

# Doing Business in EGYPT



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# Foreword

This publication is designed to provide information on major issues that foreign investors should consider when investing in or through Egypt.

Egypt made remarkable economic progress during the recent years; according to a report issued by the World Bank, Egypt has moved up 8 spots to rank 120 out of 190 countries. In 2020, Egypt made another improvement by ranking 114. Egypt's economic growth has been strong and resilient during the COVID-19 pandemic. In 2020, Egypt did record a positive growth at a rate of 3.6%, despite the impact of the pandemic which is considered the second largest growth rate in the world. Egypt ranking improved in other sectors such as Global Knowledge index 2020 by ranking 83 out of 138 countries.

The currency of Egypt is the Egyptian pound (EGP). Due to the flotation of the Egyptian pound that took place in November 2016, the Central Bank of Egypt has relaxed the restrictions and limitations on the transfer of foreign currencies.

PKF Rashed, Badr & Co. (PKF Egypt) is a member firm of the PKF International Limited network. And one of the Egypt's leading firms of accountants and business advisers, established in 1948 by Mr Fouad Rashed, as he had no. (82) In the General Roster of Accountants & Auditors.

By utilising the PKF International network, we provide comprehensive services with a tailored approach to our clients of different sizes, including large international companies, small and medium enterprises (SMEs), IPO candidates, non-profit organisations and high net worth individuals, helping them in setting up their business and exploring opportunities in Cyprus and all over the world.

We look forward to cooperating with you and supporting your business to grow and achieve success in the future.

# Introduction

## 1-Geography and Climate

Egypt occupies 1,001,450 square kilometers of Northern Africa, bordering the Mediterranean and the Red Seas, Libya, the Gaza Strip, Israel and Sudan. The terrain is mostly vast desert plateau interrupted by the Nile valley and delta. Three percent of the land is arable, and about 3.2% of the total land area is under irrigation. Agricultural land is currently being lost due to urbanization and windblown sands, although some land is being reclaimed through irrigation. There are limited fresh water resources other than the Nile, which is the only perennial water resource in Egypt.

Egypt controls the Sinai Peninsula, which is the only land bridge between Africa and Asia. Additionally, it controls the Suez Canal, which is a sea canal linking the Indian Ocean with the Mediterranean Sea.

Egypt's natural resources include petroleum, natural gas, coal, iron ore, phosphates, manganese, limestone, gypsum, talc, lead and zinc.

The climate is hot and dry, with the temperature in Cairo during the mid-winter months ranging from 8°C to 18°C, rising to an average maximum temperature of 36°C in July, the hottest month. Even in the wettest months, particularly December, only an average of five millimeters of rainfall is recorded.

## 2-Population and Language

The population of Egypt is some around 100 million, making it the most populous country in the Middle East

Major cities include Cairo, the capital, Alexandria, Aswan, Asyut, Port Said, Suez and Ismailia. The overwhelming majority of Egypt's population lives in Cairo and Alexandria, and along the Nile Banks, Nile Delta and the Suez Canal. There are small communities through desert regions of Egypt, which are clustered around

oases and historic trade and transportation routes. The population of those living in the rural areas of Egypt continues to decrease as people move to the cities in search of employment and higher living standards.

Arabic is the official and dominant language in Egypt, however, English and French are widely spoken and understood by the educated classes.

### 3-Religion

Ninety percent of the Egyptian population are Sunni Muslims, and the remaining are principally Christians (mostly Coptic Christians).



## 4-Infrastructure

Egypt's transportation system is relatively developed, with over 65,050 kilometers of primary and secondary roadways. Over the past years, the numbers of licensed automobiles has increased tremendously, leading to a highly congested road system, especially in urban areas.

The railway network (5,500 kilometers) is the oldest railway network in Africa and the Middle East, and is essentially focused on the Nile Delta and Valley with lines fanning out from Cairo and stretching out from the south of the country to the north.

Cairo's new underground metro system, established in 1987, is one of the busiest in the world, and is run by the National Authority for Tunnels.

