

Transfer Pricing Guide

Andersen in Egypt
2025 Edition



ANDERSEN

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Introduction

Transfer pricing refers to the rules and methods for pricing transactions between Related parties or entities under common ownership or control. In the context of multinational enterprises (MNEs), it governs the value assigned to cross-border transactions involving goods, services, royalties, loans, or intangible assets exchanged between subsidiaries, branches, or affiliates of the same corporate group.

The concept is critically important because it directly affects how profits are allocated across different tax jurisdictions. Without proper regulation, companies might manipulate transfer prices to shift income to low-tax or no-tax regions, thereby minimizing their global tax liabilities. For instance, a firm might underprice goods sold from a high-tax country to a related entity in a tax haven, artificially reducing taxable profits in the former and increasing them in the latter.

To address such risks, international frameworks like the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations have been developed. These guidelines advocate for the arm's length principle, which states that the terms and conditions of intra-group transactions should mirror those that would be agreed upon by unrelated parties in comparable circumstances. Many countries have incorporated these principles into their domestic tax laws to ensure fair tax practices and to combat base erosion and profit shifting (BEPS).

Transfer Pricing in Egypt Tax Law and its Executive Regulations

1. Law No. 91 of 2005

Article (30):

If related persons set terms in their commercial or financial transactions that differ from those agreed upon between unrelated persons, and these terms result in reducing the taxable base or transferring the tax burden from a taxable person to another who is exempt or not subject to tax, the Tax Authority shall have the right to determine the taxable profit based on the arm's length price.

The Head of the Tax Authority may conclude agreements with related persons to adopt one or more methods for determining the arm's length price in their transactions.

The executive regulations of this law shall specify the methods for determining the arm's length price.

Executive Regulations of Law No. 91 of 2005

Article (38):

The Tax Authority shall verify that related persons apply the arm's length price in their transactions concerning the exchange of goods, services, raw materials, capital equipment, allocation of shared expenses, royalties, returns, and other commercial or financial transactions conducted between them.

Article (39):

The arm's length price referred to in Article (30) of the law shall be determined according to one of the following methods:

Comparable Uncontrolled Price Method (CUP):

According to this method, the price of the goods or services between related parties is determined based on the price of the same goods or services when transacted between the company and unrelated persons.

This comparison may rely on similar goods or services, taking into account the following factors:

- The legal terms borne by each contracting party.
- Market conditions.
- The specific circumstances of the transaction involved.

Cost Plus Method:

According to this method, the price of the goods or services between related parties is determined based on the total cost of the goods or services plus a certain percentage as a profit margin for the selling or service-providing company.

The profit margin is determined based on the margin earned by the taxpayer in transactions with independent parties or the margin earned by another independent party in similar transactions.

Resale Price Method (RPM):

According to this method, the price of the goods or services between related parties is determined based on the resale price to an unrelated third party, after deducting a percentage representing a suitable profit margin for the intermediary party.

The profit margin is determined based on the margin the same seller earns in transactions with independent parties, or it may be determined based on the margin earned by an independent taxpayer in a similar transaction.

Article (40):

Priority in determining the arm's length price shall be given to the Comparable Uncontrolled Price method. If the necessary data to apply this method is not available, one of the other two methods stipulated in the previous article shall be applied.

If none of the three methods mentioned in the previous article can be applied, any method listed in the OECD Transfer Pricing Guidelines or any other method suitable for the taxpayer may be followed.

In all cases, it is permissible for the Tax Authority and the taxpayer to agree in advance on the method the taxpayer will use to determine the arm's length price when dealing with related parties.

2. Law No. 206 of 2020

Article (12):

Every person who has commercial or financial transactions with related persons is required to submit to the Tax Authority the following documents related to their commercial and financial transactions for transfer pricing purposes:

- **The Master File (MF):** This includes the necessary information about all members of the group of related persons.
- **The Local File (LF):** This includes the local taxpayer's related transactions and their analyses.
- **The Country-by-Country Report (CbCR):** This includes information related to the group of related persons concerning the distribution of the group's income, the number of employees, capital, retained earnings, and tangible assets in each country. It also identifies the countries in which the group operates, as well as indicators regarding where the economic activity is conducted across the group of related persons.

