



# Tax Accounting (1)

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# **Chapter One**

## **Introduction to Tax accounting**

### **-Income Taxes on Natural Persons-**

## **Introduction:**

The tax is defined as a cash levy collected by the state from individuals and establishments in accordance with specific rules in order to cover public expenditure and achieve economic and social well-being. The tax is obligatory because it is imposed and collected by force and obligation of the state, individuals and establishments must not refuse to pay it. This obligation is paid in the form of cash and must not be performed in the form of personal or in-kind services. Moreover, the tax is paid to the state for the sake of sovereignty, and therefore it cannot be paid among individuals, each other, For the benefit of the State only, in accordance with specific rules applicable to all without exception and to all categories without distinction between categories. The state uses the tax revenues to meet public expenditures of the state as a whole, as well as to use them as a tool or means to achieve prosperity. The tax is one of the most important means used by the state in achieving social solidarity by taking from wealth and incomes of the rich so that it can raise the level of the poor.

The tax accounting system has gone through several stages, and affected by the political, economic and social conditions that Egypt has undergone.

Considering major types of taxes, a distinction can be made between:

- Direct and indirect taxes.
- Qualitative and unified taxes.
- Personal and in-kind taxes.
- Proportional and progressive taxes.
- Taxes paid by the tax-payer directly and taxes deducted from the income of the tax-payer at source.

**Direct and indirect taxes:**

Tax is considered as being direct if the person who bears its charge is the one who pays the tax. Thus, income taxes and taxes on wealth are direct taxes. For example, the tax on salaries and the tax on revenues of commercial and industrial activities, where the employees, in the first case, and the proprietor of the project in the second one are the parties that pay the tax involved, and bear its burden. On the other hand, tax is considered indirect if it is possible to transfer its burden to another person. an example of indirect taxes is sales tax in which case the seller charges the tax to the purchaser or buyer in the form of an increase in the sale price, the seller pays it to the tax administration at fixed times and intervals.

**Qualitative and unified taxes:**

Taxes may be qualitative or unified, taxes are considered as being qualitative if imposed on each kind of income (or expenditure) as an independent tax separately. Either in terms of rate, provisions, or collection procedures. The tax is considered unified if it is imposed on total incomes (or expenditure) regards their sources, at unified rate.

**Personal and in-kind taxes:**

Taxes may be personal taxes or in-kind taxes. The tax is considered personal if it considered the respective tax-payer's payment capability and allow him some exemptions such as the cost of minimum living limit exemption and family charge exemption. Examples of personal taxes are: salaries tax, tax on revenues of commercial and industrial activities and tax on revenues of non-commercial professions. For example, when subjecting those revenues to payment capability taxation the costs incurred by the tax-payer towards acquiring those revenues are deducted as well as a certain amount against the tax-payer's family charges.

The tax is considered as in-kind if the tax-payer's personal circumstances are not taken into consideration, and is imposed on his total income regardless the cost of minimum living limit, the tax-payer's social condition, or any expenses

incurred by tax –payer towards earning those revenues. As an example of the in-kind taxes is the tax sales revenues, in this case the tax is imposed on the total return of sales without any deduction of any expenses, cost of minimum living limit, or any family charge.

### **Proportional and progressive taxes:**

In terms of rates, taxes are divided into proportional taxes and progressive taxes. The proportional rate taxes are those imposed at a fixed rate on the taxable amount (tax bracket) regardless of its value. Example of proportional rate taxes are the tax on the profits of juridical persons. The tax is imposed at a fixed rate amounting to 22.5%. On the other hand progressive taxes, are taxes, wherein the rate increases with the increase in the taxable amount. The rate decreases with the decrease in the taxable amount, an example of progressive taxes is the tax on the incomes of natural persons where it is imposed according to a progressive rate ranging between 2.5% and up to 25% of the taxable amount.

### **Taxes paid by the tax-payer directly and taxes deducted from the income of the tax-payer at source (classification of taxes according to their collection method).**

Taxes are also classified according to their collection method, into taxes paid by the tax-payer directly to tax

department and taxes deducted from the income of the tax-payer at source that is the tax would be retained from source by an intermediary between the tax-payer and the tax administration, who is then obligated to pay the proceeds of this tax to the tax administration. Example of those taxes paid directly by the tax-payer to the administration are the tax on revenues of commercial and industrial activities, and the tax on revenues of non-commercial professions. Example of the tax which is retained at source by an intermediary is the tax on salaries.

### **Income Taxes in Egypt and its Historical Development:**

The system of direct taxes on income in Egypt began with the promulgation of Law No. 14 of 1939, by imposing the tax on the revenues of movable capital for the revenue from the source of the capital. And the tax on commercial and industrial profits in respect of the revenue which comes from the capital and work together, and the tax on salaries and tax on non-commercial professions, which are similar in that the source of revenue is to work.

In 1949 there was a need to impose a general tax on revenue, where it was observed that qualitative direct taxes do not contribute effectively to budget revenues. Therefore, Law 99 of 1949 promulgated a general tax on income. This



tax is Supplemental to the previous qualitative taxes, And shall apply to the net total revenue received by the natural person subject to a qualitative tax.

year 1981 marked the beginning of an important stage in the reform of the Egyptian tax system. where the law No. 14 of 1939 and law No. 99 of 1949 were replaced by The Income Tax Law No. 157 of 1981 . This law is divided into three books, where the first book of the taxes on the income of natural persons, which included in five chapters :A tax on the revenues of movable capital , tax on commercial and industrial profits ,tax on salaries , tax on non-commercial professions profits and finally the general income tax. Law No. 157 of 1981 introduced the tax on the corporation's profit for which the second book was allocated, this tax shall be imposed on the net annual profits of the corporations operating in Egypt, whatever their purpose. The third book of the law included the general provisions that apply to the taxes that were presented in the first and second books.

In 1993, the legislator applied the unified income tax system under Law No. 187, the unified tax law on the income of natural persons and the tax corporation's profits . This law came to amend the provisions of the Income Tax Law issued by Law No. 157 of 1981, The amendment mainly was that

the first book includes the regulation of the unified tax on the income of natural persons, With the necessary amendment in the second and the third book to comply with the provisions of the unified tax provisions.

Finally, the Tax Law No. 91 of 2005 was issued in its package of economic policies and procedures aimed at moving the economy, Through structural changes in each of the customs systems, taxation systems and financial systems of the State, with a sustainable impact on various economic sectors.

The Income Tax Law No. 91 of 2005 is divided into eight books, the first of which is for general provisions, The second book for the tax on the income of natural persons, and the third book for tax on the revenues of juridical persons, the fourth book for tax deducted from the source, the fifth book for deduction system and collection system and advance payments made under the tax account, The sixth book deals with the obligations of tax-payers and others, The seventh book deals with sanctions, and the eighth book deals with some final provisions.

Law 91 of 2005 is based on a number of basic points, the most important of which are:

### **First: mitigate the family burden:**

- 1- Reduction of the tax rate as this rate was reduced by about half the prices applied before the issuance of this law.
- 2- Raise the exemption limit to benefit all natural persons.
- 3- Simplifying the procedures for tax on small projects.
- 4- Exempt projects funded by the Social Fund for a period of five years from the date of activity.
- 5- Giving salaries and wages reduced treatment by increasing the exemption limits so that all employees benefit from these reductions, and also increase the personal exemption.
- 6- Establish a fair and effective sanctions system, where the penalty is determined in proportion to the size of the violation and its effect on the tax commitment.

### **Second: the expansion of the tax base:**

- 1- Tax amnesty so that enterprises operating in the informal sector are allowed to integrate into the formal economy.
- 2- The settlement of disputes in order to create a modified tax society within the framework of the new system that has eliminated most of the previous disputes.
- 3- Eliminating exemptions and exchanging them with incentives to reduce the tax and simplify the tax bracket.