The country has 3,500 kilometers of waterways, including the Nile River, Lake Nasser, the Alexandria-Cairo waterway and numerous other smaller canals in the Nile Delta. In addition, the Suez Canal (193.5 kilometers), the major waterway of international commerce and navigation, linking the Mediterranean Sea with the Gulf of Suez and the Red Sea, is navigable by oceangoing vessels drawing up to 17.68 meters (as of 2010).

The principal ports in Egypt are Alexandria and Port Said, however, other important ports are Damietta, El Dekheila, and Sidi Kurayr, Ayn Sukhna and Suez on the Gulf of Suez.

In 2010, Egypt had a total of 86 airports, 73 of which had paved runways, the largest being the Cairo International Airport.

Electricity is supplied almost all over the country. 84% of Egypt electric generating capacity is thermal (natural gas), while about 16% of the total energy generated in Egypt is hydroelectric energy,

mostly generated from the Aswan High Dam. However, due to the annual population growth rate of 2.1%, there is an ever-increasing demand for energy resources. Plans to build power plants and to undergo limited privatization of the electric power sector are currently being considered.

While water supply infrastructure has substantially improved since 1990, whereby piped water supply has increased from 89% to 99% in urban areas and from 39% to 82% in rural areas, however, only

one third of the population is connected to sanitary sewers. Issues of water scarcity and quality pose urgent problems to modern and future water resource management in Egypt.

Telecommunication services in Egypt have been extensively upgraded and are considered relatively modern. Main lines telephone services are provided by the government-controlled Telecom Egypt.

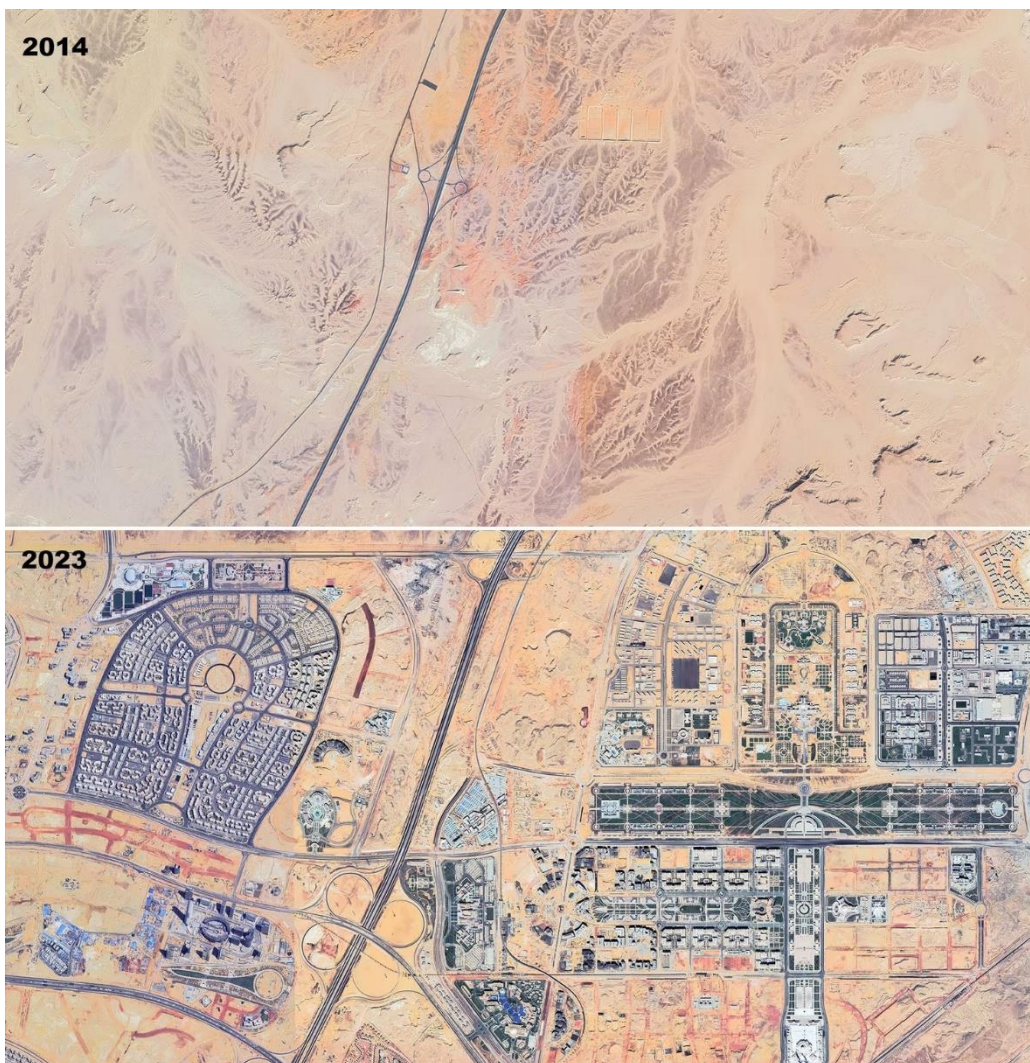
There are four main mobile cellular service providers, Orange, Vodafone Egypt, WE and Etisalat Egypt.



