

Algeria enacts 2020 Complementary Finance Act including foreign direct investment incentives

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On 4 June 2020, the Algerian Government enacted the *Complementary Finance Act for 2020*.

This Alert summarizes the key fiscal and investment measures.

Foreign Direct Investment (FDI) incentives

The key FDI measures include:

- ▶ **Establishment of an initial list for strategic sectors¹ with retention of the 51/49 local majority shareholding rule.** This majority obligation no longer applies to non-designated activities.
- ▶ **Removal of the State's pre-emption right** as provided for under Law 16-09 dedicated to the promotion of investment.
Nevertheless, it is specified that any transfer between foreign parties, of the share capital of an entity governed by Algerian Law and related to a strategic sector (as described below), remains subject to prior Government authorization.
- ▶ **Elimination** of the **mechanism** restricting use of **external financing** for investments made by Algerian companies.² In line with the Government's objective to attract foreign investors, specifically by modifying the requirement

for a majority national shareholding obligation (51/49 rule), **the possibility of foreign financing for investments made by Algerian companies has been reinstated.**

- ▶ Activities carried out by individuals or **companies** in the **Southern regions** of the country³ **benefit from a 50% reduction on the paid amounts of Personal Income Tax (PIT) and Corporate Income Tax (CIT), for a period of five years.**

For eligibility matters, individuals or companies must be fiscally registered and permanently established in the below-mentioned regions.

This incentive does not apply to the hydrocarbons sector, with the exception of the distribution and sale of oil and gas products.

Repeal of provisions Introduced by the *2020 Finance Act*

- ▶ **Elimination of the taxation**, at a withholding rate of 15%, of Companies' profits (**earnings after tax**) **that were neither distributed nor subscribed to the share capital of the firm within a period of three years.**
- ▶ **Elimination of the taxation**, at a withholding the rate of 15%, of **dividends paid to corporates** (between resident legal entities).

Increase in taxes

- ▶ **The Act increases** the rate of the **withholding tax** applicable on revenue generated by **foreign companies** involved in **service contracts**, from **24% to 30%**.

Endnotes

1. Strategic sectors: resale activities, mining, energy, hydrocarbons, pharmaceuticals, railways, ports, airports, military related industries and electricity transport.
2. Repeal of the provision introduced by the *Finance Act for 2016* providing that: (i) the financing necessary for the realization of foreign investments, whether direct or in partnership, except for the constitution of capital, shall be set up through local financing; and (ii) external financing allocated to the realization of strategic investments by companies under Algerian law was authorized, on a case-by-case basis, by the Government.
3. List of regions: Illizi, Tindouf, Adrar, Tamenghasset, Timimoun, Bordj Badji Mokhtar, In salah, In Guezzam, Djanet.

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