



EGYPT SWITCHING TO VAT: KEY HIGHLIGHTS

On 7 September 2016, VAT Law No. 67 of 2016 was issued. It replaces the Sales Tax Law No. 11 of 1991 and its amendments. The effective date of the VAT is 8 September 2016, the date after the law was published in the official gazette. The new tax law is part of an economic reform program package aimed at reducing the country's budget deficit.

In principle, VAT applies to all provisions of goods and services, other than some goods and services that are listed in an exemption table. The VAT replaces the sales tax. This article highlights key provisions of the VAT.

TAX RATES

The VAT tax rates are as follows:

- A 13% standard rate applies to most supplies of goods or services. This rate is set to increase to 14% on 1 July 2017.
- Schedule No. 1 to the VAT Act lists goods and services that are subject to special rates in addition to the standard rate.
- Schedule No. 2 to the VAT Act also lists goods and services that are subject only to special rates.
- Certain goods and services are exempt from VAT.

SCOPE OF THE VAT

VAT applies to the following transactions:

- The supply of taxable goods and services up to, or in excess of, the registration threshold.
- Importation of taxable goods into Egypt, regardless of the status of the importer.
- The imported services that are performed for customers and clients in Egypt.

EXCEPTIONS

- Export of goods out of Egypt is zero rated. Subject to certain conditions, a taxable person can claim a refund of VAT paid on inputs used to produce exported goods/services.
- Goods and services supplied to Free Zones are zero rated.
- All services and goods for arms, defense and national security purposes are exempt from VAT, this include raw materials, consumables and parts.

REGISTRATION THRESHOLD

Any individual or juridical person who sold taxable goods or services with turnover during the 12 months before 8 September 2016 of at least EGP 500,000 must register for the VAT.

For importers taxable goods or services, the registration threshold zero, which means all importers must register.

INPUT TAX

Taxable persons may deduct from their payable VAT amount, the VAT paid on their inputs of taxable goods and services. Tax credits may result from this off-set, which can be carried forward until fully consumed.

NON-DEDUCTIBLE INPUT TAX

No input tax credit is allowed in the following situations (with the exception of machines and equipment used in delivery of a product or service):

- With respect to specific goods and services listed in the schedules attached to the VAT law, with the exception of sub-contracted construction.
- Where input tax is recorded as a cost.
- On exempted goods and services.

TAX REFUNDS

A tax refund is made within 45 days of claim by the Taxable person in the following conditions:

- VAT paid on inputs used in exporting goods and services (with the condition of depositing the proceeds from exporting in a bank regulated by the CBE).
 - VAT paid erroneously.
 - A Tax credit balance standing for six consecutive months.
 - VAT previously paid on machines and equipment used in the manufacturing of a taxable product or delivery of a taxable service, except for buses and passenger cars (on the first tax return).
-

VAT RETURNS AND PAYMENTS

- Generally, a VAT return must be filed monthly with a grace period of two months from the end of each month. However, a VAT registrant's April VAT return must be filed before 15 June.
 - Remittances of VAT are due at the same time VAT returns are filed.
 - A VAT return must be filed even if there are no sales in that month.
-

PENALTY REGIME

The VAT legislations provides for penalties for non-compliance. The penalties depend on the reason for, and duration of, the non-compliance, and the amount of tax involved. Simple interest is charged at a rate of 1.5% per month, or part of a month, during which an amount remains unpaid.

In addition to financial penalties, criminal penalties can also be applied for failure of comply with the tax obligations.

For questions or for more information please contact:

Ahmed El Kadeem, CPA, ESAA

Audit & FAS Partner

ACA El Kadeem

aekadeem@aca-elkadeem.com

Tel: +202 23931990

Mob: +2 01005480297