## 5-New administrative Capital.

New Administrative Capital (NAC). It is located on the outskirts of Cairo and is being built with the intent of serving as the country's capital

The project was announced in 2015 by Pres. Abdel Fattah al-Sisi, with construction beginning the following year. Among the goals of the project is to relieve congestion and pollution in Cairo, whose metropolitan area was approaching a population of 20 million by the mid-2010s. The location of the NAC is about 30 miles (45 km) from downtown Cairo and 40 miles (60 km) from the Suez Canal. The plan includes a new presidential palace, a new parliament building, and space dedicated for foreign embassies, as well as new buildings for various government administrations. In addition to the government districts, the plan includes districts for business and finance, arts and culture, and future investment projects. An elongated park, dubbed "the Green River," when complete will snake through the centre of the city and be twice the size of New York City's Central Park.



The NAC's buildings are some of the most grandiose in the world, dwarfing many others on the African continent and in the Middle East. It is set to include a bevy of massive skyscrapers, the tallest of which will be the Iconic Tower, which will stand about 1,300 feet (400 metres). One of the largest mosques on the continent, the Egypt Grand Mosque (inaugurated in 2023), and the largest cathedral in the Middle East, the Cathedral of the Nativity of Christ (inaugurated in 2019), were also built in the NAC. Plans for a new headquarters for Egypt's Ministry of Defense, dubbed "the Octagon," are particularly ambitious, rivaling the size of the Pentagon in the United States.

Despite repeated delays in the city's formal inauguration, government operations began relocating to offices in the NAC in 2022. Citing the high cost of living in the new city, most employees opted to commute from Cairo (many using the Light Rail Transit [LRT] system that became operational in July 2022) or other nearby cities.



## 6-Suez Canal Economic Zone

The 455km zone is governed by the General Authority for the Suez Canal Economic Zone: an autonomous body with executive/regulative powers. The authority is entitled to approve decrees, propose additional incentives, as well as the full authority to oversee all areas of operation, staffing, control over budget, funding, developing partnerships and providing business facilitation services.

SCZONE adopts investor-friendly business environment that will be a cornerstone for national development plans. The conducive business environment SCZONE provides, not only supports new businesses, but also supports existing investors to grow & expand, eventually creating job opportunities and boosting economic development.



# Forms of business

there are Five types of possible legal forms of business:

- Joint stock company.
- Limited liability company.
- Representative office.
- Branch.
- Sole shareholder company.

For foreign investors the most common form is the LLC as it provides limited liability and any issued capital is accepted.

Other factors to consider when determining the most suitable form of business to use are the purpose of the entity, the number of partners and capital invested are essential.



## Joint stock company (JSC)

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Generally there are no restrictions on the activities a JSC can undertake.