The Minister or his delegate may exempt a taxpayer from submitting the country-by-country report referred to above, based on the circumstances of each company and in line with international practices.

If there is a failure to comply with the obligation set out in the first paragraph of this article, the Tax Authority may establish the transfer pricing rules it deems appropriate, without prejudice to the company's right to appeal and object to the Tax Authority's decision, in accordance with the provisions of the executive regulations of this law.

A person subject to the provisions of the first paragraph of this article whose total value of transactions with related persons during the tax period does not exceed eight million Egyptian pounds is exempt from the provisions of clauses (a) and (b) mentioned above. This amount may be increased by a decision of the Minister.

Article (13):

The documents referred to in Article (12) of this law must be submitted as follows:

- **The Master File (MF):** According to the date of submission of the master file to the tax administration in the country of residence of the parent entity by the parent company of the group of related persons.
- **The Local File (LF):** Within two months from the date the taxpayer in Egypt submits their annual tax return.
- **The Country-by-Country Report (CbCR):** Within one year from the end of the tax year related to the audit and assessment.

Failure to comply with the above obligation results in the Tax Authority imposing a penalty of 1% of the value of the transactions with related persons that were not disclosed, in cases where the transactions with related persons were not declared within the tax return, according to the tax return form.

Article (33):

If the taxpayer discovers, during the year following the deadline for submitting the annual tax return as stipulated in item (c) of the first paragraph of Article (31) of this Law, any omission or error in their submitted tax return, they must submit a revised tax return to the competent Tax Authority after correcting the omission or error.

If the taxpayer submits the revised return within thirty days from the end of the legal deadline for submitting the return, the revised return shall be considered as the original return.

Banks, companies, public sector units, public business sector companies, and public legal entities conducting taxable activities may submit a final return using the designated form within thirty days from the date of approval of their accounts by the general assembly, and the tax differences shall be paid based on this final return.

In the event that a revised return is submitted in accordance with the second and third paragraphs of this Article, any error or omission in the return shall not be considered tax evasion.

The taxpayer may submit a revised return in place of the previously submitted one within the prescribed period.

The right of the taxpayer or liable person to submit a revised return shall lapse in the following two cases:

- Discovery of a case of tax evasion.
- Notification of the commencement of an audit in accordance with the provisions of the first paragraph of Article (41) of this Law.

Executive Regulations of Law No. 206 of 2020

Article (14):

In applying the provisions of Article (12) of the law, non-resident legal persons operating through a permanent establishment are subject to the provisions of Articles (12) and (13) of the law.

All legal persons, including companies operating in free zones and permanent establishments of non-resident legal persons, are required to submit a Country-by-Country report/notification – as applicable – according to the guidelines issued by the Minister.

The term “commercial and financial transactions” in applying the provisions of the first paragraph of Article (12) of the law refers to all transactions carried out by the taxpayer with related persons, including but not limited to:

- Buying and selling goods and services of various types
- Buying and selling assets
- Reimbursement of expenses
- Royalties
- Loans of all types and designations, including credit facilities
- Buying or selling securities
- Buying or selling contracts or assignment thereof
- Buying or selling intangible assets

If the taxpayer fails to submit the documents required under the first paragraph of Article (12) of the law concerning their commercial and financial transactions, the Tax Authority may set transfer pricing rules it deems appropriate for each case based on the information available to it. The taxpayer may appeal and object to the Tax Authority’s decision, and in such cases, the burden of proof lies with the taxpayer in accordance with the provisions of Article (40) of the law.

The exemption threshold referred to in the fourth paragraph of Article (12) of the law shall be calculated based on the total value of transactions with related persons, including revenues and expenses during the taxpayer’s financial year, and not the net value of those transactions.

