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Report Name: Egypt Moves to Exempt Key Commodities from Freight Value Added Tax

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Report Highlights:

On November 18, 2020, the Egyptian Cabinet approved a draft bill that exempts importers of key commodities from paying value-added tax (VAT) on shipping costs. The legislative amendments to the VAT Tax Act are expected to remove taxes paid on freight costs for grains, legumes, table salt, and spices. If implemented, the previous tax policy could have disrupted agricultural commodity exports to Egypt, and place U.S. origin at a competitive disadvantage in the Egyptian market.

Value Added Tax Law No. 67 of 2016

In calendar year (CY) 2016, the Government of Egypt (GOE) joined countries that apply value-added tax (VAT), replacing the General Sales Tax (GST) in an effort to increase tax revenues and address rising budget shortfalls following the devaluation of the Egyptian pound. The Egyptian Parliament approved the VAT law on August 31, 2016 and the law took effect on September 8, 2016.

The standard tax rate stipulated in the law was 13 percent, and the rate was increased to 14 percent in fiscal year 2017/18. The law exempted, from VAT, 56 goods and services that are considered essential by the government including 18 essential food commodities such as wheat, corn, soybeans, and sugar.

VAT Applied on Freight Services

On July 16, 2020, the Egyptian Tax Authority signed a protocol with the Customs Authority and Alexandria Chamber of Shipping to set a mechanism to apply a 14 percent VAT on advanced freight services on exempted goods including agricultural commodities such as wheat, corn, and soybeans (see GAIN Report EG2020-0052). The VAT on freight was implemented as of July 1, 2020 on all private sector imports.

Under this new tax regime, U.S origin corn and soybeans would have been at a tremendous disadvantage compared with other origins from countries that are geographically closer to Egypt. For example, in 2019, U.S. soybean exporters would have paid USD 10.7 million in additional taxes compared to USD 2.3 million from South America and USD 1 Million from the Black Sea. U.S. corn would have paid USD 5.6 million in additional taxes over the past four years compared to the same corn out of Europe or the Black Sea.

Industry and other stakeholders advocated for the repeal of this policy. Applying VAT on freight services for agricultural commodities would disrupt food imports and cause major economic damages to local and foreign food and agricultural companies that have been doing business and investing in Egypt for many decades.

Egypt’s Cabinet Exempts Key Commodities from VAT on Freight

On November 18, 2020, the Egyptian Cabinet approved a draft bill that exempts importers of key commodities from paying VAT on freight costs. The legislative amendments to the VAT Tax Act are expected to remove VAT paid on freight costs for grains, legumes, table salt, and spices. Repealing this tax policy will ensure a sustainable supply of commodities to the Egyptian market without any disruptions.

On November 25, 2020, The Egyptian Minister of Finance clarified the temporary application of VAT to marine freight services for imported commodities. This is pending the outcome of the draft VAT amendments submitted to parliament that would exempt taxes on freight services for grains, pulses, spices, and salt. The Minister of Finance indicated the following:

- The protocol signed between the Egyptian Tax Authority, Customs Authority, and the Alexandria Chamber of Shipping has been implemented since the date of its signature (July 1, 2020) and will not be implemented retroactively.

- VAT does not apply to the freight services if imported under the cost of shipping, insurance and freight (CIF), as its final price includes the taxes and the shipping price.

- VAT does apply to services under the free on board system (FOB), since the commodity's importer pays the tax separately from the cost of the shipment and that the shipping price must be separately stated.

Attachments:

No Attachments.