

Austrian Business Breakfast

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Overview of current Tax issues

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Electronic Invoice

E-Commerce/ Content Creation Taxes

New SMEs Law/ Law No. 3 in Brief

Electronic Invoice

Electronic Invoice

- Compulsory Enrolment
- Tax approved by ETA
- Unique Serial Number
- Digital Signature
- Authentic proof for sales of goods/services
- Unified form for all invoices on the electronic invoice platform (ERP invoice will not change in design, however the ERP when linked to the electronic invoice platform will send the data in a unified format).
- Unified coding for goods and services.
- Can be issued in batches.

Electronic Invoice

- Invoice can be issued within 7 days from the date of transaction.
- Invoice can be modified/cancelled by the seller within 72 hours from the issuing time.
- Buyer can reject the invoice within 72 hours from its issuing time.
- B2B invoices must show CR number and Tax ID.
- B2C transactions more than 50K EGP must show the Civil ID of the customer.

Electronic Invoice - ERP

- If the company is working on ERP, the IT/System administrator should contact the technical support at the e-invoice department to obtain the API that can be linked to the ERP to directly mirror the issuance of sales invoices.
- If the company does not work on ERP and is issuing more than 200 invoices per month, ERP should be installed.
- If the company is issuing less than 200 invoices per month, invoices can be recorded directly on the e-invoice portal.

Electronic Invoice - Pros

- Automated and instant tax approval
- Protection to customers from fake sellers
- Ease in VAT and annual tax declarations
- No VAT audit anymore
- Elimination of parallel economy, leading to:
 - - Fair application of taxation on all companies
 - - Fair Competition

Electronic Invoice - Cons

- ERP compatibility.
- No ERP at all.
- No billing accountant.
- Investment on ERP
- Investment on Manpower (Hiring and training).

E-Commerce / Content Creation Taxes

E-Commerce / Content Creation Taxes

- There is no new law.
- E-commerce and Commerce is only different in the way services and goods are being sold to customers.
- All activities generating income (Revenue - Expenses) in Egypt is subject to income tax (Corporate - 22.5% and Individual - Brackets).
- All revenues exceeding 500K within 12 months from the initiation of the activities is subject to VAT.
- All revenues from activities falling under Table Tax are subject to VAT from day 1 (Example Consultancy, CPA firms, Doctors, Contractors, etc...).

E-Commerce / Content Creation Taxes

For Companies (Registered):

- VAT on sales over 500K (for consecutive 12 month since initiation of the activities).
- VAT declaration monthly/Electronic invoices.
- Annual tax return
- Revenues (e-invoices) - Cost (e-invoices) - Expenses (e-invoices) - Salaries - (payroll tax + social insurance) = Net Profit (Taxable - 22.5%)

For Individuals (Having a tax file):

- VAT on sales over 500K (for consecutive 12 month since initiation of the activities)
- VAT declaration monthly
- Income tax is calculated according to brackets like Payroll tax. On profit (Revenue - Costs)
- Registration for individuals
 - ID
 - Contract (rent or ownership)

The New MSME's Law No. 152 for year 2020

MSME's new tax law:

The definition of micro, small and medium enterprises (“MSMEs”) and Entrepreneurship Projects:

Micro enterprises: any enterprise with an annual turnover of less than EGP 1 million, or any newly incorporated enterprise with a paid up or invested capital (as the case may be) of less than EGP 50 thousand;

Small enterprises: any enterprise with an annual turnover between EGP 1 million and EGP 50 million, any newly incorporated industrial enterprise with a paid up or invested capital between EGP 50 thousand and EGP 5 million, or any newly incorporated non-industrial enterprise with a paid up or invested capital between EGP 50 thousand and EGP 3 million; and

Medium enterprises: any enterprise with an annual turnover of EGP 50 million or more and does not exceed EGP 200 million, any newly incorporated industrial enterprise with a paid up or invested capital between EGP 5 million and EGP 15 million, or any newly incorporated non-industrial enterprise with a paid up or invested capital between EGP 3 million and EGP 5 million.

Further, the Law considers “newly incorporated” enterprises to be any enterprises that are still within their first two years of incorporation.

The Law further defines “Entrepreneurship Projects” as projects that have been undertaking their activities/production for less than seven years and involve a certain level of innovation.

