

Chapter Three

Tax on salaries and the like.

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Chapter topics:

- The topics of this chapter will be addressed in the following points:

First: The scope of the tax

Second: Taxable revenues

Third: Tax exemptions

Fourth: Determining, calculating, and adjusting the tax base at the end of the tax period

Fifth: Exceptions to tax price

First: The scope of the tax

❑ Article (9) of the Law stipulates that the tax applies to salaries and the like as follows:

1. All **earnings** by a taxpayer resulting from work for **third parties**, **with or without a contract**, on a **regular or irregular** basis, regardless of such dues names, forms, or reasons, whether they are for **works performed in Egypt or abroad**, and the payment was made from a source in Egypt, including **wages, bonuses, incentives, commissions, grants, additional payments, allowances, dividends or shares** in profits and **cash and in-kind** benefits of all types.

First: The scope of the tax

- ❑ Article (9) of the Law stipulates that the tax applies to salaries and the like as follows:
2. All earnings by a taxpayer from a **foreign source** for **work performed in Egypt**.
 3. Salaries and remunerations of **non-shareholding** chairpersons and board members of public sector and public business sector companies.
 4. Salaries and remunerations of chairpersons, board members, and managers of corporations in return for their **administrative work**.

First: The scope of the tax

- It is thus evident that the legislator adopts **residence** and **source of income** principles when defining the scope of the tax on salaries and the like.
- Article (2) of the general provisions stipulates that a natural person is an Egyptian resident in any of the following cases:
 1. If having permanent residency in Egypt.
 2. If residing in Egypt for more than 183 continuous or intermittent days within twelve months.
 3. An Egyptian working abroad and receiving income from an Egyptian Treasury.

First: The scope of the tax

- Also, Article (3) of general provisions stipulates that Income earned from a source in Egypt includes the following:
 - a) Income from services **rendered in Egypt**, including salaries and the like.
 - b) Income paid by an **employer residing in Egypt**, even if the work is performed abroad.

Second: Taxable revenues

- The most important **forms** of income subject to tax on salaries and the like can be explained according to what is stated in the law, as follows:

Second: Taxable revenues

1- Salaries and the like, wages:

- Salaries and the like are the amounts payable to employees for their work because of a **dependency relationship** resulting from an **employment contract**, paid **periodically** and often monthly.
- The legislator added the term "the like" to ensure that the provision is **comprehensive** to **prevent** any **ambiguity**, and that **no** person would **evade** or **avoid** tax
- For example, the tips received by workers of public shops such as cafes and hotels.

Second: Taxable revenues

1- Salaries and the like, wages:

- As for the wages, it means the amount the worker receives **daily** in exchange for the work that has been **accomplished**, and it is usually paid at **close intervals** (daily, once a week, or every two weeks).
- The taxable wages also include the **grants** awarded to workers on specific occasions and the **periodic rewards** paid to them in addition to the basic wage.

Second: Taxable revenues

2- Bonuses:

- It refers to amounts paid to employees in addition to their basic salary in exchange for work or services provided to the firm, such as incentive bonuses, rewards for marking answer sheets in universities, special rewards, etc.
- These amounts are subject to tax regardless of whether they are periodic or not, except for **severance allowances**, which are exempt from taxation.

Second: Taxable revenues

3- Incentives:

- It is the amounts that workers obtain for additional efforts, increased production, reduced manufacturing costs, or production of new products aimed at increasing sales.

4-Commissions:

- They are amounts earned by employees that are typically computed as a percentage of sales or amounts collected in addition to their basic salary. Consequently, they are subject to payroll tax as part of employees' salaries.

Second: Taxable revenues

5- Grants and additional payments:

- **Grants** are the amounts granted to employees on certain occasions, subject to taxation if they are paid individually to certain employees.
- **Additional payments** are the amounts paid to employees for overtime exceeding official working hours and are consequently subject to payroll tax.

