25 April 2019

Indirect Tax Alert

Egypt Tax Authority reviews VAT reverse-charge compliance

Executive summary

The Egyptian Tax Authority (ETA) is using withholding tax information to check if taxpayers are reporting reverse charge value-added tax (VAT) on their imported services. Taxpayers who have not correctly reported reverse charge VAT should consider filing amended returns to reduce their potential exposure to penalties.

Detailed discussion

When an Egyptian taxpayer receives services from a nonresident, those services may be subject to withholding tax under Article 56 of Income Tax Law No. 91 of 2005, as well as reverse-charge VAT under Article 32 of VAT Law No. 67 of 2016.

Recently, the ETA has been using information from withholding tax returns to check if taxpayers have accounted for reverse-charge VAT.

The ETA may treat failing to account for reverse-charge VAT as non-compliance with the VAT law. This can result in a 1.5% monthly additional tax and a 50% tax evasion penalty. The ETA could also pursue an evasion case, but will generally not do so if the taxpayer remits the taxes, if any and penalties.

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Implications

Registered taxpayers should review their policies to confirm that they are applying the reverse charge correctly according to article No. (32). Registered taxpayers should also review historic VAT filings.

If a registered taxpayer voluntarily addresses historic filing errors, it is unlikely that additional taxes will apply, other than the penalty for revising the VAT return (minimum of EGP500, or approximately US$29, for each VAT return amended), unless such imported services are subject to the table tax rates, or the taxpayer's VAT outputs are subject to the table tax rates or exempted.

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