### **Third: simplifying the procedures:**

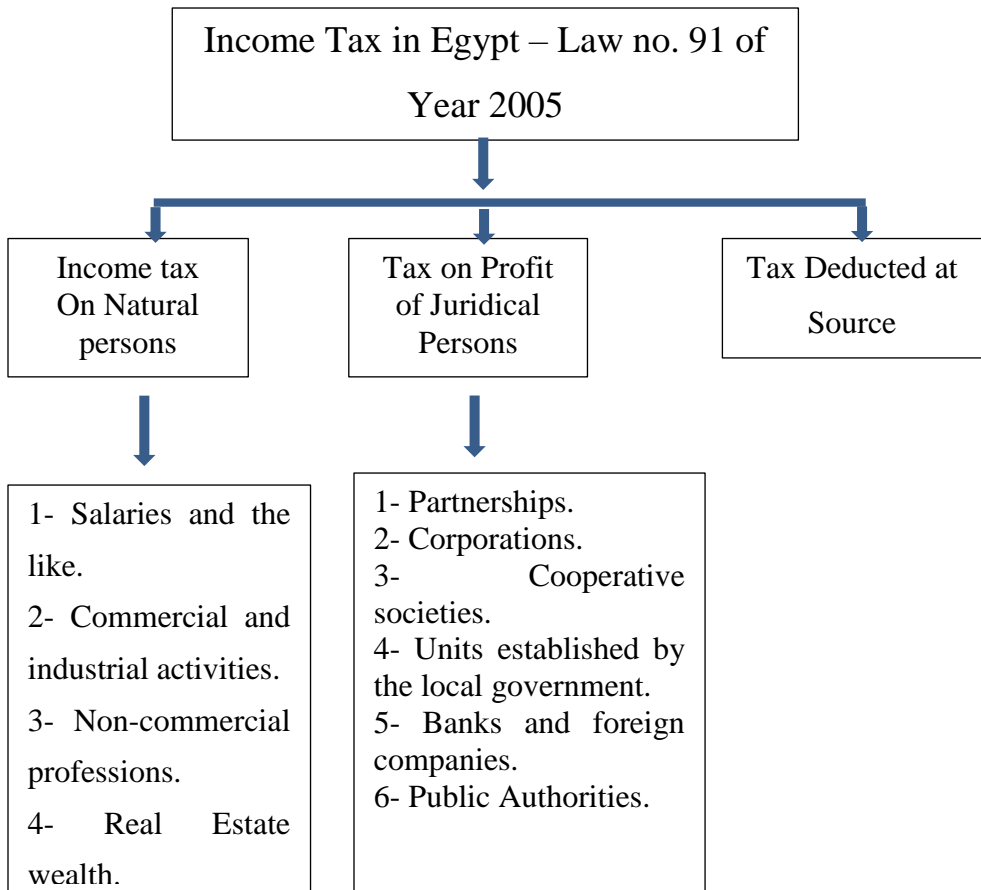
1. Adoption of the declaration as a tax basis.
- 2-A unified form for objection and Appeal.
- 3- The advance payment system allows the taxpayer to choose between deduction from source or payment under the account of tax according to his discretion until settlement at the end of the tax year.
- 4- It is permissible to extend the date of the declaration and it is permissible to amend it when the taxpayer fails in error or omission.

### **Fourth :Confidence Support Cases:**

- 1- Establish a Supreme Tax Council to monitor tax performance and ensure the rights of taxpayers
- 2- Setting up independent neutral appeals committees to establish justice in determining tax obligations.
- 3- Clearly define the rights of taxpayers by indicating the extent of the authority tax administration.
- 4- Identify cases in which the burden of proof falls on the tax authority, so as not to exhaust taxpayer by providing evidence that is not legally charged.
- 5- Identify the cases in which the taxpayer has the burden of proof.

Thus, the income tax system in Egypt takes the following

form as of June 2005.



as the objectives for which Law No. 91 of 2005 was issued not achieved as intended, Which led to the issuance of a number of amendments to the law. Some of them came within the laws of the general budget of a state, and others are in separate laws.

## **Part one**

### **General provisions of the income taxes on natural persons**

#### **A. Scope of the income taxes on natural persons:**

Article (6) of Law No. 91 of 2005 and amended by Article Of Law 53 of 2014 stipulates that:

Article (6): An annual tax shall be imposed on the total net income of Residents for their income earned in Egypt or abroad if Egypt is a center for his commercial, industrial or professional activities. and non-resident natural persons in respect of their incomes earned in Egypt.

The total net income comprises from the following sources:

- 1- Salaries and the like;
- 2- Commercial or industrial activity;
- 3- Professional or non-commercial activity;
- 4- Real estate wealth.

A natural person shall be a resident of Egypt in accordance with Article (2) of the Law, In any of the following cases:

- 1- If having permanent domicile in Egypt
- 2- If residing in Egypt for more than 183 continuous or intermittent days within twelve months
- 3- An Egyptian working abroad, and receiving income from an Egyptian treasury.

It follows from the text of Article (6) that the tax for a natural person residing in Egypt is universal scope, Where it applies to revenues earned in Egypt or abroad, While for the non-resident natural person it is regional scope.

It is required to subject the realized income Outside Egypt for the natural resident persons, The availability of two basic conditions together:

- 1- The natural person has a commercial, industrial or professional activity, Its main center is Egypt. Egypt is consider a center of commercial, industrial or professional activity of the resident natural person if it is the seat of the management decisions necessary for his activity.
- 2- The income generated abroad is the result of practicing the taxpayer commercial, industrial or professional activity.

Suppose that we have a taxpayer of a natural person residing in Egypt, he has an office to practice accounting and auditing activity, and he provided financial consulting to some of his clients in Saudi Arabia, For which professional fees are paid. Such income shall be subject to income tax of natural persons in Egypt. While if the taxpayer is a natural person residing in Egypt, But has no activity in Egypt, He traveled abroad, and practice activity outside Egypt, The

income tax of natural persons in Egypt does not apply to the profits of this activity.

### **B. Tax rate on the income of natural persons:**

Article (8) of Law 91 of 2005 and amended by Law 96 for 2005 States that the tax be levied on the income of natural persons, by progressive price that increase as the taxable income increase, The tax rate is determined as follows:

First slice:6500L.E.	exempted
Second slice: more than 6500L.E. and up to 30000L.E.	10%
Third slice: more than 30000L.E. and up to 45000L.E.	15%
Fourth slice: more than 45000L.E. and up to200000L.E.	20%
Fifth slice: more than 200000L.E.	22.5%

The total net annual income is rounded off when calculating the tax for the nearest ten Lower pounds.

### **New law amendments**

#### **First: Tax exemptions**

Item A of Article 13 stipulates increasing the tax exemption limit to 24,000 pounds annually instead of 15,000 pounds as follows:

- 1-Raise the limit of personal exemption to 9 thousand pounds instead of 7 thousand pounds
- 2- Increase the tax exemption limit from 8 to 15 thousand pounds.



## **Second, stopping the tax deduction system**

The tax deduction system has been eliminated from the effective date of the law.

## **Third, the development of new slices:**

1- The introduction of the lowest income slice at a rate of 2.5%.

2- The introduction of the highest income slice at a rate of 25%.

## **Fourth, rate and tax slices**

Article 8 states that the rate and tax brackets for natural persons are as follows:

1- First slice

Up to 15 thousand pounds per year, exempt from tax

2- second slice

More than 15 thousand pounds and up to 30 thousand pounds per year, subject to 2.5%.

3-The third slice

From 30 thousand pounds and up to 45 thousand pounds per year, subject to a rate 10%

4- fourth slice

From 45 thousand pounds and up to 60 thousand pounds per year, subject to a rate 15%.