A JSC may be 100% owned by foreign investors; however in order for a JSC to import goods for the purpose of trading in Egypt, it must be 51% at least owned by Egyptians and having one Egyptian manager at least responsible for importation.

There should be at least three shareholders and three members of the Board of Directors. The board members can be individuals or corporates, however corporate members must have one or more individual representative.

The minimum capital of JSC is 250,000 EGP or its equivalent in foreign currencies, where 10% of such capital ("Issued Capital") is paid upon incorporation, increased to 25% within 3 months from the date of registering the company in the commercial register ("Paid up Capital"), and the remaining amount must be paid within no later than 5 years from the date of registering the company in the commercial register. Noting that certain activities may require a higher minimum capital, for example the minimum required capital for importing JSCs is 5 Million EGP.

JSCs can be registered in the Egyptian Stock Exchange.

The establishment process approximately takes between 3 - 4 weeks from the date of submitting all the required documents to the General Authority for Investment & Free Zones ("GAFI").

## Limited Liability Company

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A LLC is permitted to engage in all business activities except activities of banking, insurance, saving, receiving or investment of funds for the favor of third parties, or any other activity explicitly restricted by the law. LLC may be 100% owned by foreign investors; however in order for a LLC to import goods for the purpose of trading in Egypt, it must be 51% at least owned by Egyptians, and having one Egyptian manager at least responsible for importation.

There should be at least two partners in an LLC.

There are no nationality or residence restrictions regarding other managers.

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There should be at least two partners in an LLC.

There are no nationality or residence restrictions regarding other managers.

## Representative office

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The activity of a representative office is limited to conducting market study without practicing any type of commercial activity.

There are no partners required, however, a manager should be appointed by the head office abroad to perform the administrative work based on the responsibilities determined by the head office. This manager can be Egyptian or foreigner.

### RO compliance requirements

- The ROs in Egypt must submit a report to the General Authority for Investment and Free zones (GAFI) at the beginning of each year. The report should include detailed information on all its employees, its market study, any decisions made from the parent company in that regard, and a time frame for the completed and remaining.
- The parent company of the RO has to take a decision to establish a legal entity in Egypt, a company or a branch within (3) years as of the date of its registration.
- The RO shall be accorded a registration certificate from the date of its registration that shall not exceed one year. This certificate is renewed annually subject to the RO's compliance with applicable laws and regulations.

## Foreign Branch

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A foreign company can also operate in Egypt by establishing a foreign branch. The purpose of a branch is limited to implementing a specific contract in Egypt.

- No partners are required. However, the head office appoints a manager who is entitled to perform the administrative work based on the responsibilities determined by the head office. The manager may be Egyptian or foreigner.
- There are no capital requirements, only a deposit of USD amount equivalent to of EGP 5,000 in the
- The establishment of a branch can be challenging and it may take approximately 6-7 weeks from the date of submitting all the required documents to GAFI.

## Sole shareholder company

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SPC's have almost the same features of LLC's.

### Partner

SPC's are established with one partner at all times which may be judicial or natural person.

The partner may be Egyptian or non-Egyptian. However, there are certain activities that the SPC may not carry out except if it is fully owned to Egyptians.

### Capital Requirement

The minimum capital of the SPC is EGP 1,000 (one thousand Egyptian pounds). The SPC capital must be paid in full upon incorporation.

### Management of the company

The day-to-day management of SPC's may be vested to one manager or more. The manager(s) of SPC could be foreigner or Egyptian unless the activity of the SPC requires an Egyptian nationality.

