

# Egypt

## 1. Government requirements

### Registration requirements

#### Common types of legal entities in Egypt

##### 1. Limited liability company (LLC)

- **Associates**

Associates should not be less than 2 persons/corporates and should not exceed 50 persons/corporates. They can be individuals or legal entities.

- **Name of legal entity**

The company name may be derived from its purpose and may include the name of one or more of the associates. The name must be followed by the phrase "a limited liability company."

- **Minimum required capital**

Generally, there is no minimum capital required for the LLC except for some certain activities such as marketing and importation.

- **Management of the company**

The company shall be managed by managers/general managers

- **Overseas activities**

The LLC is subject to Egyptian tax on its worldwide income.

##### 2. Joint stock company (JSC)

- **Shareholders**

The minimum number of shareholders is three persons or corporates. Shares may be circulated between the shareholders in the case of a closed company and may be sold to other parties.

- **Name of the legal entity**

The names adopted by either a JSC or an LLC may not be identical or similar to that of an existing company or liable to raise confusion.

- **Minimum required capital**

The minimum issued capital amount for a JSC, which does not issue shares for public subscription, should be EGP250,000.

- **Management of the company**

The Board of Directors, no fewer than three persons, shall assume the management of the company. (All board members could be foreigners).

- **Overseas activities**

The JSC is subject to Egyptian tax on its worldwide income.

### 3. Foreign branch

A foreign company is permitted to perform its activities through an Egyptian branch provided that the foreign company has a local signed contract with an Egyptian entity (public or private) as follows:

- **Name of legal entity**

A foreign branch must adopt the name of its parent company.

- **Assigned contract**

A foreign company engaged in commercial activity in Egypt must register a branch office in Egypt, provided that the foreign company has a local contract (with either a private or public sector entity in Egypt) to perform work in Egypt. Although a branch office can engage

in commercial, financial, industrial and contractual activities, those activities (under the branch registration) will be limited to the scope of its contract for the work to be performed in Egypt.

- **Minimum capital requirement**

A foreign branch must have a minimum capital amount of EGP 5,000.

- **Management of the branch**

The branch shall be managed by a branch manager who could be a foreigner.

- **Overseas activities**

A foreign company, which carries out commercial activity in Egypt, must register a branch. A branch is taxable only on profits realized from activities carried out in Egypt.

#### **The Social Insurance Authority**

The company must open a company file and register employees with the relevant social insurance office. For Egyptian employees, social insurance provides compensation for disability, retirement (pension), unemployment and work-related injuries

#### **Tax registration**

All legal entities should be registered for taxes and have a tax ID in order to file the related Personal Income Tax (PIT).

#### **PIT**

Tax applies to salaries and similar remuneration as follows:

- All earnings due to the taxpayer resulting from work with third parties with or without a contract, periodically or non-periodically, whatever the names, forms or reasons for those earnings, whether they are for works performed in Egypt or abroad and paid by a source in Egypt. This includes wages, remunerations, incentives, commissions, grants, overtime, allowances, shares and portions in profits, as well as monetary privileges and allowances.
- Earnings due to the taxpayer from a foreign source for works performed in Egypt.
- Salaries and remunerations of chairmen and members of the board of directors in

public sector companies that are not shareholding companies.

- Salaries and remunerations of chairmen and members of the board of directors.
- Tax is imposed on the total net income of natural persons (resident and nonresident).
- The tax year is based on the calendar year.

PIT also applies to all amounts paid to nonresidents by the entity or organization employing them for performing services under its supervision, at the rates previously mentioned after deducting the costs and exemptions prescribed by law.

Employers and those responsible for paying the taxable income, including companies or projects established under the FTZ system, are required to retain from the amounts payable to the nonresident an amount on account of the tax payable according to the tax law.

For nonresident employees, a certificate of income and a withheld taxes statement is sufficient evidence for an individual income. An individual does not need to get a tax clearance certificate before leaving Egypt.