Second: Taxable revenues

6- Allowances:

- **Allowances granted not in exchange for a real cost**, which are the allowances awarded by the government and businesses to workers that are not in exchange for actual costs spent by workers or employees to execute their jobs, **are taxable**.
- **Allowances granted in exchange for an actual cost**, such as transportation allowance, which is in exchange for transportation expenses incurred by employees in the execution of a task as well as clothing allowance and housing allowance, **are not subject to tax**.
- **Allowances are exempted under special laws**, such as representation and reception allowances for employees in senior administrative positions in the government and public sectors to meet the requirement that they appear decently.

Second: Taxable revenues

7- Dividends or shares in profits (Profit-based wages):

- ✓ They are the amounts paid by the establishment to workers as **wages** based on a certain **percentage of profits**. These amounts are considered part of the salary and are therefore **subject to tax**.
- ✓ Although such payments are calculated as a percentage of the firm's net earnings, they are distinct from the dividends distributed to employees under the Law.

Second: Taxable revenues

8- Cash benefits:

- ✓ Amounts that the worker receives in addition to the salary on a regular or occasional basis, whether paid by the employer or those who deal with the establishment, such as **gifts or tips - obligations paid on behalf of workers, club membership, syndicate subscription.**
- ✓ For cash benefits to be subject to tax, it is required:
 - a) The benefits result from the **dependent relationship** under the **employment contract.**
 - b) The benefits represent a **personal benefit** for the worker without being required by the nature of the work.

Second: Taxable revenues

9- In-kind benefits:

- ✓ They are what is granted to the worker in an in-kind form without charge, such as free accommodation, free food, and a free car.
- ✓ For these benefits to be taxable, the following must be met:
 - a) Achieving a **personal advantage** (benefit) for the worker.
 - b) **Not** to be granted to **facilitate the work** to be accomplished

Second: Taxable revenues

✓ The value of the in-kind benefit is estimated based on the **market value**. However, the value of the following in-kind benefits is estimated as indicated for each of them respectively:

1. Company vehicles made available to the employee for personal use:

This benefit is set at 20% of the value of fuel, insurance, and periodic maintenance related to these cars, whether owned or rented by the company.

2. Mobile:

The value of this benefit is equivalent to 20% of annual phone-related expenses.

Second: Taxable revenues

3. Loans and advances from employers:

- ✓ **Suppose** the employer grants the employee a loan over the total amount paid during the six months preceding obtaining the loan without interest or with an interest of less than 7%. **In that case**, the benefit value shall be determined at 7% or the difference between the loan interest rate and the interest rate if the loan interest rate is less than 7%.
- ✓ This means that a distinction must be made between:
 - a) A loan or advance is not regarded as a taxable benefit if its total value does not exceed the employee's wage for the six months before the loan or advance or if its interest rate is higher than **7%**.

Second: Taxable revenues

- b) If the amount of the **loan** or advance **exceeds** the total **salary** of the six **months** preceding the loan or advance and the **interest** rate is **less** than **7%**, the tax advantage is figured by **multiplying** the **total value of the loan or advance** by the difference between 7% and the interest rate at which the loan or advance was granted.
- For example, suppose that the monthly salary for an employee is 3.000 and is granted a loan of 50.000 from the employer at rate of 2%. What is the in-kind benefit in that case???

In-kind benefit = ????? × ??? % = ??? LE.

Second: Taxable revenues

4. Insurance policies on the life of the workers, their family, or their property:

The value of this benefit is determined by the **employer's contribution to the annual installments.**

5. Company shares awarded below the market value of the share:

The benefit's value depends on the difference between the market value of the share at the time it was acquired, and the amount charged to the employee

Second: Taxable revenues

- ✓ It is clear from the preceding that the legislator has defined the scope of the tax on salaries and the like based on the **income** that is due to a natural person because of **working for others**, whether with or without a contract and whatever its names (wages - bonuses - incentives - allowances - commissions - grants - additional wages - cash and in-kind benefits) whether the business relationship is periodic or non-periodic.