#### 5- Fifth slice

From 60 thousand pounds and up to 200 thousand pounds per year, subject to a rate 20%.

#### 6- sixth slice

From 200 thousand pounds and up to 400 thousand pounds per year, subject to a rate 22.5%.

#### 7- Seventh slice

More than 400 thousand pounds per year, subject to a rate 25%.

#### 8- The eighth slice

If the net annual income exceeds 600 thousand pounds and up to 700 pounds, the taxpayer is not entitled to benefit from the exempt slice of 15 thousand pounds.

#### 9- Ninth slice

If the net annual income exceeds 700 thousand pounds and up to 800 pounds, the taxpayer is not entitled to benefit from the social slice 2.5%.

#### 10- Tenth slice

If the net annual income exceeds 800 thousand pounds and up to 900 pounds, the taxpayer is not entitled to benefit from the 10 % slice.

### 11- The eleventh slice

If the net annual income exceeds 900 thousand pounds and up to one million pounds, the taxpayer is not entitled to benefit from the 15 % slice.

### 12- Twelfth slice

If the net annual income exceeds one million pounds, the taxpayer is not entitled to benefit from the 20 % slice.

### Fifth, amending Article 87 bis

The text of Article 87 bis has been amended to achieve the principle of equality between financiers by subjecting all taxpayers to the text of the article and eliminating exceptions and encouraging taxpayers to end disputes with the tax authority without resorting to appeal committees by offering the advantage of reducing the amount of the fine by half in the event of an agreement with the tax authority without resorting to appeal committees.

The following examples illustrate how to calculate the tax according to the progressive tax rate.

**Example (1):** A natural person whose total taxable net income is 10000 L.E.

**Required:** Calculate the due income tax on natural persons.

**The solution**

The taxpayer is not entitled to tax because his net taxable income, do not exceed the exempted slice of 15000 L.E.

**Example (2):** A natural person whose total taxable net income is 54259L.E.

**Required:** Calculate the due income tax on natural persons

**The solution**

The total net income is rounded to the nearest ten pounds lower, that is the taxable net income is 54250L.E.,then the tax is calculated as follows:

- the first 15000L.E.	exempted.
-The next 15000 ×2.5%=	375
-The next 15000 ×10%=	1500
- The remaining 9250 ×15% =	<u>1378</u>
Total tax payable	3262

**Example (3):** A natural person's taxpayer whose total taxable net income is 400000 L.E.

**Required:** Calculate the due income tax on natural persons.

**The solution**

- the first 15000L.E.	exempted.
-The next 15000 ×2.5%=	375
-The next 15000 ×10%=	1500
- the next 15000 ×15%=	2250
- the next 140000 × 20%=	28000

-The remaining  $200000 \times 22.5\% = \underline{45000}$   
Total tax payable 77125 L.E.

### **C. Characteristics of Income taxes of Natural Persons:**

The tax on natural person's income imposed by Law No. 91 of 2005 has the following characteristics:

#### **1-It is a direct tax imposed on natural persons only**

The tax on income of natural persons is considered as being one of the direct taxes because the persons who bears its charges is one who pays it. This person cannot transfer this charge to another person. It is also characterized with its applicability only to natural persons exclusive of corporate entities on which another tax is imposed. It is intended by the natural person, the individual taxpayer, i.e. the taxpayer who works by himself or through a proprietorship, or a private office.

#### **2-It is an annual tax**

The tax on income of natural persons is an annual tax for it is imposed on the revenues realized by the tax-payer during one whole year, and becomes due in accordance with the context of article (5) of the law on January first of each year. It also becomes due upon the death of the tax-payer or upon expiry of his residence in Egypt.

It applies to the total net income which the tax-payer has realized during the previous year. The decease of the tax-payer, or the expiry or discontinuance of his residence in Egypt is considered as an exceptions from the annuity of the tax. Revenues are determined on basis of the period from January first until date of death or discontinuance of residence. Noting that the article no (9)of the executive regulations of the law permits the fiscal period could be more or less of one year.

### **3- It is a tax that adopted the principle of economic and social appurtenance**

The tax is imposed on the income of natural persons usually resident in Egypt, and on the non-resident in Egypt in relation to income realized in Egypt only in accordance with the context of the law which stipulated that:

"the tax is imposed on revenues of the residents in Egypt as indicated in this law. the tax is also imposed on the revenues of non-residents in Egypt as regards their income realized in Egypt".

#### **First :persons usually resident in Egypt**

The tax applies to the income of each natural person residing in Egypt, whether he is an Egyptian, or a foreigner. tax is imposed on his total income whether realized in Egypt

or abroad in accordance with the principle of social appurtenance(attachment)

The tax-payer is considered normally resident in Egypt in a number of cases indicated by article (2) of the law, namely:

1-Residing in Egypt for a period exceeding 183 continuous or interrupted days during fiscal year.

2-Egypt is the principal place of residence.

3-Egypt is the main center of his activity.

4-Egypt is the center of his commercial, industrial or professional activity.

5-Being a civil servant of the state who performs functions of his position abroad and receives his income from the treasury of the state.

### **Second :non- resident persons:**

The tax is also imposed on the income of natural persons not resident in Egypt, whether Egyptians or foreigners, on their income realized in Egypt in accordance with the principle of economic attachment .non-resident persons in Egypt are out of reach of being subjected to that tax on their income realized abroad.

### **4-It is a personal tax**

The tax on the income of natural persons grants the tax-payer an exemption to face the minimum limit of the cost of

living and family charges L.E.15000. as for the tax-payer with incomes only from salary or wage the law grants him or her L.E.9000.

### **5-It is progressive tax**

The tax on the income of natural persons is imposed at a progressive rate according to article (8) of the law, However, the tax rate is determined as explained above.

### **6- Unified tax**

the second paragraph of article (6) of the law explained That The total net income comprises from the following sources:

- 1- Salaries and the like;
- 2- Commercial or industrial activity;
- 3- Professional or non-commercial activity;
- 4- Real estate wealth.

It is understood from the text of the second paragraph of (6) article, That in the case of a natural person which pools all or some of the above mentioned revenues. The tax does not apply on each type of revenue separately but shall apply to the total of such revenues.



## **D - Determination of the tax base on the income of natural persons and the calculation of tax**

The total net income of a natural person subject to a tax is determined by The following four elements:

### **First: Salaries and the like:**

The tax on salaries and the like shall apply in accordance with Article (9) of the law to all that is due to the taxpayer as a result of his work with third parties including what is worth to a taxpayer from a foreign source on the work done in Egypt, Salaries and bonuses of the chairmen and members of the boards of directors.

### **Second: Commercial and Industrial Activity:**

The tax applies to the profits of commercial and industrial activity, it is noted that what is subject to tax is net profit, It is determined depending on the accrual basis, as shown below:

Net profit subject to tax=revenues subject for tax which pertains to financial year whether collected or not-Deductible expenses which pertains to financial year whether paid or not.

### **Third: Revenues of non-commercial professions:**

The tax applies to the net income of the free professions and other non-commercial professions, which is exercised by

the taxpayer independently and the main element of it, is the work. It is noted that what is subject to tax is the net income of free professions and is determined on a cash basis, As described below:

Net income subject to tax= professional income actually collected and subject to tax - deductible Professional expenses already paid.

#### **Fourth: Revenues of real estate wealth:**

The revenues of real estate wealth is subject to income tax on natural persons, which is explained in Article (37) of the Law 91 of 2005 which amended by law 196 of 2008, includes revenues from rental real estates under fixed duration rent system in accordance with the provisions of the Civil Code ( new rent) and revenues of furnished units.