The following is exempted from the tax:

- An annual personal exemption of EGP9,000 for taxpayers provided that the first bracket exemption is EGP15,000. Accordingly, the total exemption will be EGP24,000 annually.
- Social insurance and other contributions to be deducted according to the provision of the social insurance laws or any alternative systems.
- Employees' contribution to private insurance funds established according to the provisions of Law No. 54 of 1975.
- Premiums of life and health insurance on the taxpayer and any insurance premiums for pension entitlement.

The current law granted In-kind benefits that are not subject to tax as follows:

- Meals distributed to workers
- Collective transportation of workers or equivalent transportation cost
- Health care

- Tools and uniforms necessary for performing work
- Tenements provided by the employer to workers for performing their work

Any other in-kind benefits will be subject to tax. These include:

- Workers' share in the profits to be distributed according to the Laws.
- Cars placed at the personal disposal of the worker: The value of the benefit shall be determined at 20% of the value of fuel, insurance, and periodical maintenance connected with these cars, whether they are owned by or rented by the company.
- Cellular phones: The benefit shall be determined at 20% of the cellular phone related expenses through the year.
- Loans and advances offered by the employers: In case the employer extends a loan to the worker exceeding the total income obtained by the worker during the six months prior to obtaining the loan, interest free or with an interest of less than 7%, the value of the benefit shall be determined at 7% or at the difference between the loan interest rate and 7%. The loan shall comprise any of its forms, including the amounts paid in advance or appearing in the employer's books and registers and charged to the worker's account.
- Life Insurance policies on the worker, his family, or his properties: The value of the benefit shall be determined at the premiums paid by the employer during the year.
- The Company's stocks granted at a value less than the market value of the stock: The value of the benefit shall be determined on the basis of the difference between the market value of the stock on the date it is obtained, and the value reckoned for the worker. In case restrictions exist on alienating the ownership of stocks, the benefit shall not be realized except after removal of these restrictions.
- In all cases, the employer shall withhold the tax and deliver it according to Article 14 of the law and shall include in the annual reconciliation statements all the benefits obtained by each worker according to the foregoing rules. The party to whom the revenue is payable shall withhold the tax and deliver it if he is committed to do so according to Article 16 of the law.

Ongoing compliance requirements

### **Tax returns and compliance**

In accordance with the Egyptian Income Tax Law No. 91/2005 and subsequent amendments of Law No. 101/2012 and, Law No. 44/2014, Law No. 96/2015, Law No. 97 of 2018 and law no. 26 of 2020, it is the employer's responsibility to deduct income tax; the income tax rates on the income of natural persons have been amended to reduce the tax burden on low-income tax payers.

Hereunder the tax brackets used recently on May 2020:

Income tax rate	Annual net income less than 600,000	Annual net income more than 600,000 and less than 700,000	Annual net income more than 700,000 and less than 800,000	Annual net income more than 800,000 and less than 900,000	Annual net income more than 900,000 and less than 1,000,000	Annual net income more than 1,000,000
0%	From 1 to 15,000					
2.50%	From 15,001 to 30,000	From 1 to 30,000				
10%	From 30,001 to 45,000	From 30,001 to 45,000	From 1 to 45,000			
15%	From 45,001 to 60,000	From 45,001 to 60,000	From 45,001 to 60,000	From 1 to 60,000		
20%	From 60,001 to 200,000	From 60,001 to 200,000	From 60,001 to 200,000	From 60,001 to 200,000	From 1 to 200,000	
22.50 %	From 200,001 to 400,000	From 200,001 to 400,000	From 200,001 to 400,000	From 200,001 to 400,000	From 200,001 to 400,000	From 1 to 400,000
25%	more than 400,000	more than 400,000	more than 400,000	more than 400,000	more than 400,000	more than 400,000

\* All amounts are in EGP

\* The sum of annual net income shall be rounded upon computation of the tax-to the nearest lower ten EGP.

Natural persons enjoy a personal exemption of EGP9,000.