Third: Tax exemptions

- ❑ Article (12) of the Law states that neither **pensions** nor **Severance allowances** are subject to tax.
- ❑ Pensions are the amounts paid by the government, the authorities, and the companies to former employees or their heirs for their previously performed services.

Third : Tax exemptions

□ Article (13) and its last amendment, according to Law No. 30 of 2023, added more exemptions, as it stipulated that Without prejudice to other tax exemptions granted by special laws, the following are tax-exempt:

1. An amount of **15000** pounds as the **annual personal exemption** for the taxpayer.
2. **Social insurance contributions** and other payments deducted according to the provisions of the social insurance laws or any alternative systems thereto:
 - Calculating the monthly contributions, the employee bears at 11% of the contribution's wage value

Third: Tax exemptions

The following table outlines the maximum and minimum wages for contributions from the beginning of the law's execution to the end of 2027:

Starting from	Monthly insurance wage	
	Minimum	Maximum
January 2020	1000	7000
January 2021	1200	8100
January 2022	1400	9400
January 2023	1700	10900
January 2024	2000	12600
January 2025	2300	14500
January 2026	2700	16700
January 2027	3200	19300

Third: Tax exemptions

3. **Employees' subscriptions in private insurance funds** established according to the provisions of the Private Insurance Funds Law, promulgated **by law no. 54 of 1975.**
4. Life and health insurance premiums for the taxpayer, or in favor of his wife or minor children; or any insurance premiums for pension entitlement.
 - For items (3) and (4), the total exemption for a taxpayer shall not exceed (15%) of the **net revenue** or **ten thousand** pounds, **whichever is less.** The same contributions and premiums (paid) from any other income stipulated in article (6) of this law may not be repeatedly exempted.

Third: Tax exemptions

5. The following **collective** in-kind benefits:

- Meals offered to employees.
- Collective transportation of employees or the equivalent cost.
- Health care.
- Tools and clothing necessary for performing the work.
- Accommodation provided by an employer to employees for the performance of work.

Third: Tax exemptions

- 6. Employees' dividends distributed according to the law.**
- 7. Amounts received by members of the diplomatic and consular corps, international organizations and other foreign diplomatic representatives, in the scope of their official work, on condition and to the extent of reciprocity**

Third : Tax exemptions

❑ In addition to the exemptions as mentioned earlier from salary and the like tax under Law 91, **there are some other exemptions stipulated by special laws**, which are as follows:

- **Special bonuses:**

This refers to the special bonuses that were not subject to taxation from the date of their issuance in 1987 through the end of 2013, as the special bonuses issued from 2014 to the present are subject to tax under their laws.

- **Some allowances:**

Such as representation and reception allowances for state and public sector employees, university allowances, deanship allowances, department head allowances for staff members, and others.

Third: Tax exemptions

- **Lieu of vacations:**

This is what the employee receives in exchange for the balance of regular leave upon being referred to the pension system.

- **Stamp duty Tax:**

It is imposed on amounts paid by government agencies and public sector businesses in the form of salaries, bonuses, the like, and subsidies.

Forth: Determining, calculating, and adjusting the tax base at the end of the tax period

1. Determining tax base:

The tax applies to the **total net salaries and the like** obtained by the taxpayer, which means that **all taxable revenues are counted within twelve months**, provided that **lawfully stipulated exemptions are deducted from the revenue**.

2. Calculation of monthly tax payable:

The tax is calculated **annually** and then divided by **twelve** to determine the **monthly tax** that must be withheld from the employee's wage.

