Criteria for Determining Related Persons Under Egypt's Tax Regulations

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Related Persons in Egyptian Income Tax Law and Tax Procedure

In the context of Egyptian income tax law, "related persons" are entities that have a close economic or familial relationship. These relationships can potentially distort the true economic nature of transactions, impacting the accurate determination of taxable income.

Q1: What are "related persons" in the context of Egyptian income tax law?

Related persons are entities that have a close economic or familial relationship. These relationships can potentially distort the true economic nature of transactions, impacting the accurate determination of taxable income.

Q2: What are the key criteria for determining "related persons" under Egyptian income tax law?

The primary criteria include:

- Direct or indirect control
- Common ownership
- Family relationships
- Economic dependence

Q3: What are the implications of "related person" status for income tax compliance in Egypt?

The implications include:

- Arm's-length principle
- Transfer pricing documentation
- Thin capitalization rules
- Controlled foreign corporations (CFCs)

Q4: What specific provisions in the Egyptian Income Tax Law address "related persons"?

The law addresses related persons through:

- Arm's-length principle
- Transfer pricing documentation
- Advance pricing agreements (APAs)
- Thin capitalization rules

Q5: What are the tax procedures related to "related persons" in Egypt?

The procedures involve:

- Disclosure
- Documentation (Local file – Master file – Country by country report)
- Audits
- Adjustments

Q6: How do Egyptian tax authorities determine if a transaction between related parties is at arm's length?

The tax authorities use various methods, including:

- Comparable uncontrolled price (CUP) method
- Resale price method
- Cost plus method
- Profit split method
- TNMM Method

Q7: What are the penalties for non-compliance with related person regulations in Egypt?

Penalties can include financial penalties:

- 1% penalty for undisclosed related party transactions.
- 3% penalty for not submitting the local file detailing transfer pricing.
- 3% penalty for failing to provide the master file.
- 2% penalty if the CbCR (Country-by-Country Report) isn't submitted.

Q8: How can businesses mitigate the risks associated with related-person transactions?

Businesses can mitigate risks by:

- Implementing robust transfer pricing policies
- Maintaining adequate documentation
- Seeking professional advice
- Considering advance pricing agreements (APAs)

Q9: Are there any specific exemptions or exceptions to the related-person rules in Egypt?

There may be limited exemptions or exceptions in certain circumstances, such as for transactions involving de minimis amounts or routine services.

Conclusion

Understanding the concept of related persons is essential for businesses in Egypt to ensure compliance with income tax laws. Key criteria, such as control, common ownership, family ties, and economic dependence, help determine related person status, impacting tax implications. Managing these relationships correctly can prevent tax penalties and adjustments.

Due to the complexity of related-party transactions, seeking professional guidance is crucial. Andersen Egypt, a leader in transfer pricing, offers expert advice to ensure compliance with the arm’s-length principle, transfer pricing documentation, and thin capitalization rules. By consulting Andersen Egypt, businesses can navigate these complexities and reduce tax-related risks.

Prepared by:

Sohila Mahmoud – Transfer Pricing Lead

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