Every employer is responsible for withholding the salary tax on a monthly basis and pay the withheld amount to the tax authority on a monthly basis noting that the due date for the month is 15 days from the month end for each month.

Every employer is responsible for declaring and submitting quarterly salary tax form to the tax authority declaring the total salary subject to tax and tax deducted from each quarter.

Every employer is responsible at the end of each calendar year to submit an annual reconciliation including all the amounts that was subject to tax and the total annual tax paid and also to see if there any differences between the salary tax paid on a monthly basis and the total taxes that should be paid and to pay the differences.

### **Unified tax procedures law**

Law No. 206 of 2020

The law mandates the submission of the following:

#### **1. Quarterly salary tax returns**

Online submission of the quarterly salary tax returns on the ETA's portal within the prescribed deadlines (end of: January, April, July and October from each year) including specific requirements as follows:

- Number of employees
- Employees' full names
- Total gross salaries and in-kind benefits
- Total salaries tax due
- Total net salaries
- Copy of the monthly payment receipts
- Analysis of any changes to the employees

#### **2. Annual salary tax reconciliation**

An annual salary tax reconciliation should be submitted online via the ETA's portal before the end of January each year including the total employee's remuneration and excluding the total deductions and exemptions set by the law. It is the employer's responsibility to pay and settle any tax differences without breaching its right to deduct such amounts from the employees.

#### **3. Penalties for non-compliance**

Below are two ranges of penalties for non-compliance:

From EGP3,000 to EGP50,000 for the following:

- Late submission of tax return within 60 days from the filing due date
- Declaring wrong data resulting in lower tax due
- In case of repeating the previous actions, the penalties should be multiplied three

times for both minimum and maximum penalties

From EGP5,000 to EGP200,000 for the following:

- Late submission of tax return more than 60 days from the filing due date
- In case of repeating the previous actions within three years, the penalties should be multiplied for both minimum and maximum penalties.

## **2. Pension requirements**

Registration requirements

### **The Social Insurance Authority**

According to the law, every employer is obliged to insure his or her employees under the Social Insurance Authority system. Social insurance is paid only to Egyptian nationals, except for foreigners who serve on the board of directors or whose name appears on the commercial registration of the company. The company must open a company file and register employees with the relevant social insurance office. For Egyptian employees, social insurance provides compensation for disability, retirement (pension), unemployment and work-related injuries. By law, employers are required to subscribe to the social insurance system.

Otherwise, they may be subject to sanctions. The employer must submit a fully completed, authority-issued application for employment (Form 1 and registration Form 6, and Form 2 to be submitted every January and July of every year) and the following documents to the competent office to open the company's file:

- Company's commercial registration
- Company's tax card
- Company's articles of incorporation
- Deed or lease agreement for company premises notarized at the public notary in Egypt
- Employer to fill in Form Number 2
- Employer's bank signature certificate, from the bank where the employer has a certified signature
- Employees to fill in Form No. 1
- Employees' copy of identification card
- Employee's graduation certificate
- Employees' birth certificate (copy)
- Copy Form 6 (If any)

A new Social Insurance Law no. 148/2019 (the "Law") was issued on 19/08/2019. The ("Law") entered into force on 01/01/2020, and employers will need to start applying the Law on January 2020. The Prime Minister will issue the executive regulation within six months from the date of issuance of the Law. The Law replaced Law 179/1975 on Social Insurance (the "Old Social Insurance Law"), Law 108/1976 on Social Insurance for Employers and the like, Law 50/1978 on Social Insurance for Egyptians working abroad, as well as various other regulations and decrees. This means that all categories of insured persons will be subject to the new Law instead of the old laws.

The contribution rates/percentages to be deducted from the salaries of the insured persons (employers and employees) have changed. The amounts of income on which the rates are assessed have not been addressed by the Law but will be subject to the executive regulation to be issued soon. These may change then. Accordingly, the effect as to the increase or decrease of social insurance obligations on the concerned parties cannot be entirely assessed at this stage.