❑ The tax is calculated according to the tax rate stipulated in Article (8), amended under Law No. 175 of 2023, as follows:

Tax rate	Net Income less than 600000	Net Income of more than 600000 and less than 700000	Net Income of more than 700000 and less than 800000	Net Income of more than 800000 and less than 900000	Net Income of more than 900000 and less than 1200000	Net Income of more than 1200000
0%	1:30000	-	-	-	-	-
10%	30001:45000	30001:45000	-	-	-	-
15%	45001:60000	45001:60000	1:60000	-	-	-
20%	60001:200000	60001:200000	60001:200000	1:200000	-	-
22.5%	200001:400000	200001:400000	200001:400000	200001:400000	1:400000	-
25%	More than 400000	More than 400000	More than 400000	More than 400000	More than 400000	1: 1200000
27.5%						More than 1200000

Third: Determining, calculating, and adjusting the tax base at the end of the tax period

3- Tax adjustment at the end of the year:

At the end of each year, an adjustment is made, and all the amounts received by the employee or worker are recorded; deductions and exemptions decided by the legislator are subtracted from these amounts, the tax is calculated, and its value is determined for the whole year, and the tax that the employee or worker previously paid monthly is deducted from the annual tax.

Fourth: Exceptions to tax price

- Article (11) of the tax law No.91 of 2005 stipulates that:
As an exception to the provisions of article (8) herein, tax is also imposed on **amounts** earned by **residents** from **other than their original place of employment** at a rate of **(10%)** without any reduction to cover costs, and without further deductions.

Exercise

❑ A government employee receives the following amounts per month for 2023:

basic salary of 7500 EGP (includes 1350 EGP added special bonus (exempted), 3600 EGP incentives, 360 transportation allowance, 1500 non-added special bonus (exempted), 720 nature of work allowance, 3000 EGP additional wages, 90 social bonus (exempted).

Exercise

If you know that:

- **The employee pays a monthly 150 EGP subscription to a private insurance fund.**
- **The stamp tax due monthly is 25 EGP.**
- **A monthly contribution wage of social insurance is 12000 EGP (Minimum= 1700, Maximum= 10900).**

Instructions:

- ❑ **Calculate of tax due:**

Solution:

1- Determining the annual base of the tax:

Statement	Partial	Total
1- Basic salary = (7500×12)		90.000
2- additional amounts:		
▪ Incentives (3600×12)	43.200	
▪ Transportation allowance (360×12)	4.320	
▪ Non-added special bonus (1500×12) .	18.000	
▪ Allowance of nature work = (720×12) .	8.640	
▪ Additional wages (12×3000)	36.000	
▪ Social bonus (90×12) .	1.080	

Statement	Partial	Total
Total variable wages		111,240
Total Annual Revenue		201,240
Deducted from:		
1- Amounts exempted by special laws:		
• Special bonus (included in salary (1350×12)	16.200	
• Non-added special bonus	18,000	
• Social bonus	1.080	
2- Allowances to meet actual expenses:		
• Transportation allowance	4.320	
3- Exempted amounts in accordance with the Tax Law, Article (13):		
• Personal Exemption (Law 26 of 2020)	15.000	
• Social Insurance = $10900 \times 11\% \times 12$	14.388	(68,988)

Statement	Partial	Total
Annual Net Revenue		132,252
Deducted from:		
<ul style="list-style-type: none"> Life insurance premiums and special fund subscription <ul style="list-style-type: none"> Actual Amount = (150×12) Article (13) = 1800 Maximum (19.837.8 or 10,000 whichever is less) = 10,000 	1.800	
Stamp duty tax (25×12)	300	(2.100)
Net taxable income		130.152
Tax base (rounded to the nearest 10 pounds less)		130,150

Calculation of tax due:

- Exempted bracket 30,000 EGP.
- First bracket = $15000 \times 10\% = 1500$
- Second bracket = $15000 \times 15\% = 2250$
- Remaining bracket = $70150 \times 20\% = 14,030$

Annual tax due = 17,780

Tax due = $17,780 / 12 = 1481.6$ EGP



Thank you

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