## Process for Establishment

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### Incorporation process

Below are the main steps for incorporating a new company in Egypt (i.e. JSC, LLC, SPC):

- Issuance of a certificate of "non-confusion" from the Commercial Registry certifying that the chosen name of the company under formation does not conflict with the name of any other registered company.
- Prepare and review the new company's draft articles of association from GAFI.
- Open a bank account in the name of the new company (under incorporation).
- Apply for security clearance approval for any non-Egyptian founder/shareholder and board member/manager.
- Authenticate and notarize the articles of association.
- Issue the commercial register and tax card

As evidenced above and in conjunction with the standard incorporation process, please note that each form of business has its own prerequisites

## Summary

Forms of business	Structure of partners / Shareholders	Nationality Requirements	Minimum Capital	Management
Joint stock company.	3 Shareholders	Can be fully owned by foreign investors , Except for some activities that requires a percentage for an Egyptian Ownership	<b>250,000 EGP</b> where 10% of such capital ("Issued Capital") is paid upon incorporation, increased to 25% within 3 months from the date of registering the company in the commercial register ("Paid up Capital"), and the remaining amount must be paid within no later than 5 years from the date of registering the company in the commercial register. Noting that certain activities may require a higher minimum capital, for example the minimum required capital for importing JSCs is 5 million EGP.	3 board of Directors  The board of directors could be judicial or natural persons. They could also be non-Egyptians or Egyptians. (except for activities requiring appointment of Egyptian nationals to be appointed such as commercial agency).
Limited liability company.	2 quota holders (partners)	Can be fully owned by foreign investors , Except for some activities that requires a percentage for an Egyptian Ownership	Generally, there is no minimum capital requirement Except for some activities. Such as importing for trading.	One or more managers,  There is no restriction on the nationality of the managers unless for certain activities ( e.g. importation for trading or export) in which an Egyptian manager is required .
Foreign Branch.	A foreign company could operate in Egypt by establishing a foreign branch. The purpose of the branch is limited to implementing a specific contract in Egypt.		5,000 (five thousand Egyptian pounds).	A foreign branch is managed by one or more managers and are responsible for its daily operation. Their authorized powers are conferred by the parent company.
Sole shareholder company.	One partner	The partner may be Egyptian or non-Egyptian. However,there are certain activities that the SPC may not carry out except if it is fully owned to Egyptians.	1000 EGP	The day-to-day management of SPC's may be vested to one manager or more. The manager(s) of SPC could be foreigner or Egyptian unless the activity of the SPC requires an Egyptian nationality .



# Taxes & Social insurance



# Taxation

## 1. Corporate Income Tax

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The corporate tax is imposed on the annual taxable net profit. The taxable net profit is determined based on the audited financial reports' net profit after adjusting it with certain adjustments based on the income tax law.

Taxpayers are required to file annual corporate income tax return which should be signed by a local external tax advisor. Tax return under the Egyptian Tax Law is a self-assessment. Accordingly, any understatement of tax liabilities in the tax return will result in the imposition of penalties

Corporate income tax rate is 22.5% on net taxable income.

Tax losses can be carried forward for five subsequent years maximum

A serial of tax law amendments has been issued during the years 2013 - 2015 and the major issues of such amendments on the corporate tax are about the Capital gains and Profits distributions

## 2. Salary Tax:

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Under the Egyptian Tax Law, it is the employer responsibility to withhold the salary tax due on each employee and remit the tax to the Tax Authority on a monthly basis within fifteen days following the month of payment.

Nonresident employees are subject to same salary tax rules, however if they are resident in a country which has tax treaty with Egypt, then tax treaty provisions should apply.

## 3. Withholding Tax on Domestic Transactions:

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The withholding tax would applies to payments in excess of EGP 300.

The rates are 2% on services, 0.5% on supplies & contracting activities and 5% on commissions & brokerage fees.

Entities which are required to withhold tax under the existing tax law are required to apply the above rules and to file a quarterly withholding tax form within one month following the end of each quarter and remit the tax along with the tax form.

#### 4. Withholding tax on Cross-Border Transactions:

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A withholding tax of 20% is imposed on the following payments made to overseas parties by resident sole proprietorships, partnerships and companies: Royalties, Interest, Services, fees

The tax treaty provisions can be applied if applicable.

Meanwhile the treaty country resident recipient may apply for tax refund for the difference between 20% and the treaty rate from the Tax Authority after providing certain documents and following certain procedures

#### 5. Stamp Tax:

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Stamp tax law classifies the stamp taxes into physical and proportional taxes. The physical stamp taxes are imposed on a variety of documents such as the contracts for example. The proportional stamp taxes are imposed on the values of certain transactions e.g. advertisements at 20% tax rate.

