Egypt reduces income tax rate and tax on dividend distributions

Executive summary

A Presidential Decree was issued promulgating Law no. (96) of 2015 (the Law) amending certain provisions of the Income Tax Law No. 91 of 2005 and Tax Law No. 44 of 2014 regarding the 5% temporary additional income tax. The Law was published in the Official Gazette no. 34 (bis) on 20 August 2015 to be enforced on the day following the publication date.

This Alert highlights the key amendments.

Detailed discussion

Reduction of the individual income tax rate

Article no. (8) of the Income Tax Law regarding the income tax brackets applicable to individuals is amended as follows:

<table>
<thead>
<tr>
<th>Bracket</th>
<th>Income Range</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>First bracket</td>
<td>Up to EGP 6,500</td>
<td>Exempt from tax</td>
</tr>
<tr>
<td>Second bracket</td>
<td>EGP 6,501 to EGP 30,000</td>
<td>10%</td>
</tr>
<tr>
<td>Third bracket</td>
<td>EGP 30,001 to EGP 45,000</td>
<td>15%</td>
</tr>
<tr>
<td>Fourth bracket</td>
<td>EGP 45,001 to EGP 200,000</td>
<td>20%</td>
</tr>
<tr>
<td>Fifth bracket</td>
<td>Over EGP 200,000</td>
<td>22.5%</td>
</tr>
</tbody>
</table>

Note: The official exchange rate is EGP 7.15 to US$1

The first bracket exempt from income tax has been increased from EGP 5,000 to EGP 6,500. This is in addition to the annual personal exemption of EGP 7,000 allowed for salaried employees. In addition, the maximum income tax rate for individuals has been reduced to 22.5% from 25%.

The above noted tax rates are effective for wages and similar payments beginning 21 August 2015. With respect to commercial and industrial revenues, non-commercial revenues and real estate revenues, such rates will be applied to the 2015 tax year beginning 1 January 2015 to 31 December 2015.
**Reduction of the income tax rate applicable to legal entities**

The income tax rate applicable to the annual taxable profit of legal entities also is reduced from 25% to 22.5%. This applies to the calendar tax year (1 January 2015 to 31 December 2015) or the taxable year ending after the issuance date of this law (i.e., 20 August 2015).

**Dividends Tax**

Prior to the publication of the Law, dividends were subject to tax twice: first, when distributed, to the Dividends Tax at either 10% or 5% as provided under law and second, dividends were required to be added to the corporate income taxable amount in accordance with the Egyptian tax regulations. Now, dividend distributions are only subject to Dividends Tax at 10% or 5% if the following conditions are met:

- The person holds more than 25% of the distributing company’s capital or voting rights
- Shares are held for a duration of not less than two years

Based on the above, dividends and related costs earned by legal entities from other resident legal entities should not be included in the respective corporate taxable amount. Also, dividends earned by individuals from legal entities should not be included in their taxable income after deducting the related costs.

**Capital gains realized from the disposal of securities/shares in Egypt or abroad**

Income tax provisions applicable to capital gains realized from the disposal of securities registered with the Egyptian Stock Exchange were suspended for two years beginning from 17 May 2015. However, capital gains tax, according to the Tax Law No. 53 of 2014, remains applicable to gains realized from the disposal of securities not registered with the Egyptian Stock Exchange or the disposal of shares in corporations regardless of whether they are realized in Egypt or abroad.

As amended, the income tax rate applicable to capital gains realized by nonresident individuals and legal entities is as follows:

- 10% rate applies to capital gains realized from the disposal of securities registered with the Egyptian Stock Exchange.
- 22.5% rate applies to capital gains realized from the disposal of securities not registered with the Egyptian Stock Exchange or from the disposal of shares in Egyptian corporations.

Parties executing the disposal transactions are not obligated to withhold any tax amount due on the capital gains realized. They are only obligated to: (i) notify the Tax Authority with the capital gains amount realized; and (ii) at the end of the tax period, such parties are required to notify the tax authority with a reconciliation declaring the tax amounts due. The tax authority will then claim from the taxpayers the tax due resulting from all related transactions.

**Additional temporary tax on income**

The Law amended the enforcement period of the 5% additional temporary income tax that was imposed by Law No. 44 of 2014. The additional income tax should only be enforced for one year instead of the original three year period.

This additional tax was imposed on individuals and legal entities for the tax year starting 1 January 2014 to 31 December 2014. For legal entities whose tax year is not a calendar year, the additional 5% tax was imposed for the tax year ending after the issuance of said law on 4 June 2014. Accordingly, the additional temporary tax shall no longer apply to any tax year after 2014.

**Date the law comes into force**

This Law was published in the Official Gazette no. 34 (bis) on 20 August 2015. The last article provides that the law should come into force effective the day following the date of its publication, i.e., 21 August 2015.
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