Article (15):

Every related person is obliged to submit the Master File even if their head office is resident in a country that does not require submission of this file under Article (12) of the law. In this case, the latest deadline for submitting the Master File shall be the same as the deadline for submitting the Local File.

The deadline for submitting the Master File shall be as follows:

- If the parent company is resident outside Egypt, the deadline for submission is according to the date the Master File is submitted in the parent company's country of residence.
- If the parent company is resident in Egypt, the deadline shall correspond to the date of submission of the Local File.

Article (16):

In applying the provisions of Article (13) of the law, the taxpayer shall pay the Tax Authority an amount equal to 1% of the value of transactions that were not disclosed in their annual income tax return. This amount shall still be collected even if the taxpayer disclosed these transactions within the Local or Master Files.

Article (17):

If the legal deadline for submitting the Master File, Local File, or Country-by-Country report/notification is exceeded, the Tax Authority shall require the taxpayer to pay a penalty for non-compliance with the provisions of the first paragraph of Article (12) of the law, using Form No. (3 Payment).

Article (18):

In applying the provisions of the previous articles, the amounts payable to the Tax Authority for failure to comply with the provisions of the first paragraph of Article (12) of the law shall be calculated on the total value of transactions between related persons for items (2), (3), and (4) of the last paragraph of Article (13) of the law, and on the total value of transactions with related persons that were not disclosed in the case of non-disclosure for item (1) of the same last paragraph, according to the rates specified in Article (13) of the law.

Article (19):

The guidance issued by the Minister shall be the governing basis for the contents of the Master File, Local File, and Country-by-Country report/notification, including data, sections, information, and rules.

The submission of the Local File, Master File, or Country-by-Country report/notification shall not be technically or legally accepted if the required data, sections, information, and rules referred to are not complete.

Interpretative Instructions No. 78 of 2023

The Egyptian Tax Authority issued Interpretative Instructions No. (78) of 2023 regarding the provisions related to transfer pricing for related parties according to Articles (12) and (13) of the Unified Tax Procedures Law No. (206) of 2020.

These instructions address the rules concerning transfer pricing between related parties within the framework of applying the Unified Tax Procedures Law.

Key Points Included in the Instructions

1. Regarding the Local File

The taxpayer is obligated to submit the local file within two months from the date the taxpayer submits their tax return as stipulated in Article (31), clause (c) of the Unified Tax Procedures Law.

If Company (A) requests an extension for submitting the tax return, according to Article (85) of the Income Tax Law No. 91 of 2005, it is required to "submit the local file within two months from the date of submitting the tax return."

It should be noted that the legal deadline for submission is two months from the date of the original tax return submission unless an amended tax return is submitted according to the second paragraph of Article (33) of the Unified Tax Procedures Law. In this case, the amended tax return is considered the original return, and the taxpayer must submit the local file within two months from the date of submitting the amended return.

Illustrative Example:

Company (A) submitted its original tax return for the year 2021 on 15/04/2022 and then submitted an amended return on 02/05/2022. According to the provisions of Article (13) of the Unified Tax Procedures Law, the permitted period for Company (A) to submit the Local File ends two months from the date of submitting the amended tax return. Accordingly, the deadline for submitting Company (A)'s Local File is 02/07/2022.

2. Regarding Late Submission Penalties

Article (110) of the referenced Income Tax Law does not include provisions for calculating late submission penalties related to the cases of Article (13) of the Unified Tax Procedures Law. Therefore, late submission penalties do not apply to amounts paid according to Article (13) of the Unified Tax Procedures Law.

3. Regarding Dividend Distributions

Dividends are not considered transactions with related parties.

4. Regarding Transactions Affecting the Statement of Financial Position

Companies with related-party transactions that impact the statement of financial position must disclose these transactions and clarify their nature in Schedule 508.