#### 6. Value Added Tax "VAT".

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On September 7th 2016 the Egyptian government implemented a fully-fledged VAT scheme which took over the general sales tax regime previously in place.

The Law has become effective as of September 8th 2016.

##### What is VAT?

VAT is an attempt to tax businesses at each stage of the supply chain from raw material to a product that is utilized by the consumer. As the good moves up through the supply chain, the tax is charged incrementally by every business that uses the material or product.

VAT is applicable to services as well as goods, i.e. hotel stays, restaurant meals, legal advice, and the like.

##### Tax Rates

Standard VAT rate of 14% applies to most of goods and services.

Machinery and equipment used in producing taxable or non-taxable goods or rendering services are subject to a 5% VAT.

Exported goods and services are subject to a 0% VAT.

Certain products are subject to different rates/ amount per unit (excise tax), and certain products and services are subject to both excise tax and the VAT.

## 7. Property Tax:

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Property tax is imposed on all buildings in Egypt. Tax is borne by the owner whether a natural person or a corporate body.

The tax rate is 10% on the annual rental value of the taxable buildings after the deduction of 32% (30% for residential units) allowed for maintenance.

The tax is due as from the first of July 2013 and afterwards; and to be collected on two equal instalments (the end of June and the end of December of the same year).

Taxpayers are required to file a tax return and failure to do so will expose the taxpayer to pay a penalty.



# Social Insurance

According to the social insurance law there are two kind of social insurance as follow:-

## a) Standard social insurance

Legal entities working in Egypt should register for social insurance with the competent social insurance office.

Social insurance on employees' salaries is imposed on the employee and the employer as well, the employer share of social insurance is 26% of basic salary and 24% of variable salary, on the other hand, the employee share of social insurance is 14% of basic salary and 11% of variable salary.

The employer is obliged to remit the above monthly contributions to the competent social insurance office before the fifteenth of the following month to avoid the delay interest which approximately 1% monthly.

## b) Contracting social insurance

Contractor working in Egypt should notify the Social Insurance Authority with their contracts and paying the related social insurance contributions due on these contracts.

The contributions due will be determined according to the total value of the contract and the nature of work, there are rates specified for most of the nature of works.



# Labor Law



# Briefed Legal Consideration employment Law.

## Employment contract

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 Labour Law.

The labour contract should include the following contents:

Name of the company and the employer “himself or the representative” and the address of the workplace.

Name and personal details of the employee (name,

address, date of birth, place of birth, ID, qualifications).

Compensation (salary, bonuses, annual raises, benefits).

Duration of the contract and its renewal regulations.

Working hours, days off, leave.

Confidentiality agreements and code of ethics, if any.

Regulation for termination of the contract.

## Probation period

If an employee is hired on probation, the employment contract should indicate the probationary period, which cannot exceed three months. Neither shall an employee be appointed under probation more than once for the same employer.

## Types of employment contract

1. An indefinite employment contract is a contract which is not restricted to a limited period and does not have an expiration date (i.e. only includes the starting date).

If the period of a definite employment contract expires and the company does not renew or terminate it before its end date, the contract is automatically becomes an indefinite contract (with no end date). This applies to Egyptian employees.

2. A definite employment contract is a contract which is issued for a definite period of time, has a start and an end date and will be terminated with the expiry of its period, although it may be renewed by express agreement between the two parties for one or more other periods through a new definite period contract according to Article No. 106 from the Labour Law No. 12 for year 2003.

## Working hours

As per the Labour 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 5 days a week, usually Sunday to Thursday. The number of working hours may be increased to 9 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 6 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 old.

#### **Public leave**

In addition, 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, the employees 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.

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 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 or not.

#### **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 preceding giving birth. The female employee is not entitled to this maternity leave for more than twice during her working period.

During the 24 months following the date of child birth, she has the right to be excused from work for one hour daily for feeding her child.

