibility of the management

Accounting & Auditing Regulations

- ☐ Limited Liability Companies, Joint Stock Companies, and Foreign Branches are obliged to issue audited Financial Statements annually.
- ☐ The Company is free to choose its accounting date/year end
- ☐ The Companies Law requires that the Financial Statements include the following:
 - Balance Sheet
 - Statement of Income
 - Cash Flow Statement
 - A Statement of Appropriation of Profit
 - An Auditor's Report

Tax System in Egypt

Tax Structure



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Corporate Tax

- ☐ Corporate Tax Rate is 22.5%
- ☐ Taxable profit is mainly based on Egyptian Accounting Standards with some exclusions
- ☐ Filing Requirements
 - Corporate Tax return to be submitted within 4 months from accounting year end
 - Return must be reviewed and signed by a registered Public Accountant

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Corporate Tax cont'd..

- ☐ Losses can be carried forward for 5 years (except capital losses from sale of securities, where it is 3 years)
- ☐ Payments (against services) to non-residents are subject to withholding taxes of 20%.
- ☐ Dividends distributed are currently subject to taxes at a rate of 5% or 10%.
- ☐ Capital gains realized from the disposal of securities or shares in Egypt or abroad will be subject to tax. (For securities listed on the Egyptian Stock exchange, this is postponed for 2 years starting June 2015).

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Dividends Tax

- ☐ For dividends realized in Egypt, the tax percentage is reduced to 5% (rather than 10%) if the shareholding is greater than 25% of capital or the voting right only if the period of owning such shareholding is a minimum of two years.
- ☐ Dividends in the form of bonus issues are not subject to the dividends tax.
- ☐ The total tax amount is withheld from non-resident individuals/ corporation
- ☐ Profits of foreign **branches/ PE** shall be deemed distributed within sixty days from the year-end date of such branch/ PE, and hence subject to dividends tax.
- ☐ The double tax treaties provisions are applied, and prevail.

Salary Tax

- ☐ Liability of the employee, but responsibility of the employer
- ☐ Salary Tax is applicable to:
 - All earnings due to employees, e.g. wages, remunerations, incentives, commissions, grants, overtimes, allowances
 - Earnings due to the employee from a foreign source for works performed in Egypt.
 - Salaries and remunerations of chairmen, members and directors of the board.

Salary Tax cont'd...

- ☐ Salary tax progressive rates are as follows:

Income/Salary/Wage Brackets per annum	Salary Tax Rate
First L.E. 6,500	0%
Between L.E. 6,501 and L.E. 30,000	10%
Between L.E. 30,001 and L.E. 45,000	15%
Between L.E. 45,001 and L.E. 200,000	20%
More than L.E. 200,000	22.5%

- ☐ The non-resident employee is subject to salary tax in the same treatment of residents and according to the above mentioned progressive rates.
- ☐ The double tax treaty provisions will prevail.

Social Insurance

- ❑ Mainly applies to local/Egyptian employees.
- ❑ Employees pay a portion of their wages through employer withholding, in addition to another portion borne by the employer.
- ❑ An employer share is imposed on the company directors, regardless if locals or foreigners.
- ❑ The rate of Social Insurance is as follows, showing the employer and employees' portions:

Amount	Employer %	Employee %
Basic salary up to L.E. 1,120/month	26	14
Monthly amounts in excess of L.E. 1,120 for other payments such as overtime or representation allowances, up to L.E. 2,110.	24	11

(*) The ceiling of insured salary changes on a semi-annual basis.

Withholding Tax (Local Transaction)

- ❑ Applied to all **LOCAL** suppliers payments/invoices exceeding EGP 300 (EGP 100 for non-commercial professionals)
- ❑ Liability of the Supplier, but responsibility of the corporate buyer
- ❑ Advance Payment Scheme is allowed (60% of the estimated taxes, based on previous year taxes)

Sales Tax (VAT)

- ❑ Goods : Generally subject to 10% (standard rate, but not only rate)
 - Sales Tax on input is deductible from Sales Tax on output.
 - Exported products are subject to zero-rate sales tax.
 - Imported purchases need to be differentiated from local purchases.
- ❑ Services: varies
- ❑ *The government is also currently discussing a draft VAT law which may impose VAT on services that were not subject to sales tax, but also allow VAT recovery from VAT on outputs, as in other developed countries. This is still in draft form, so the extent to which it may affect a wide range of services is not yet confirmed.*

Sales Tax Cont'd....

☐ Filing Requirements:

- A sales tax return together with the sales tax payable therein, within 60 days from the end of the accounting month, where the tax point had been triggered (except April sales, it is 45 days)

☐ Bookkeeping requirements:

- Original sales invoices, sales account, and sales tax account
- Originals of the purchase invoices

Access to Finance

	In Egypt
Banks (Conventional and Islamic)	✓
Financial Leasing	✓
Stock Exchange (IPOs)	✓
Bonds	✓
Private Equity/Investment Banks	✓
International Financial Institutions (IFIs)	✓
Real Estate Financing	✓

Contact Details

Dr. Taha M. Khaled

Chairman & Senior Partner
BDO Khaled & Co.

Tel: +202 3303 0701

Fax: +202 3303 2228

E-mail: tmkhaled@bdo.com.eg

Website: www.bdo.com.eg

Mohanad T. Khaled

Managing Partner
BDO Khaled & Co.

Tel: +202 3303 0701

Fax: +202 3303 2228

E-mail: m.khaled@bdo.com.eg

Website: www.bdo.com.eg
