

Egypt: Issuance of Law No.3 to update the VAT and Stamp Tax Laws

February 2022

Strictly private and confidential



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.

In detail

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 summarised 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.



Updates to the VAT and Stamp Tax Laws

Simplified Vendor Registration System – Cont'd

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.



Updates to the VAT and Stamp Tax Laws

Advertising Services

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

Schedule tax

The new amendments have rephrased the provisions related to some goods and services that are subject to schedule tax (first table) in addition to the goods and services that are subject to schedule tax and VAT (second table).

The rephrasing included items such as vegetable oils, animal oils, air-conditioning devices, supply and installation works. However, the same schedule tax rates were maintained.

A new item has been introduced by the amendments to be added to the first table attached to the VAT law in relevance to the goods and services that are subject to schedule tax.

The new item is the commercial identity and customer relationship, that shall be subject to schedule tax at 10%, which is calculated on 10% of the rental and/or selling value as a tax base.

Exemptions

The new amendments have rephrased the provisions related to some goods and services that are exempt from VAT and expanding their scope by including additional items.

The new items included sanitation services, non-touristic marine transportation services for individuals, air transportation for individuals, vaccines, blood and its derivatives and family planning products.

Moreover, medicine and the relevant production materials shall be exempt based on a decree to be issued from the Egyptian drug authority.

Freight services related to imported beans, grains, food salt and manufactured species are now exempt from VAT.

While medically equipped cars for individuals with special needs are no longer exempt, without prejudice to the provisions of the law of the rights of persons with special needs no. 10 of 2018.

Services provided by the Suez canal authority for the transiting ships, including the transit fees, are now exempt in addition to disregarding the uncollected tax for the period prior to the issuance of this law.



Updates to the VAT and Stamp Tax Laws

Governmental Transactions

According to the new amendments, governmental ministries, departments, agencies, local administration units, public bodies and other juridical persons are now obliged to pay the schedule tax due directly to the ETA within 10 days from its due date.

Moreover, such entities have to remit 20% of the VAT due directly to the ETA on behalf of the vendors.

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.

The takeaway

- Goods and services imported/exported by projects operating within the economic zones of special nature are subject to 0% VAT under certain conditions.
- The law introduced some new concepts to be added to the VAT law, such as the simplified registration system and the registration for reverse charge purposes.
- The simplified vendor registration system allows non-residents to register in Egypt for VAT purposes as will be clarified further upon the issuance of the executive regulations of the law.
- Resident and unregistered juridical persons who sell goods or perform services that are not subject to VAT, while importing services that are subject to the VAT/schedule tax are now required to be registered at the ETA for RCM purposes
- Machinery and equipment used for industrial purposes could be exempt from VAT under certain conditions.
- Some new exemptions have been introduced by law such as freight services related to beans, grains, food salt and manufactured species are now exempt from VAT.
- Commercial identity and customer relationship is subject to schedule tax at 10%.
- New procedures have been issued for VAT/schedule tax remittance in connection to governmental transactions.
- A penalty has been capped at EGP 10K for violating the provisions of the law.
- Foreign visitors are able to refund the VAT charged on their local purchases under certain conditions.
- Advertising services are no longer subject to stamp tax at 20%, but rather subject to VAT at 14%.

www.pwc.com/me

Let's talk

For a deeper discussion of how this update might affect your business, please contact:



Sherif Shawki
Tax Leader - Egypt & Kuwait
+2 (02) 2759 7887
Sherif.shawki@pwc.com



Ahmed Osama
Tax Partner
+2 (02) 2759 7864
Ahmed.osama@pwc.com



Nesreen Maher
Tax Partner
+2 (02) 2759 7766
Nesreen.maher@pwc.com



Ahmed Salaheldin Ali
Tax Partner
+2 (02) 2759 7773
Ahmed.s.ali@pwc.com



Ahmed Abo Elfotouh
Tax Partner
+2 (02) 2759 7881
Ahmed.aboelfotouh@pwc.com



Ashraf Ahmed
Tax Partner
+2 (02) 2759 7822
Ashraf.ahmed@pwc.com

©2022 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details. This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

Thank you

©2022 PwC. All rights reserved. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Please see www.pwc.com/structure for further details. This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.