The tax is determined on the basis of the total net income of the taxpayer from all or some of the elements of the previous revenues after deducting the first slice that exempted from the tax. The tax declaration in which the elements of the tax bracket are shown is the following form:

## Tax declaration on total net income of natural persons

1-salaries and the like	XX
2-net profit(loss) from commercial and industrial activity	XX XX
3- net revenue(loss) non-commercial professions	<u>XX</u>
4-net revenues of real estate	XXX
Total net income	<u>(15000)</u>
Deduct the exempted bracket	<u>XXX</u>
Total taxable income	

And to illustrate how to determine the tax bracket of person's natural income and calculate of tax due in accordance with Law No. (91) for the year 2005, The following simplified example is provided

**Example(4):** An Egyptian doctor, resident in Egypt, has the following data:

- 1- He works as director of medical management at a company for monthly salary of 3000 LE and the amount of annual taxable income after exclusion exemptions and non-taxable amounts: 29,000 LE
- 2- He alone owns a hospital in Luxor the amount of its annual taxable revenues 50000LE and amount deductible expenses for the year is 32000 LE.

- 3- Has a clinic with a professional revenue already collected 30000 LE, as well as Its actual paid expenses amounted to LE 18,000 LE.
- 4- Owns a three-floors building that houses one of them, and the rest is rented out under the fixed duration rent system (new rent), with a total annual taxable revenue of 16,000 LE.

**Required:** Determine the tax bracket of the person's natural income and calculate the tax due on the taxpayer.

### **The solution**

- 1- The income of the taxpayer from his work in a company is subject to income tax of natural persons, such as salaries and the like.
- 2- The net profit of the taxpayer from the hospital he owns is subject to income tax of natural persons as a commercial and industrial profit  $50000-32000= 18000LE$
- 3- The net income of the taxpayer from the clinic he owns is subject to income tax on natural persons as income of free professions  $30000-18000=12000LE$
- 4- Net revenue of the taxpayer from the real estate wealth subject to income tax on natural persons, Is determined on the basis of 50% of annual revenue i.e. the net taxable revenue  $8000LE(=16000\times 50\%)$ .

These revenues are shown in the taxpayer's declaration as follows:

**Tax declaration on total net income of natural persons**

1-salaries and the like	29000
2-net profit(loss) from commercial and industrial activity	18000
3- net revenue(loss) non-commercial professions	12000
4-net revenues of real estate	<u>8000</u>
Total net income	67000
Deduct the exempted bracket	<u>(15000)</u>
Total taxable income	<u>52000</u>

Calculating the due tax

$$15000 \times 2.5\% = 375LE$$

$$15000 \times 10\% = 1500LE$$

$$15000 \times 15\% = 2250LE$$

$$7000 \times 20\% = \underline{1400LE}$$

$$\text{Due tax} \quad \quad \quad 5525LE$$

In the event of loss of activity(commercial and industrial activity, professional activity, real estate wealth), we have to take into account that The total net taxable income shall be determined by compulsory addition of profits and losses of these activities, except salaries and the like.

**Example(5):** Assuming that a natural person has an engineering consultancy office, During the year, he achieved a net income of LE 100,000 and has an individual activity exercise construction achieved a net loss of LE 90000.so the net taxable income =100000 – 90000=10000 LE only.

In case the net loss of the commercial and industrial activity is greater than the net income from professional activity or vice versa forced addition between them, The remaining losses are carried forward For next year's up to a maximum of five years, To be deducted from Profits of the same activity.

**Example(6):** A taxpayer working as a professor at the Faculty of Medicine, Cairo University, his annual taxable income from the college LE 48000, He has a private clinic with an annual net income of LE 120,000, in addition he own a private hospital achieved a loss of LE 150,000 this year.

**Required:** determine the tax bracket of the income tax of the natural persons of this taxpayer.

**The solution**

**Tax declaration on total net income of natural persons**

1-salaries and the like		48000
2-net loss from commercial and industrial activity(hospital)	(150000)	

3- net revenue non-commercial professions (clinic)	<u>120000</u>	
The result of forced addition (losses) is carried forward for the following year (Deducted from profits of commercial and industrial activity in the following year)	(30000)	
Total net income		<u>48000</u>
Deduct the exempted bracket		<u>(15000)</u>
Total taxable income		<u>33000</u>

### **E – Tax declaration on the income tax of natural persons:**

Articles (82), (83), (84), (85), (87) of amended Law 91 of 2005, identified the timing and rules of submitting tax declaration, as follows:

#### **First: The timing of submitting the tax declaration:**

Article (82) of amended Law No. 91 of 2005 stated that the natural person must submit his / her annual tax declaration through using the form that specified by the executive regulations(Model No. 27). Article (83) of the law clarified that the declaration of the natural person be submitted before the first of April of each year following the end of the tax period for the previous year.

Article (82) stipulates that the taxpayer shall be exempted from submitting the declaration in the following cases:

- 1-If his/her income is limited to salaries and the like.
- 2-If his/ her income is limited to the revenues of real estate wealth and his/ her net income does not exceed the amount specified in the first slice which is exempt by Article (8) of the Income Tax Law and its amendments(I.e. net income from real estate revenues did not exceed LE 15000).

Article (85) states that the period of submission of the declaration may be extended for sixty days following the end of the legal deadline for submission. Provided that the taxpayer or his representative submits a request for extension of the declaration submission deadline before the end of the legal deadline for submission by at least fifteen days. On condition that the extension have no effect on tax payment date .

**Second: Rules for submitting a tax declaration:**

- 1-Article (83) of the law stipulates that the declaration shall be signed by the taxpayer or his legal representative, If the declaration is prepared by an independent accountant, he / she must sign the declaration with the taxpayer or his legal representative, Otherwise the declaration will consider as it was not. In all cases, the declaration must



be signed by an accountant who is registered with the accountants and auditors table for joint stock companies , sole proprietorship companies and partnership companies if the number of works exceeds two million pounds annually.

- 2- In the case of the death of the taxpayer during the year, the heirs, inheritance guardian or liquidator must submit the tax declaration for the period preceding the death within 90 days from the date of death. The tax payable by the taxpayer must be paid from the inheritance money.

The taxpayer whose stay in Egypt is interrupted shall submit the tax declaration before the interruption of his stay by at least 60 days, unless such interruption is for a sudden reason beyond his control.

The taxpayer who stops his activity in Egypt(Completely stop ) shall submit the tax declaration within sixty days from the date of cease.

- 3- Article 48 of the Law requires the tax authority to accept the stipulated tax declaration at the taxpayer's liability.
- 4- Article 87 states that if the taxpayer discovers an omission or mistake in his tax declaration submitted to the competent tax office, he shall immediately submit an adjusted tax declaration after correcting the error or omission.

If the taxpayer submits the adjusted tax declaration within thirty days from the legal date for submitting the declaration,

the adjusted declaration shall be regarded as the original declaration.

### Questions

(1) Indicate whether each of the following statements is true (T) or false (F).

- 1- The tax shall be imposed on the income of natural persons, on the income of every natural person from commercial and industrial projects, whether in the form of an individual project or a partner in a joint venture or in a simple partnership.
- 2- A natural person shall be considered a resident of Egypt if he resided in Egypt for a period more than 183 days continuous during twelve months.
- 3- the natural person whose income is limited to salaries and the like, and exceeds the exempt salary of LE 6,500 is obligated to submit the tax declaration.
- 4- The state uses the tax revenues to meet public expenditures of the state as a whole, as well as to use them as a tool or means to achieve prosperity.
- 5- taxes are considered as being unified if imposed on each kind of income (or expenditure) as an independent tax separately. either in terms of rate, provisions, or collection procedures.
- 6- the Law requires the tax authority not to accept the stipulated tax declaration at the taxpayer's liability.
- 7- In all cases, the declaration must be signed by an accountant who is registered with the accountants and auditors table for joint stock companies, sole proprietorship companies and partnership companies.

8- the taxpayer shall not be exempted from submitting the declaration, If his/her income is limited to salaries and the like.