### **Benefits/rights**

#### **The social security system and public health insurance**

Social security is a public program designed to protect individuals and their families and includes provisions for retirement age, disability and death, employment injury, medical insurance, end of service bonus, and unemployment.

Basic – 26% and 14% for employers and employees respectively up to a maximum of EGP 1,510.

Variable - 24% and 11% for employers and employees respectively up to a maximum of EGP 4,040.

All private sector companies in Egypt are required to provide free health care for their Egyptian employees either through the Medical Insurance Plan of the



Ministry of Social Insurance (Government medical insurance) or privately. They are also required to contribute to the Pension Insurance Fund of the Ministry of Social Affairs and Insurance.

When the employer registers the employee under the government social security system, a monthly pension contribution is paid every month to the competent social insurance office, whereby the employee will be entitled to certain pensi

on upon retirement or disability. No other fund contribution is mandatory.

### **Contractual social security system**

This system applies to all companies which by nature are most likely using seasonal and temporary workers who are usually not socially insured in carrying out certain assignments.

Those workers are to be registered under the competent contractual social insurance office, in which the company is responsible for paying the percentage applicable to the given assignment to the concerned social insurance office. The social insurance percentage is determined to be (18%) taken from the salaries of the workers performing the assignment.

### **Annual increment**

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

The minimum mandatory annual increase is currently EGP 105.70.

### **Overtime pays**

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

### **Bonuses**

There is no obligation to pay annual bonuses.

### **Minimum wage**

The minimum wage is around 2700 EGP per month.

### **Recruitment resources**

There are two key types of labour available for recruitment:

- Readily available number of new graduates who are looking for new jobs.
- A number of employees who wish to leave their original employers looking for better advantages and benefits.

Usually foreign companies use professional firms to undertake a market survey and guide the employer on how to ensure competitive advantage among competitors recruiting in the same field.

Other commonly used methods for recruitment are as follows:

Newspaper advertisement

Web advertisement

Selecting resumes though professional sites

Using external recruitment agencies  
Internal referrals.

### **Unions**

There are professional syndicate unions representing the labour rights in the private sector to bargain with the government in different areas, for example:

Annual salary increase

Special salary increase

Minimum level of wages

The labour disputes between employers and employees.

## **Termination of employment**

### **During probation period**

The probation period should not exceed three months and neither shall an employee be appointed under probation more than once.

In case the employee proves unsuitable for the job during the allotted period.

This allows the employer to cancel the contract during the period.

### **Dismissal under “Definite” 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 signed contract.

To illustrate, if the contract is issued for one year and the employer decides to terminate the hiring after 8 months, he has to pay the remaining 4 months' salary in the contract.

### **Dismissal under “Indefinite” employment contract**

Any of the two parties may terminate the contract at any time in case the contract is indefinite, taking into consideration, proper notice time, proper working conditions, stating reasons whether on the employer's or employee's behalf.

The employer may not dismiss the worker unless due to reasons as stated in the provisions of the Article No. 69 of the Labor Law.

An employee is entitled to 60 days' notice period for dismissal if his period of service does not exceed 10 years, and 90 days'

notice period if that period exceeds 10 years. (Should the employer desire to dismiss the employee without giving him the relative notice period, the employee shall receive two or three month's salary payment instead of such notice).

Court decisions have tended to award payments of not less than the wage of 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 based on a report from the concerned governmental committee & authorities. In all circumstances, any case of employment terminations the company should be in compliance with the Egyptian Labour Law & 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, 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 less than EGP 250,000 are not subject to this distribution of profit share.

## **Customary benefits**

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

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

## **Foreign employees**

As a general rule, any foreign employee working in Egypt whether for a long or short term should obtain a work permit. An Egyptian legal entity must sponsor the foreign employee and respect the ratio prescribed by law which is 10 Egyptian employees for every foreign employee.

The foreigner's qualification and expertise must be adequate for the position and must have an experience certificate for the latest 3 (three) years in the same profession.