The law set the retirement age for employees and Egyptians working abroad at 60 years old. The Law also set the retirement age for employers and non-regular employees at 65 years old. However, by 2040, the Law stipulates that the retirement age for all categories will be 65 and shall increase gradually until then. The Prime Minister will issue decrees stipulating the gradual increases.

A unified retirement fund will be established for all categories and all types of insurance. A separate account will be made for each type of insurance. Under the Old Social Insurance Law, there were two separate funds for civil servants and employees in the private sector. They will now be transferred to the new fund.

Salary portion	Employee share	Employer share
Collective salary with a cap of EGP 7,000	11%	18.75%

Category	Who pays the subscription?	New rate
Employees working in the private sector and the public sector	Employers on behalf of each employee	8.25% on total monthly salary (including basic and variable)
	An employee on behalf of himself/herself	11% on total monthly salary (including basic and variable)
Employers and entrepreneurs (including shareholders)	The employer or entrepreneur on behalf of himself/herself	25% from the monthly subscription income that the insured chooses (the maximum is not defined yet)
Egyptian employees working abroad	Each employee on behalf of himself/herself	21% of the monthly subscription income
Employees that fall under non-regular category (example domestic workers)	Each worker on behalf of himself/herself	13% from the minimum limit of the monthly subscription salary



Ongoing compliance requirement related to pension

The social insurance payment should be deducted and paid on a monthly basis and every employer is responsible for withholding the social insurance amount on a monthly basis and pay the withheld amount to the social insurance authority on a monthly basis noting that the due date for the month is 15 days from the month end for each month.

Every employer is responsible for preparing and submitting Form 2 on a yearly basis declaring on all the social insured employees and their data along with the social insurance amount that the employee is insured with.

### **3. Employment obligations**

#### **Employment contracts**

Employment contracts are required to be in writing, with three copies maintained in Arabic. The employer, employee and social insurance office each keep one copy of the employment contract, which must include certain information as specified in the Labor Law.

#### **Working hours**

As per the Labor Law, employees should not work more than eight hours a day or 48 hours over a six-day working week. It is common practice that private sector employees work five days a week, usually Sunday to Thursday. The number of working hours may be increased to nine hours a day, including a one-hour break.

#### **Annual leave**

An employee is entitled to a minimum annual paid leave of 21 days for every full year of service and a proportional amount if the period of service is less than one year (eligible to be used after six months of employment). This annual leave is increased to 30 days after the employee has worked for 10 consecutive years or is over 50 years of age.

#### **Public leave**

Every employee is entitled to full pay for official holidays designated by the Ministry of Manpower and Immigration, not to exceed 14 days a year. If employees are required to work during official holidays, they are entitled to overtime (paid at twice their normal rate). The weekly days off and the official holidays shall not be counted as part of the annual leave.

#### **Accidental leave/Emergency leave**

Accidental leave is the leave taken by an employee, as a result of unexpected circumstances, in which he or she has no choice except to be absent from work. He or she should inform the employer with the reasons of absence. The Labor Law states that absence from work for accidental reasons should not exceed six days per year with

a maximum of two days each time, and this leave will be deducted from the annual leave of the employee.

### **Sick leave**

The Labor Law provides that an employee whose sickness has been established by a responsible medical professional is entitled to sick leave of maximum 180 days per year (six months per year), in which they are entitled to receive 75% of their monthly social insurance salary during the first three months of the sick leave and 85% for the following three months. The employer is not entitled to terminate the employee's service due to sickness, unless the employee is absent due to sickness for more than 180 days in a year.

After the employee utilizes all his or her entitled sick leave, a governmental medical committee should evaluate the employee's ability to work. The committee takes the final decision related to the employee's ability to work.

### **Performing pilgrimage or visiting Jerusalem**

The Labor Law states that an employee who has spent five consecutive years in service has the right to full paid leave, for a period not exceeding one month, for performing pilgrimage or visiting Jerusalem, and such leave shall be enjoyed only once during the entire period of service.