9- the law clarified that the declaration of the natural person be submitted before the first of march of each year following the end of the tax period for the previous year.

10- in the case of a natural person which pools all or some of revenues. The tax apply on each type of revenue separately.

(2) determine the due tax in the following cases:

**A-** A natural person whose total taxable net income is 5500

**B-** A natural person whose total taxable net income is 200289L.E

(3) A taxpayer who works in one of the companies, his net annual income after excluding exempted bonuses and social insurance contributions is 24000LE. He also has an office to practice the accounting profession in his non-official working hours in the company. The net revenues of the office for the year from its regular books 40000LE.

Required: determine the tax bracket and calculate the tax due on the taxpayer .

(4) A doctor working as a university professor at the Faculty of Medicine, South Valley University. He owns a hospital in Luxor (an individual establishment).His net income from his work at the university before deducting the personal exemption and the tax-exempt slice was 40000LE. in addition his private hospital achieved a loss of LE 150,000 this year.

Required: determine the tax bracket and calculate the tax due on the taxpayer .

(5) The following is the net taxable revenues (or losses) for an individual for the years 2020 and 2021.

	2020	2021
Salaries and the like	9000	12000
Commercial activity revenue	9000	3000
Professional activity revenue	(22000)	17000
Real estate wealth revenue	2000	4000

Required: determine the taxable base for the income of natural persons for 2020 and 2021?

(6) The following is the net taxable revenues (or losses) for an individual for the years 2020 and 2021.

	2020	2021
Salaries and the like	10000	12000
Commercial activity revenue	(18000)	15000
Professional activity revenue	3000	(3000)
Real estate wealth revenue	2000	2000

Required: determine the taxable base for the income of natural persons for 2020 and 2021?

(7)The following is the net taxable revenues (or losses) for an individual for the years 2020 and 2021.

	2020	2021
Salaries and the like	7400	7400
Commercial activity revenue	(12000)	5000
Professional activity revenue	(1000)	4769
Real estate wealth revenue	3000	6600

Required: determine the taxable base for the income of natural persons for 2020 and 2021?

(8) The following is the net taxable revenues (or losses) for an individual for the years 2020 and 2021.

	2020	2021
Salaries and the like	7500	7500
Commercial activity revenue	(2000)	2000
Professional activity revenue	(12000)	(3000)
Real estate wealth revenue	3000	6000

Required: determine the taxable base for the income of natural persons for 2020 and 2021?

(9) The following is the taxable revenue of an individual for the year 2021:

220000 revenues from commercial activity - 150000  
revenues from professional activity - 50000 net real estate  
wealth revenues - 200000 salaries and the like.

If you know the following:

- The value of the amounts withheld from the taxpayer under the account of tax during the year amounted to 15000.

- During the year, the taxpayer paid 5900 building taxes, including 500 additional fees

Required: Calculate the amount of tax payable?

## **Chapter Two**

### **Salaries and the Like**

## **Introduction:**

The tax is levied on the income of the subordinate labor, which is the work performed by the worker on behalf of others and under their control and supervision.

The provisions on the tax of salaries and the like have been included in the second part of the second book of Law No. (91) for the year 2005 and its amendments in the articles starting from Article (9) and ending with Article (16). , And the executive provisions concerning the imposition of the tax on salaries and the like are set forth in the executive regulations issued by the Minister of Finance Decree No. 991 of 2005 in the articles starting from Article (10) and ending with Article( 23 ).

This chapter will deal with the accounting treatment of the imposition of a tax on the income of natural persons on salaries and the like according to the legislative provisions of Law No. 91 of 2005 and its amendments and its executive regulations by dealing with the following sections:

### **Section 1: Taxable revenues**

Article (9) of the law 91 of 2005 determined the taxable revenues, as this article states that:

The tax on salaries and the like applies to:

- 1- All earning due to the taxpayer resulting from his/her work with third parties with or without a contract, periodically or non-periodically, whatever the names, forms or reasons of those earning, and whether they are for work performed in Egypt or abroad and paid by a source in Egypt, including wages, remunerations, incentive, commissions, grants, overtimes, allowances, shares and portions in profit as well as cash privileges and in-kind benefits of all types.
- 2- Earnings due to the taxpayer from foreign source for works performed in Egypt.
- 3- Salaries and remunerations of chairmen and members of the boards of directors in the public sector companies and the public business sector companies, who are not shareholders.
- 4- Salaries and remunerations of chairmen and members of the boards of directors in corporations in return for their administrative work.

The executive regulations of the present law determine the bases of estimating the value of in-kind benefits. in addition to these special provisions for the determination of taxable salaries and the like. A set of general provisions on taxation and the determination of the taxable income, including the



provisions of Article (3) of Law 91 of 2005, as well as the provisions of the periodic book issued by the Tax Authority No. (1) for the year 2005. We will address these provisions as follows:

**First: General Provisions:**

- 1- The new law took into account the principles of residence and the source of income to determine the taxable income.
- 2- Article (2) of the general provisions of the law defines cases of residence for the natural person as follows:
  - A- If having permanent residency in Egypt
  - B- If residing in Egypt for more than 183 continuous or intermittent days within twelve months
  - C- An Egyptian working abroad, and receiving income from an Egyptian treasury.
- 3- Article (3) of the general provisions of Law (91) specifies Income earned from a source in Egypt which is subject to tax on salaries and the like under items (a) and (b) as follows:
  - (a) Income from services rendered in Egypt, including salaries and the like.
  - (b) Income paid by an employer residing in Egypt, even if the work is performed abroad.

**Thus, the general rules for the taxation of salaries and the like according to the new law regarding residence and source of taxable income have been determined as follows:**

- 1- The taxpayer who performs his job duties abroad and receives his income from an Egyptian treasury (whether public or private) shall be subject to tax on salaries and the like.
- 2- The taxpayer who performs his job duties in Egypt and receives his income from an Egyptian or foreign treasury shall be subject to tax on salaries and the like.
- 3- A foreigner shall be a resident of Egypt if he has a permanent home or if his stay in Egypt is longer than 183 continuous or intermittent days within twelve months.
- 4- The taxpayer (Egyptian or foreign) shall be subject to tax on salaries and the like on his income from a source in Egypt or abroad as long as he is paid by an employer resident in Egypt.

**Second: Special Provisions**

- 1- The tax shall be levied on amounts due to the taxpayer from a foreign source (A foreign government, a private sector or a foreign individual) Provided that such amounts have been due to the taxpayer for works

performed in Egypt, as is the case for workers in representative offices and offices of international organizations registered in Egypt.

2- daily workers are those who receive the wages on daily basis. If the person was among daily workers, calculation of the tax on his wage shall not be different from other workers.

### **Tax bracket determination:**

Taxable revenues are divided into several categories namely:

- 1-Salaries wages and the like.
- 2-Bonuses (remunerations)
- 3-Cash and in-kind benefit.

### **1-Salaries wages and the like.**

Salaries and wages represent receipts by employees and workers in return for performing work for others and under their supervision. Whatever the name of the amounts received by employees and workers, it is considered as a return for work done and is subjected to tax as salaries whether the work is manual, mental, technical or others.

Article (9) of the law added the word "and the like" to the word salaries and wisdom of that is the desire of the legislator to make the text more comprehensive in order to

prevent any confusion, and not to evade any income from taxation, or to drop any person from contributing his share in the general burdens of the State. Therefore, the text includes all revenues taking the form of salary.

In general, wages are subjected to tax whatever the name they may assume. Employees share in the profits of their companies, and bonuses granted on various occasions are subjected to tax including periodic wage raise, with the exception of special, social and additional wage raises decreed for state and public sector employees by law 101/1987 which are exempted as will be discussed later.

