

Egypt amends income tax and stamp duty law provisions

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Executive summary

On 29 September 2020, the Egyptian Cabinet issued Law No. 199 of 2020 in the *Official Gazette*, which amends certain provisions of the Income Tax Law No. 91 of 2005 and Stamp Tax Law No. 111 of 1980 with respect to:

- ▶ Withholding tax on dividend distributions
- ▶ Capital gains tax
- ▶ Stamp tax

The law became effective on 30 September 2020.

Detailed discussion

Income Tax Law amendments

Dividend distributions

Following the amendment, dividends to individuals and corporations are subject to withholding tax:

- ▶ Dividends distributed by unlisted companies, including companies established in special economic zones, are subject to 10% tax.
- ▶ Dividends distributed by companies listed on the Egyptian Stock Exchange are subject to 5% tax.

Stock dividends (i.e., dividends paid in the form of new shares) are not subject to tax.

Net profit after tax realized by nonresident corporations through a permanent establishment (PE) in Egypt is subject to 10% tax. The law deems the net profit to be distributed, and subject to tax, within 60 days from the PE's financial year end.

Filing due date

The party executing the transaction should withhold the tax and remit it to the Central Department for Withholding and Collection on the designated tax form within five working days from the beginning of the month following the month in which the tax was collected.

Capital gains tax

The law sets new conditions for the treatment of the capital gains tax on listed securities, that had been suspended until 17 May 2020.

The law retains the current tax treatment on capital gains realized from the disposition of unlisted securities, which are taxed at the rate of 22.5%.

Capital gains are calculated based on the difference between the selling, exchange price or any other form of consideration from the disposition of securities, after deducting any brokerage fees, and the acquisition cost of those securities.

Residents - Individuals and Corporations

Capital gains realized from the disposal of securities listed on the Egyptian Stock Exchange by individuals and corporations will be subject to 10% tax. However, the law suspends the application of the tax until the end of December 2021 (i.e., gains will only become taxable if realized from January 2022).

The suspension does not apply to gains realized from the disposal of Treasury Bonds.

Stamp duty will continue to apply to the sale of securities during the suspension period (i.e., until the end of December 2021). Following the suspension period, stamp duty will no longer apply on the sale of securities by residents.

Nonresidents - Individuals and Corporations

Capital gains realized from the disposal of securities listed on the Egyptian Stock Exchange or from the disposal of Treasury bills by nonresident individuals and corporation are exempt from tax.

Capital gains tax on residents and nonresident individuals and corporations from the disposal of listed securities during the period from 17 May 2020 until 29 September 2020, when the new law was enacted, is waived.

Compliance requirements

General

The executing bodies should notify the tax authority through a detailed statement of the total proceeds from the disposal of securities for each taxpayer on the designated form within five working days following the end of the year.

Residents - Individuals and Corporations

The capital gains tax will be part of the resident's regular annual income tax return.

In addition to the reporting requirement with the tax authority, the executing parties should notify the Central Department for Withholding and Collection regarding the transaction no later than the end of January of each year.

Nonresidents - Individuals and Corporations

Tax will be payable based on net gains for the year. The taxpayer will need to file a designated form that will be prescribed in the executive regulations.

Stamp Duty Law amendments

Before the amendment, stamp duty of 0.15% applied to both the buyer and seller (i.e., 0.3% in aggregate) on the gross proceeds from the sale of securities representing less than 33% of the total entity's capital, whether the securities were Egyptian or foreign, listed or unlisted.

Following the amendment, the new rates are:

- ▶ 0.125% to be borne by the nonresident seller and 0.125% to be borne by the nonresident buyer
- ▶ 0.05% to be borne by the resident seller and 0.05% to be borne by the resident buyer

The stamp duty levied at the rate of 0.3% on the buyer and seller (i.e., 0.6% in aggregate) on the gross proceeds from the disposition of more than 33% of the total entity's capital remains unchanged.

The law states that "stamp duty shall not apply on the sale and purchase of securities which occur on the same day."

Filing due date

The executing bodies should collect the tax and remit it to the competent tax authority on the designated tax form within five days from the beginning of the month following the one in which the transaction was carried out. If the tax is not remitted, the executing bodies, buyer and seller are collectively responsible for the tax and any associated penalty.

Implications

Taxpayers should evaluate the impact of the new rules on their investments.

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