There should be a real need of the foreign expertise in the Egyptian market.

Two Egyptian assistants must be hired for each foreign employee.

# Additional information



# Transfer pricing

Egypt has had transfer pricing regulations in place since the issuance of income tax law 91/2005. In 2010, transfer pricing guidelines were issued and have since been updated by new guidelines in 2018. These new guidelines will serve as the basis for the Egyptian Tax Authority (ETA) to assess the arm's length of financial or controlled commercial transactions between associated enterprises. Such transactions may include, but are not limited to, the exchange of commodities or services, group cost allocation, royalties, interests, and other financial or commercial activities.

It is important to note that failure to comply with the new transfer pricing guidelines is not permitted unless specifically requested by the taxpayer and approved by the head of the ETA.

PKF Egypt has a highly qualified team available to assist with the preparation of the three-tiered transfer pricing documentation required by the ETA in accordance with the TP guidelines. Below is a brief overview of each document.

## Master file

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1. The master file is a document that offers a comprehensive view of the Global Associated Enterprises (GAEs) group business. It should contain details about the nature of its global business operations, transfer pricing policies, and global allocation of income and economic activity. This information is essential to provide a high-level overview of the GAE's transfer pricing practices and to offer relevant global economic, legal, and financial context. Failure to include such information in the master file could impact the reliability of the transfer pricing outcomes. The master file must be submitted to the Egyptian Tax Authority ("ETA") before or by the due date of filing the parent entity's tax return

## Local File

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-The local file serves the purpose of furnishing comprehensive details pertaining to the regulated transactions of a local taxpayer and must comprise additional information beyond what is present in the master file. This additional information should encompass an in-depth functional analysis, financial data concerning those particular transactions, the identification and utilization of the most suitable transfer pricing technique, and a comparability analysis.

-It is mandatory to prepare local files on an individual entity basis rather than a group basis.

-The Local File must be submitted to the ETA within two months of the deadline for filing the annual tax return.

## The Country by Country Report (“CbCR”)

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-requires jurisdiction-wide information regarding the GAE’s global allocation of income, taxes paid, and the location of key economic activity where the GAE group operates. As part of this CBCR, GAEs are also required to report their number of employees, stated capital, retained earnings and tangible assets in each tax jurisdiction.

-Finally, GAEs should identify each entity within the group doing business in a particular tax jurisdiction, and provide an indication of the business activities each entity engages in. It also requires a listing of all Constituent Entities for which financial information is reported, as well as their main business activities.

-For Egyptian tax and transfer pricing purposes, a CbCR will be required for Egyptian Parented GAEs if the GAE for which a taxpayer resident in Egypt is the parent company achieved an annual consolidated group revenue of equal to or exceeding EGP 3 billion. In such a case, a CbCR will be required only if the Egyptian Parented GAE has a foreign subsidiary/subsidiaries.

-Whereas, for taxpayers’ resident in Egypt, which are subsidiaries of foreign parented GAEs, a CbCR should be filed in the jurisdiction of tax residence of the ultimate parent entity subject to the OECD threshold.

-As such, only Egyptian parented GAEs, i.e. Egyptian parent companies, will be required to file a CbCR with ETA.

-CbCRs will be shared between the relevant tax administrations through automatic exchange of information, pursuant to government-to-government mechanisms.

-The due date for submitting the CbCR is 12 months from the end of reporting fiscal year.



# E-invoicing system in Egypt

The Egyptian government's digital transformation efforts have led to the implementation of an e-invoicing system, following the introduction of e-filing. Decree no 188 of 2020 was released by the ministry of finance to introduce this new system.

In order to comply with ministerial decree no 1206 of 2021, all governmental bodies must stop accepting paper invoices from suppliers as of October 1, 2021. Companies dealing with any governmental body must adopt the e-invoicing system before this date.

From April 1, 2023, electronic invoices will be the only accepted proof of costs or expenses when submitting tax returns for income tax, as well as when deducting or refunding value-added tax, and electronic invoices will be considered only.





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