## **2- Bonuses (remunerations)**

The term "bonuses" means those amounts paid to workers and employees, in excess of salary or wage, in return for performing some additional work, which are considered as complementary to the original work. For example, the bonus for overtime working hours. Employees and worker may also paid bonuses to encourage them to do more work and effort. For example, incentives which are usually paid at the end of the year or at intervals. These bonuses are subjected to tax , same as salaries, and wages as stipulated in article (9) of the law.

There are also commissions, which are amounts paid to employees to motivate them to increase the volume of performance and commissions are usually amounts paid to sales men calculated on the basis of a percentage of sales in addition to their original salary.

There are also quotas and shares in profits and are amounts paid to employees as remuneration for their work in the form of a percentage of profits (usually referred to as quotas) or amounts paid to employees for services rendered to the company to which they have a working relationship and dependency (referred to as shares), quotas and shares shall be considered part of the salary then subject to taxation.

Although the quotas and shares are calculated by a percentage of net profit, they differ from the share of employees in the profits distributed by the company in accordance with the provisions of the law, they are exempt from subject to the tax on the person's natural income as we will see.

The end of service bonus is not considered a part of the taxable revenues because it is not revenue for the receiver, It is considered as a capital for him, in addition to the fact that periodicity factor does not exist. Adding to this the tax will

not imposed on the amount received against the vocation spent on work and pensions.

### **3-Cash and in-kind benefit.**

The legislator decreed in article (9) of the law the subjection of cash and in-kind benefits to tax as follows:

Article (11) of the executive regulations of the law stipulates that cash and in-kind benefits meant all that the worker receives in cash or in kind, without being in place of expenses incurred in the performance of his work, and to be a personal benefit to him.

#### **A-Cash benefits**

By the term cash benefits it is meant all that is acquired by the employee from his employer under work contract, whether these amounts have been disbursed periodically or occasionally, paid by the employer or third parties and whether they were mandatory or optional. For example, overtime, nature of work allowance and production incentives.

**Example(1):** an employee in accompany acquires the following amounts monthly

LE 1000 overtime wages for working overtime hours.

LE500 travel and transportation allowance.

LE400 clothing allowance.

LE700 full time allowance.

**Required:** indicate the extent to which the above amounts are taxable.

### **Solution**

1-travel and transportation allowance (LE500) and clothing allowance(LE400), are not subjected to tax because they are cash benefits necessary for the performance of the work itself, and stand against actual expenses.

2-overtime wages(LE1000) and full-time allowance(LE700) are subjected to tax on salaries and wages revenues because they reflect a personal benefit.

### **B- In-kind benefits**

In-kind benefits means all that is provided by the entity or the firm to its employees in the form of free services, in addition to salaries. Example of that : housing, clothing, meals, car use and other services. The law has explicitly stated the taxability of in-kind benefits, for the in-kind benefit to be taxable , those benefits must be granted to the employee for free and the aim is to reward the employee in person.

**Example(2):** a company provides an employee a room to live in its monthly rental value amounts to LE600 against a monthly deduction of LE20 from his salary. It also provides

him a car for transportation which costs the company LE500 monthly free of charge. **Required** : indicate the in-kind benefits.

The room provided by the employer is not taxable, as this housing facility is not grant free of charge , but it is provided to the employee against deduction of part of his wage or salary, even if the deducted amount is less than the value the benefit provided. As for the LE 500, the cost of the car provided by the company to the employee, they are subject to tax because that stands as in-kind benefit granted to him free of charge.

Article (11) of the executive regulations specifies the value of the in-kind benefit to be determined on the basis of market value, provided that the value of the in-kind benefit of the following elements is determined as follows:

1-company motor cars placed under the personal disposal of the worker/employee:

The value of taxable in-kind benefit is determined by 20% of the amount of fuel, insurance and periodic maintenance whether the car is owned or rented.

**Example(3):** The company placed at the disposal of one of its employees a car owned by the company and the value of



fuel and insurance and periodic maintenance related to this car 2400 pounds per year paid by the company.

**Required:** determine the monthly taxable in-kind benefit.

### Solution

Monthly taxable in-kind benefit =  $2400/12 \text{ month} = 200$

$= 200 \times 20\% = 40 \text{ LE}$

2- cell phones(mobiles):

The value of taxable in-kind benefit is determined by 20% of their costs throughout the whole year.

**Example(4):** A company gave an employee a mobile phone that it purchased for LE1000 for use in the business and his own purposes. The phone bill during the month reached LE500.

**Required:** determine the taxable in-kind benefit.

### solution

taxable in-kind benefit =  $500 \times 20\% = \text{LE}100$

### 3- Loans and advances rendered by employer

In case the employer provides a loan to the worker in excess of the total amount earned by the worker during the six months prior to obtaining the loan, without a return or a return less than 7%, the value of the in-kind benefit is determined at 7% or the difference between the loan rate and the stated rate of return(7%)If the loan rate is less than 7%.

If it is assumed that an employee of a company obtained a loan from his company at an annual interest rate of 3%, a taxable benefit shall be deemed to be 4% (( is the difference between the interest rate of the loan (3%) and the rate of return 7%)). The loan includes any form, including advances payment or amounts in the employer's books that records and charged to the employee's account.

**For example(6):** the sum of the amounts received by an employee working in a company from the beginning of the year 1/1 to 6/30 (15000 pounds), and on 1/7 of the same year he received the loan of 20000 pounds, assuming that he got:

A - Interest rate of 8% per annum.

b - at an interest rate of 5% per annum.

c - without interest.

**Required:** determine the taxable in-kind benefit in each assumption.

### **Solution**

**Assumption A:** Although the loan exceeds the total amounts received by the employee during the six months preceding the date of obtaining the loan, there is no taxable in-kind benefit because the interest rate exceeded the rate of 7%.

**Assumption B:** As long as the amount of the loan exceeded the total amounts received by the employee during the six

months preceding the date of receipt of the loan, and the loan at an interest rate lower than the rate of 7%, there is a no taxable in-kind benefit calculated as follows:

$$= 20000 - 15000 = 5000 \times 2\% = 100 \text{ LE}$$

**Assumption C:** As long as the amount of the loan exceeded the total amounts received by the employee during the six months preceding the date of obtaining the loan, and the loan is interest free, there is a taxable in-kind benefit calculated as follows:

$$= 20000 - 15000 = 5000 \times 7\% = 350 \text{ LE}$$

#### **4- Insurance policies on the life of the employee, his family or properties**

The value of taxable in-kind benefit is determined on the basis of the employer's paid premiums during the year.

#### **5- Company shares granted at a value lower than the market price of the share.**

The taxable value thereof shall be determined on the basis of the difference between the market value of the share at the date of acquisition and the amount invoiced to the employee.

**Example (6):** If it is assumed that a company has granted its employees a set of the company shares, 20 shares per worker against LE 10 per share, knowing that the stock market price on the date of the grant of these shares amounted to LE 15.

In this case, a taxable benefit for each worker is the amount of difference in the value of each share multiplied by the number of shares.

$$\text{Taxable value} = 5\text{LE} \times 20 \text{ shares} = 100 \text{ LE}$$

The following table sums up the revenues included in the tax bracket, and the revenues excluded thereof and which were previously stated.