Incentives under the Law:

MSMEs undertaking certain activities/projects provided for under the Law are granted several non-tax incentives such as:

- * funding the costs for training the MSMEs' personnel;
- * the allocation of land (whether in exchange of a nominal consideration or without consideration); and
- * exempting MSMEs from providing guarantees or security until obtaining the required assets for undertaking their activities or decreasing the value of the guarantees or security required for obtaining such assets.

In addition, MSMEs are also granted tax incentives. These incentives exempt enterprises from the payment of the following:

- * stamp duties;
- * notarization fees; and
- * any registration fees required for the registration of the land required for undertaking the relevant activities. These incentives apply for the first five years following the MSMEs' registration with the General Authority for Investment and Free Zones' Commercial Registry ("GAFI").

Further, the Law sets the custom tax rates for all MSMEs to **2%** and provides certain incentives with respect to the taxation of the MSMEs' **capital gains**.

According to the Law, institutions that undertake any of the following activities may also benefit from the non-tax incentives granted to MSMEs and Entrepreneurship Projects:

the establishment of, industrial, production-based, or services-based clusters or complexes that include space for MSMEs; and

business incubator and accelerator activities (i.e. services that help accelerate the growth of start-ups, which help attract venture capital firms).

Governmental outlets for MSMEs

The Law states that governmental outlets (similar to a one-stop shop) are to be established inside and outside GAFI, throughout the governorates of the Arab Republic of Egypt, so that MSMEs be able to obtain the necessary licenses and approvals for conducting their business.



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Special Income Tax Rates & Tax Treatment under the Law

Special Tax Rates for Micro Enterprises

Annual Revenues of the Micro-Enterprise	Due Income Taxes under the Law
Less than EGP 250,000	EGP 1,000
Between EGP 250,000 & 500,000	EGP 2,500
Between EGP 500,000 & 1,000,000	EGP 5,000

Special Tax Rates for other MSMEs

Annual Revenues of Other MSMEs	Income Tax Rate under the Law
Between EGP 1,000,000 & 2,000,000	(0.5%)
Between EGP 2,000,000 & 3,000,000	(0.75%)
Between EGP 3,000,000 & 10,000,000	(1%)

However, this tax rate would be applicable only for five (5) years

The New Law – other Benefits:

- No questioning on previous periods
- Obtaining temp license from Medium, Small and Micro Enterprise Development Agency (MSMEDA)
- Applying simple tax rates on turnover directly (without deducting costs or expenses)
- Simplifying income tax return process for 5 years
- Option of shifting to normal tax law no. 91 process (Revenue - Cost - Expenses) 30 days before the tax return deadline
- Once shifted to normal tax law No. 91 it cannot be reversed

Law No.3 of 2022 to update the VAT and Stamp Tax Laws

In brief:

The Egyptian government has issued new amendments to the VAT and Stamp Tax Laws.

The new amendments have been issued by a virtue of law no.3 of 2022, published in the Egyptian official gazette on 26 January 2022 and effective 27 January 2022 onwards.

The amendments introduced several updates to the provisions of the VAT law no. 67 of 2016 in addition to one significant update to the stamp tax law no. 111 of 1980.

Value Added Tax

The following represents the key updates to the VAT law no. 67 of 2016.

Economic Zones

The goods and services exported by projects operating within the economic zones of special nature are now subject to VAT at 0%.

Moreover, the imported goods and services to economic zones of a special nature for the purpose of practicing licensed activities shall be subject to VAT at 0% as well.

The above rate is applicable on all imported goods and services either imported from abroad or from the local market, except for passenger cars.

New Definitions:

The new law includes some new definitions to pave the way for the introduction of new concepts to the VAT law, such as the simplified vendor registration system and the registration for reverse charge purposes.

The new definitions are summarized as follows:

- **Reverse Charge Mechanism (RCM):** A mechanism whereby the recipient of the goods or services is liable to pay the tax directly to the Egyptian tax authority (ETA) instead of the supplier or service provider.
- **Non-resident Registrant:** Natural or juridical non-resident persons who are obliged to register for VAT purposes and calculate the VAT due on selling goods or providing imported services for non-VAT registrants in Egypt.
- **Simplified Vendor Registration System:** A system that allows the registration of non-resident vendors in a simple manner, which will be identified by the executive regulations upon issuance.