5. Regarding Payments Made on Behalf

Payments made on behalf of others and any related consideration, if any, must be disclosed within Schedule 508 of the taxpayer's tax return and in the local file.

6. For Joint Ventures Purposes

A joint venture is a contractual arrangement resulting from an agreement between resident persons, or between branches of non-resident companies, or between a resident person and a branch of a foreign company, each according to their profit-sharing ratio, aimed at executing a specific project. This arrangement ends upon project completion, with rights and obligations limited to the division of profits and losses arising from the joint venture activities.

Joint ventures are considered related parties, and the definition of "related person" in the Tax Procedures Law applies. Therefore, if a joint venture involves a group company transacting with another group subsidiary, the member company of the joint venture (within its share in the joint venture) and the group subsidiary transacting with the joint venture (within the value of its dealings with the related person who is a joint venture member) are required to disclose these transactions in the tax return (Schedule 508) and in the local file of both the joint venture member company and the group subsidiary transacting with the joint venture.

Illustrative Example:

Companies (A) and (B) are resident companies in Egypt, both operating in the construction sector.

The two companies agreed to enter into a contractual arrangement to carry out a specific construction project, thereby establishing a “Joint Venture”, with each company’s share in the venture as follows:

- Company (A): 40% of the joint venture
 - Company (B): 60% of the joint venture
 - Company (A) is part of a business group that includes several companies operating in various sectors, all considered related parties.
 - Company (C) is one of the companies within that group, which makes it a related party to Company (A).
 - Company (C) operates in the field of equipment supply.
 - During the implementation of the joint venture's construction activities, the joint venture entered into a contract with Company (C) to supply certain necessary equipment valued at EGP 10 million.
 - In light of the above, the disclosure obligations regarding related party transactions in Table 508 of the tax return are as follows:
 - For Company (A): Since Company (C) is a related party, Company (A) is required to disclose the transaction with the joint venture as a related party transaction, amounting to EGP 4 million, which represents its 40% share of the total transaction value (EGP 10 million) between the joint venture and Company (C).
 - For Company (B): Since Company (B) is not a related party to Company (C), it is not required to disclose any transactions.
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Transfer Pricing Compliance Schedule – Egypt

Requirement	Legal Reference	Deadline	Penalties	Legal Reference	Notes
Disclosure of Related Party Transactions	Article 12 of the Law 206 for 2020	With the annual tax return (table 508)	1% from total value of related parties' transaction	Article 13 of the Law 206 for 2020	The disclosure form must be completed and electronically submitted via the ETA portal
Local File	Article 12 of the Law 206 for 2020	Must be ready submit within 2month form tax return submission	3% from total value of related parties' transaction	Article 13 of the Law 206 for 2020	-An entity is subject to obligations concerning related-party transactions amounting to 15 EGP million -Contains detailed analysis of transactions, functions, and pricing
Master File	Article 12 of the Law 206 for 2020	Must be ready upon tax return submission or with local file submission	3% from total value of related parties' transaction	Article 13 of the Law 206 for 2020	Prepared at the group level; a translated version must be available upon request
Country-by-Country notification (CbCR)	Article 12 of the Law 206 for 2020	Within 12 months of the group's ultimate parent fiscal year-end must be submitted by the subsidiary	2% from total value of related parties' transaction	Article 13 of the Law 206 for 2020	Required only if the parent outside Egypt and the group revenues exceed EUR 750 million
Country-by-Country Report (CbCR)	Article 12 of the Law 206 for 2020	Within the next year of the group's ultimate parent fiscal year-end	2% from total value of related parties' transaction	Article 13 of the Law 206 for 2020	Required only if group revenues exceed EGP 3 billion

7. Regarding Subsidiaries in Free Zones

If the parent or holding company operates under the free zones regime, the related companies not operating under the free zones regime must prepare and submit the master file, with the master file submission deadline being the same as the local file submission deadline.