<b>The revenue</b>	<b>Subjected to taxation</b>	<b>Not Subjected to taxation</b>
First salaries and the like	<ul style="list-style-type: none"> <li>- salaries, wages.</li> <li>- donation, tips, sales commissions.</li> <li>- staff profits share, and grants on special occasions.</li> <li>- periodical raises.</li> </ul>	<ul style="list-style-type: none"> <li>- the social and additional increment in salaries.</li> <li>- special raise. (as per law 10/1987).</li> </ul>
Second: bonuses (Remuneration's)	<ul style="list-style-type: none"> <li>- incentive bonuses.</li> <li>- overtime payments.</li> </ul>	<ul style="list-style-type: none"> <li>- the end of service bonus.</li> </ul>
Third: cash benefit	<ul style="list-style-type: none"> <li>- Granted to staff as benefit not necessary for the performance of their works.</li> </ul>	<ul style="list-style-type: none"> <li>- granted against actual expenses and also necessary for the performance of work.</li> </ul>
Fourth: In-kind benefits	<ul style="list-style-type: none"> <li>If provided to the employee free or granted as a special consideration.</li> </ul>	<ul style="list-style-type: none"> <li>Exempted. In-kind benefits according to article (13) of the law:</li> <li>1- meals distributed to works.</li> </ul>

		2- collective transportation. 3- health care. 4- tools and uniforms necessary for the work. 5- tenements provided for performing the work.
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**Section 2: Tax rate on salary income and the like:**

Article (11) of Law 91 of 2005 and its amendments provides for a special tax rate for the resident taxpayer who earns income as a result of his work in an entity other than his original work entity. Article (11) provides for an exception to the provisions of Article (8) This law shall apply to all amounts received by employees from an entity other than their original work entity become taxable at 10% without any reduction for costs or family charges differently from the amounts they acquire from their original place of work which are taxable after deduction of costs and family charges.

In all cases, the tax shall be held and paid to the concerned tax administration within the first fifteen days of each month according to the rules set up by executive regulations of the present law.

**Example (7):** an employee in public sector company has an annual salary of LE3000, has been assigned for a teaching position at the faculty of law, receiving a total bonus amounting to LE2500 other than his original salary from his original place of employment so ,to apply the provisions of article(11) of the law, that employee is:

- 1- subject to tax on his salary from his company excluding the amounts which the legislator stipulated their exemption from tax such as subscriptions to social security, personal exemption and an exemption for family charges.
- 2- subject to tax on the seconded bonus which he has received from an entity other than his original employment entity (faculty of law) without any deduction for costs or family charge and at 10% .

Tax on the seconded bonus  $2500 \times 10\% = \text{LE } 250$

### **Section 3: Exempted and non-taxable income**

There are many exemptions in relation to revenues that emanating from salaries and the like, in addition to non-taxable income and the exempted slice of the first 6500 LE.

Articles (12) and (13) of the law specify those amounts which are not taxable or exempt, They are as follows:

**First:** Non-taxable revenues According to the provisions of Article (12) of Law No. (91) for the year 2005, as follow:

1- Pensions.

2- End of service bonus. It should be noted that the non-taxable end of service bonus means remuneration determined by the regulations applicable to the entity, company or establishment on the occasion of termination of the worker's service.

In the absence of such systems or the existence and non-regulation of such remuneration, it shall be determined in accordance with the provisions of the Labor Law. The following example shows the meaning of a non-taxable end of service bonus:

**For example(8):** Ahmed is an employee retired as he reach the retirement age, and the company paid to him a bonus in recognition of his extraordinary efforts during the period of work, and amounted to LE 20000, as well as he gets the end of service bonus stipulated in accordance with the labor laws and regulations and amounted to LE 25000.

**Required:** Clarify the tax treatment of the amounts received by the taxpayer on the occasion of leaving the service and retirement.

**Solution**

A) The amount of LE 20,000 of the bonus received by the taxpayer for his extraordinary efforts is regarded as a taxable income.

B) The amount of LE 25,000 of the bonus received by the taxpayer, Which impose its disbursement to the employees, the workers regulations and labor regulations applicable to the end of service, are not subject to tax.

**Second: exempt revenues from taxation by special laws**

Article (13) of Law 91 of 2005 stipulates that not prejudice to any tax exemptions contained in special laws, and the most important of these exemptions include:

- Social and the additional increment.
- Special raise added to the basic wage.
- Non-added special raise for basic wage (within variable wage)
- Allowances exempted by special laws

**Third: The amounts exempted from subject to tax in accordance with the provisions of Article (13) of Law No. (91) for the year 2005 which is as follows:**

**1- Personal exemption**

item (1) of Article (13), as amended by Law 11 of 2013, stipulates that Exempt: "The amount of LE 9000 a personal exemption annually to the taxpayer"

**2-Social insurance subscriptions and savings installments:**



The contribution of the employee in social insurance subscriptions and savings installments are exempted from tax according to the law in article (13). Therefore, they are excluded from taxable revenue. The employee's contributions to social insurance and savings installment on the basic salary differ from those on variable salary as follow:

**First: Employee's share in social insurance for the basic wage.**

The share of the employee or worker in the social insurance contributions and the savings payments for the basic wage that exempt from the tax is 14% of the basic wage.

In addition, as of 1 July 2016, the maximum basic wage for which social insurance and savings premiums are calculated is LE 13,440 per annum (LE 1120 per month), bearing in mind that the increase in the basic wage above the maximum limit is included in the variable wages on which the insurance contribution is calculated.

**Example (10):** Assuming that the basic salary of an employee is LE 900. **Required:** calculate the social insurance contribution .

**Solution**

the social insurance subscription =  $900 \times 14\% = 126$  LE

**Example(11):** Assuming that the basic salary of an employee is LE 1200.

**Required:** calculate the social insurance contribution.

### **Solution**

The social insurance subscription for basic wage (calculated at maximum limit) =  $1120 \times 14\% = 156.8$  LE

The increase of LE 80 (above the maximum limit) is included in the variable wage when calculating the variable wage insurance contribution.

### **Second: Employee's share in social insurance for variable wages:**

According to article 5 of the Social Insurance Law No. 47 of 1984, the variable wage means the rest of what the employee or workers, and in particular the following:

A)incentives

B) other wages raise

C)grants

D) allowances: except some allowances(housing allowance, clothing allowance, car allowance, meal allowance, transportation allowance, meeting attendance allowance) are not considered as elements of subscription to social security law. In other words these allowances are not included in the

variable wage on the basis of which the social security subscription is calculated.

- E) overtime wages
- F) compensation for exceptional effort
- H) Cost of Living grant
- J) collective bonuses
- K) collective grants
- L) social increment and additional raises
- M) share of the employee in the profit
- N) what exceeding the maximum limit for basic wage.

The share of the employee or worker in the social insurance contributions for the variable wage is 11% of the overall elements of variable wage, with a maximum limit of LE 25320 annually (LE 2110 monthly).

**For example(12)** :assuming that an employee receives a incentives of LE 1000, a nature of work allowance of LE 500, a meal allowance of LE 250.

**Required:** calculate the social insurance contribution for these wages .

### **Solution**

Variable wages that are included in the calculation of social insurance contribution = LE 1000 incentives + LE 500 nature of work allowance = LE 1500

Social insurance subscription =  $1500 \times 11\% = \text{LE } 165$ .

**For example(13):** assuming that an employee receives a incentives of LE 1500, a nature of work allowance of LE 500, social increment of LE 250.

**Required:** calculate the social insurance contribution for these wages .

### Solution

Variable wages that are included in the calculation of social insurance contribution = LE 1500 incentives + LE 500 nature of work allowance + LE 250 social increment = LE 2250

Social insurance subscription( calculated at the maximum limit) =  $2110 \times 11\% = \text{LE } 232.1$

It is to noted that in spite of the fact the special raise is included into calculation of the social security subscription and the saving contributions. Yet, it is exempted from tax similar to the case of social increments or additional raises as previously indicated.

### 3- Employee's subscriptions in private insurance funds.

According to article (13) of the law subscriptions of employees to private insurance funds established according to the provision of law 54 of 1975 are exempted from tax. The reason behind this exemption is the desire to encourage

establishments to set up private insurance funds for their employees.

#### **4- life insurance and health insurance premiums.**

Article (13) of the law also stipulates the exemption of the life insurance premiums and health insurance premiums related to the taxpayer, in his own favor and in favor of his wife and minor children.