Simplified Vendor Registration System:

According to the newly introduced simplified vendor registration system, every non-resident and unregistered person who does not practice an activity through a permanent establishment in Egypt and sells goods or provides taxable services to a person who is not registered inside the country, is obliged to apply for registration under the simplified vendor registration system as will be specified by the executive regulations.

Simplified vendor registration system should be enforced within **six months** for services and within **two years** for commodities from the effective date of the law.

Entities registered under the simplified vendor registration system do not have the right to deduct their input VAT. However, they have the right to refund their input VAT that is necessary to perform their activities inside Egypt.

In case the non-resident registrant fails to comply with any of the obligations stipulated in this law, the Minister of Finance may request the public prosecution to ban or restrict their access to the Egyptian market until the registrant fulfills these obligations.

Registration for Reverse Charge Purposes:

Resident and unregistered juridical persons who sell goods or perform services that are not subject to VAT while they import services that are subject to the VAT/schedule tax are now required to be registered at the ETA for RCM purposes, calculate and remit the tax within 30 days from receiving the service.

This new registration system will be applicable on juridical persons that were not previously liable to comply with VAT reporting requirements such as banks, insurance and pharmaceutical companies.

Imported Goods and Services:

Resident and registered entities are no longer required to calculate and declare the tax due on imported services, in case the non-resident service provider is registered at the ETA under the simplified vendor registration system.

Tax on imported goods is not due to be collected by the customs authority, if it is proven that the VAT was collected by the non-resident registrant.

Machinery and Equipment:

The new amendments suspended the payment of the VAT due on machinery and equipment whether imported or purchased from the local market for industrial purposes, for a period of one year from the date of their custom release or purchase from the local market, and this period may be extended by a maximum of additional one year. Noting that such suspension is not applicable for service providing companies.

In case it was proven to the ETA that such machinery and equipment were used in the industrial production within such period, it shall be exempt from VAT.

If the mentioned period ended without using the machinery and equipment in industrial production, the VAT and the additional tax become due from the date of purchase/custom release till the payment date.

Accordingly, it is prohibited to use such machinery and equipment in any other purpose rather than the one it is exempt for, (this is for five years following the exemption start date), before notifying the ETA and paying the relevant due VAT.

Given the VAT exemption on machinery and equipment, the refund of VAT on such machinery and equipment is no longer applicable. However, entities whose licensed activities include the usage of buses and passenger cars are still able to refund the incurred VAT.

Advertising Services:

Advertising services have become subject to VAT at the general rate of 14%, except for the following types which are exempted from VAT:

- The advertisements issued for the purpose of notifying the public of the orders issued by a public authority or raising awareness including the advertising issued by government tourism and information service departments
- The advertisements of donations for medical treatment and health care at hospitals and governmental institutes
- Mandatory sale, election, job seekers and lost people advertising
- The advertisement pertaining to regulating work within establishments.

Penalties:

The law has introduced a new penalty of 1% of the VAT/schedule tax due to be imposed on the taxpayer who violates the provisions, procedures or regulations of the law without being considered as an act of tax evasion.

The penalty shall not be less than EGP 1,000 and shall not exceed EGP 10,000, that should be paid along with the VAT/schedule tax and additional tax due.

Noting that the above penalty could be doubled in case of repeating the violation within three years.

Foreign Visitors Purchases:

Foreigners visiting Egypt for a period of three months or less have the right to refund the VAT paid on their purchases upon leaving the country.

However, the refund is only applicable in case the amount is not less than EGP 1,500 for each invoice and the purchased items leave the country with the foreign visitor or by any other mean.

Stamp Tax

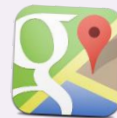
Advertising Services:

The advertising services are no longer subject to stamp tax duty at **20%** after the issuance of law no.3 of 2022.

However, such services are now subject to **VAT at 14%** as stipulated by the new amendments.

Any Questions ?

Thank You!



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Discussion on the obligatory use of L/Cs

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- Implementation since 22.02.2022
- Q&A document provided by the CBE on 22.02.2022 (updated on 03.03.2022)
- Scope of exceptions still changing

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THANK YOU!

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