All departments of Free Zones, Tax Centers and Ports, and the Transfer Pricing Department under the International Agreements Research General Directorate of the Tax Research Sector must closely monitor the strict implementation of these instructions.

Transfer Pricing and Free Zone

Table Covering All Key Points Related to the Relationship Between Free Zones and Transfer Pricing in Egypt:

Topic	Details
Framework of Free Zones	<ul style="list-style-type: none">- Exemption from customs duties and VAT on imports and exports- Exemption from income tax on profits earned within the free zone- Operating and tax costs differ from companies outside the free zones
Impact of Exemptions on Transfer Pricing	<ul style="list-style-type: none">- Tax exemptions affect the actual cost of goods and services- The absence of taxes such as income tax and VAT alters production costs and selling prices- These effects must be considered in analytical studies
Arm's Length Principal Compliance	<ul style="list-style-type: none">- Transactions between related parties must adhere to the arm's length principle- Prices should reflect differences in costs, functions, and risks based on location (inside or outside the free zone)
Documentation and Functional Analysis	<ul style="list-style-type: none">- Must include a functional analysis covering roles, risks, and resources used- Should explain how operating within a free zone influences these elements- Benchmarking studies must account for the unique cost structure of free zones
Tax Authority Review	<ul style="list-style-type: none">- The Tax Authority may audit transfer pricing documentation- If unjustified pricing differences are found, prices may be adjusted- Additional tax may be imposed in case of suspected tax avoidance
Employee Taxation	<ul style="list-style-type: none">- Employees in free zones are not exempt from personal income tax- Subject to payroll tax and social insurance contributions under regular tax laws- Taxes are deducted monthly and remitted to the relevant authorities

Egypt-Specific Considerations

The Egyptian Tax Authority (ETA) requires that transfer pricing documentation account for the fiscal environment of each entity, including whether it operates in a tax-free zone.

Even though free zone profits are tax-exempt, intercompany transactions with affiliated companies outside the zone must still be priced at arm's length.

Benchmarking studies should compare the free zone entity with comparable businesses operating under similar economic conditions, or adjust for differences in tax regimes.

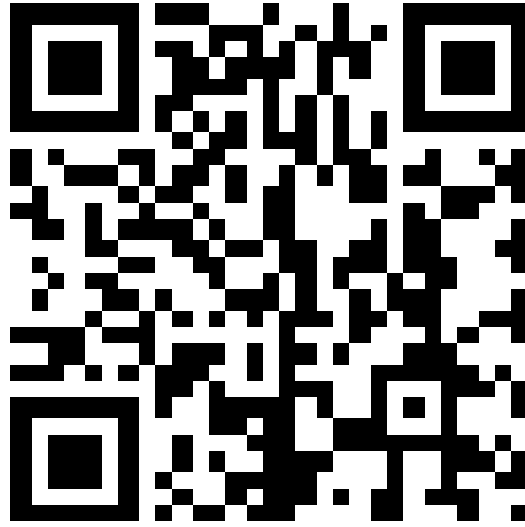
Key Documentation Requirements

To defend transfer pricing positions involving free zones, companies should:

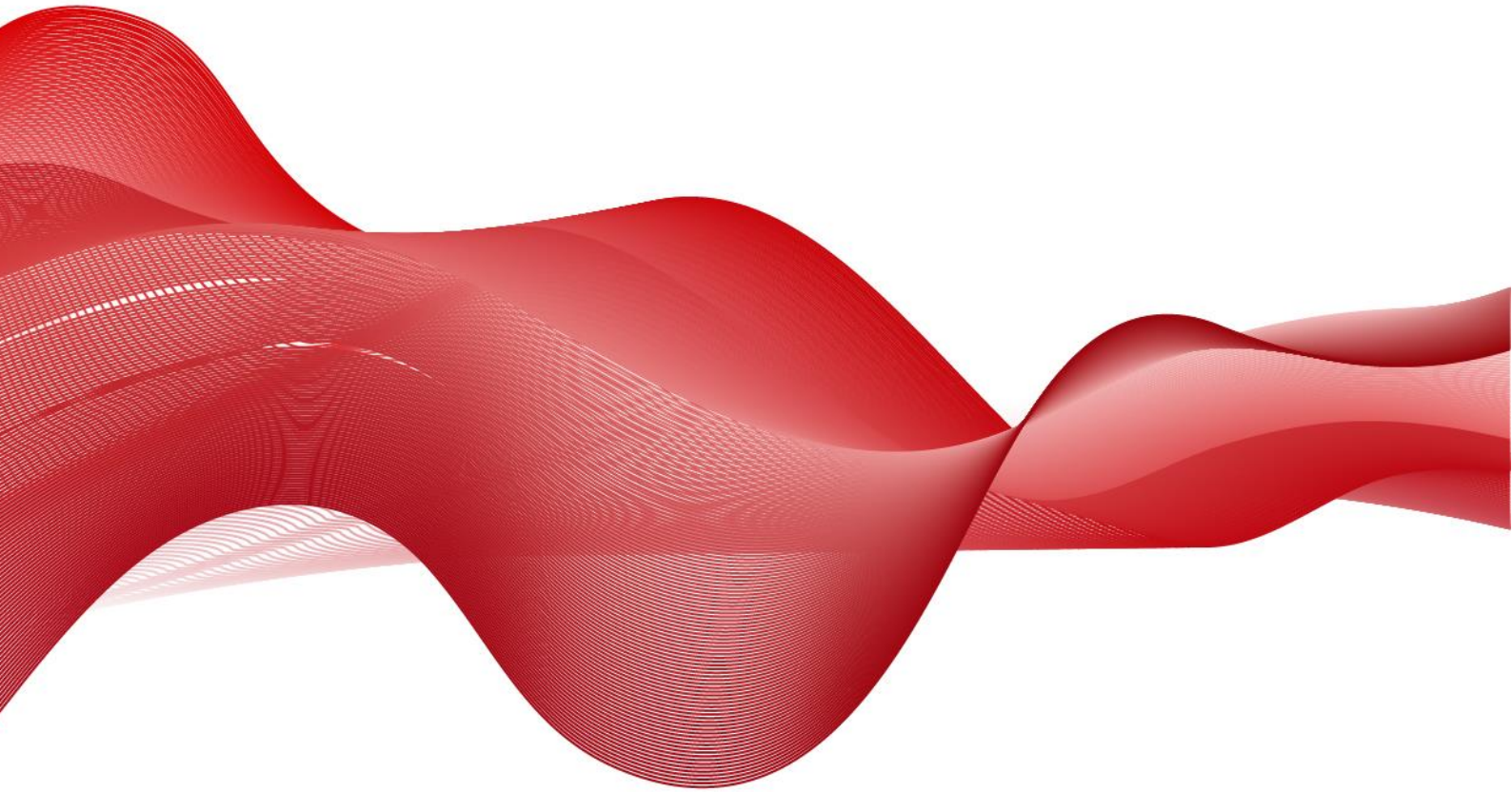
- Clearly describe the free zone's tax treatment in the Master File and Local File.
 - Provide economic justifications for any differences in pricing, especially where the free zone entity is the high-profit center.
 - Document any cost savings, risk assumptions, or limited functionality that explain why profits may be lower or higher in the zone.
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Conclusion

In conclusion, transfer pricing compliance is a critical aspect of tax governance for businesses operating in Egypt. With the Egyptian Tax Authority increasingly focused on enforcing arm's length standards and documentation requirements, companies must proactively manage their related-party transactions to mitigate tax risks. Establishing a well-documented and defensible transfer pricing policy not only ensures alignment with legal obligations but also safeguards against potential penalties, audits, and reputational harm. As Egypt continues to align with international best practices, adopting a structured, transparent, and compliant transfer pricing framework is no longer optional—it is a strategic necessity.



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