### **Maternity and child care leave**

A female having spent 10 months in the service of an employer shall be entitled to a maternity leave of 90 days with full wage payment, including the period before delivery, i.e., if she decides to take her maternity leave before the due date. The female employee is not entitled

to this maternity leave more than twice during her working period. The employer is not allowed to oblige the female to work for the following 45 days after birth. During the 24 months following the date of delivery, she has the right to be excused from work for one hour daily to feed her child.

### **Annual increment**

Employees are entitled to a periodical annual increment of not less than 7% of the basic social insurance salary.

### **Overtime pays**

The minimum overtime premiums are 35% of normal pay for overtime worked during daylight, 70% for that worked at night, 100% on weekends and 200% on official holidays.

### **Bonuses**

There is no obligation to pay annual bonuses.

### **Minimum wages**

The minimum wage is around EGP1,200 per month.

### **Termination of employment during probation period**

The probation period should not exceed three months and an employee must not be appointed under probation more than once. If the employee proves unsuitable for the job during the allotted period, this period allows the employer to cancel the contract during this period.

#### **Dismissal under a fixed term contract**

The employer has the right to terminate the employment contract upon its expiry without any indemnity to be paid to the employee. In the event of dismissing the employee within the period of the contract, the employee will be entitled to compensation equal to the equivalent salary of the remaining period of his or her signed contract. To illustrate, if the contract is issued for one year and the employer decides to terminate the contract after eight months, the employer must pay the remaining four months' salary to the employee.

**Dismissal under indefinite employment contract** Any of the two parties may terminate the contract at anytime if the contract is indefinite, taking into consideration proper notice time and proper working conditions, and stating the reasons for the termination. The employer may not dismiss the worker unless due to reasons stated in the provisions of Article No. 69 of the Labor Law. An employee is entitled to a 60-day notice period for dismissal if his or her period of service does not exceed 10 years and a 90-day notice period if that period exceeds 10 years (should the employer wish to dismiss the employee without giving him or her the relative notice period, the employee will receive two months' salary for each year of employment, for unjustified dismissal).

#### **Legal terminations**

Grounds for legal termination without notice include the expiry of a definite employment contract, retirement, resignation, death or the incapacity of the employee to perform the relevant job on the basis of a report from the concerned governmental committee and authorities. In all cases of employment termination, the company should follow the Egyptian Labor Law and its penal regulations.

#### **Legal obligations**

There are other legal obligations to consider, including the legal annual increase and profit share. Under the profit share, employees of a joint stock company, limited liability company (LLC) or foreign branch are entitled to a share in the distributable profits. The share is fixed at an amount not less than 10% of distributable profits and not more than the total annual salaries of the employees. However, limited liability companies with capital of less than EGP250,000 are not subject to this distribution of profit share, noting that the LLC should distribute a percentage of the profits determined by the management.

#### **Customary benefits**

Customary benefits that can be paid to employees and vary from one company to another include the following:

- Bonus or performance pay
- Allowances
- Profit share
- Private medical insurance
- Tuition reimbursement
- Fellowship fund
- Stock options

#### **4. Payroll requirements**

As per Law No. 91/2005, the employer is responsible for calculating and deducting salary tax from his or her

employees on a monthly basis and remitting the deducted amount to the tax authority, no later than the 15th day following each month. The employer is required to remit a quarterly salary tax return (Form 4) one month following the end of each quarter, as well as an annual salary reconciliation. Payroll cost charged or recharged to an Egyptian entity should be subject to salary tax in Egypt.

Regarding payslips, the company has to provide a payslip for the employee including the details for the provided monthly salary, benefits and monthly deduction. Banking requirements related to payroll

#### **5. Banking requirements related to payroll**

As per Law No. 91/2005, salary tax payments are made to Egyptian tax authority bank accounts. Salary tax should be paid by a bank transfer from one of the local banks that deals with the Egyptian tax authorities and there is no foreign exchange control.