With regard to items 3 and 4above, it is stipulated that the total exemption accorded to the taxpayer shall not exceed 15% of the net income or 10000, whichever is less, and the same contributions and premiums shall not be re-exempted from any other income prescribed in article(6) of the law.

The exemption of insurance premiums on the life of the employee or worker shall be subject to the following conditions:

- A- the insurance should cover the life of the employee in his own favor or in favor of his wife or minor children.
- B- the life insurance policy premium or subscription to private insurance funds should not exceed 15% of the net revenue or LE 10000 whichever is less.
- C- the premiums or subscriptions should not have been previously deducted from any other revenues apart from the salaries revenues or the like.

**Example(14):** assuming that we have an employee who works as in one of the agencies, and deducted from his salary The subscription of the Fellowship Fund for the workers, which is annually LE 3,000, he also pay life insurance subscription with an annual premium of LE 5,000.

If you know that the net annual revenues subject to tax after deducting the amounts Exempted by special laws and personal exemption provided for in item (1) of Article (13), and exemption of social insurance contributions, is amounting to LE 48000.

**Required:** Determine the amount of exemption that the taxpayer benefits from a Fellowship fund subscription, and life insurance premiums.

### Solution

Total paid amount =  $3000 + 5000 = \text{LE } 8000$

15% of net annual revenue =  $48000 \times 15\% = \text{LE } 7200$

The maximum limit for the exemption LE 10000

Using the rule of whichever is less, then which is deducted from salary revenues as an exemption from a Fellowship fund subscription, and life insurance premiums is LE 7200.

**Example(15):** Assuming in the above example that net annual revenues is LE 60,000.

**Required:** Determine the amount of exemption that the taxpayer benefits from a Fellowship fund subscription, and life insurance premiums.

### **Solution**

Total paid amount = 3000 + 5000 = LE 8000

15% of net annual revenue =  $60000 \times 15\% = \text{LE } 9000$

The maximum limit for the exemption LE 10000

Using the rule of whichever is less, then which is deducted from salary revenues as an exemption from a Fellowship fund subscription, and life insurance premiums is LE 8000.

### **5- collective in-kind benefit**

item (5) of Article (13) exempts the following collective in-kind benefits from taxation:

- The meal given to the employees.
- collective transportation of workers or equivalent transportation cost, owned or rented.
- health or medical care.
- tools and uniforms necessary for performing the work.
- dwellings provided by the employer to the workers for performing their work.

It is not necessary to provide the in-kind benefits for all employees but can be for a category of them without the rest of the employees and according to the nature of the work.

Article (19) of the executive regulations of the law also stipulates that there are conditions for considering the collective benefits exempted from tax include the following:

- The meal shall be delivered on work site to the worker.
- The dwellings shall be owned by the employer or rented and are necessary for nature of the work.
- To be collective transportations for all workers or for a class of them, in means of transportations collectively whether the car is owned or rented.

**6- Employees' share of the profits that distributed according to the law:**

According to item (6) of article (13) the profit that the companies are obligated to distribute at certain percentage to its workers according to the legal rules prescribed in this respect, are exempted from the tax, because they are not considered as deductible cost from the taxable profits of such companies.



## **7-Sums received by the foreign diplomatic and consulate members and international organizations.**

All that obtained by members of the diplomatic and foreign consuls, the international organizations, and other foreign diplomatic representatives within reciprocity of treatment and within the limits of that treatment.

### **Tax calculation**

Article (10) of the law tackles the method of calculating and settling tax, as follows:

- 1- The basis of tax calculation is annual, which means that it is a must to convert the revenues earned by the employee or worker to annual revenues for the purpose of calculating tax. The tax is deducted monthly on the understanding that there will be a final settlement made of the tax due on the employee at the end of year.
- 2- In case of occurrence of a change in the financial status of the employee, then a re-calculation of the tax is to be effected as from the beginning of the month following that in which the change has occurred, and the re-calculation shall on the new revenue or the old one whichever is less.
- 3- In case there have been deductions from the salary of the employee as an administrative penalty, unpaid sick leave,

or pension exchange, then deductions are excluded from the taxable revenues. Taking into consideration the calculation of the social security subscription and the saving contributions on the revenues of the employee in total prior to the exclusion of these deductions.

4- A settlement list is to be prepared at the end of the year, in which all the amounts received by the employee are entered and the exclusion of the deductions and exemptions decreed by the law from these amounts, as well the calculation of the tax and the determination of its value for the whole year. By deducting the monthly taxes paid by the employee from the annual tax, the position of the employee is thus determined vis-à-vis the tax administration. If balance is debit, the tax administration shall then be obligated to refund him the excess.

5- Regarding the accumulated salaries and the like, as well as the wages and bonuses disbursed to the tax-payer in one lump sum in a certain year, with that accumulated amount being related to previous years, this accumulated amount shall then be distributed over the related years, and tax is calculated on this basis.

To sum up: In order to calculate the tax on salaries and settle it, the following three steps should be adopted:

First: Calculate social security subscriptions and saving contributions.

Second: Calculate the monthly tax due.

Third: Prepare a settlement list at the end of the year.

These steps are applied when calculating and settling the tax for all employees subjected to tax in addition to the calculation of the proportional stamp duty on whatever disbursed to employees of government, Public sector companies, and Public business Sector as previously indicated.

**First: the calculation of social security subscriptions and saving contributions:**

- 14% of the basic wage plus the periodical increment and the special raise decreed on with a maximum limit L.E. 13440 annually (L.E. 1120 monthly)

- 11% of the overall elements of the variable wage with a maximum limit of L.E. 25320 annually (L.E. 2110 monthly).

**Second: the calculation of tax on the monthly salaries revenue:**

1- The basic wage plus the periodical raise (special raise exempted).	××	
(-) 14% the social security subscription and	(××	

the saving contributions.		xx
<b>The net monthly basic wage</b>	xx	
2- The variable wage subjected to taxation	(xx)	
(-) 11% the social security subscription		
The net variable wage		xx
The monthly net basic and variable wage		
3- To exclude the monthly deductions such as penalty, sick leave not permitted		xx
		xx
The monthly net revenues		
4- Conversion of the monthly revenues into annual revenues by multiplying × 12		xx
5- Less the tax-payer's life insurance premiums.		(xx)
6- Less personal exemption L.E. 9000 annually.		(xx)
7- Less family charges L.E. 15000		(xx)
The net taxable revenue (the bracket)		xxx

**Note:** (Tax bracket × the tax Rate) ÷ 12 = the monthly tax.

It is to be noted that in case the employee receives a bonus, a grant, or profits, then the tax is to be recalculates after addition of those amounts.

### **Third: Preparation of the settlement list at the end of year:**

The employer, to whom the employee is attached, will make a settlement at the end of each year, to arrive at the difference related to the employee, and submits list containing the following details during the first two months of every year:

- 1- The actual amounts disbursed to the employee during the previous year.
- 2- The amount of the tax deducted from the employee which has been actually paid to the tax administration during the previous year.
- 3- The amount of tax which must be paid on all the amounts received in excess of what he has paid during the year. The tax administration shall be obligated to refund the differences if any, in favor of the employee.

**Example(16):**

- 1- Ahmed is an employee in a governmental unit, gets the following during 2018, L.E. 2800 per month as basic salary (of which L.E. 200 special increment). He receives L.E. 700 per month as a work nature allowance, L.E. 20 as a social increment, L.E. 100 as transport allowance, and L.E. 120 as special increment not added to basic salary, L.E. 1200 as representation allowance needed for work. Social insurance subscriptions LE300. Noting that he pays insurance premium of L.E. 150 per month on his life in favor of his wife and his minor sons.

**Required:** Compute the due tax per month.

## Solution

### First : Computation of annual tax bracket:

The tax bracket is computed as follows:

	L.E.	L.E
Basic salary = $1800 \times 12$		33600
<b>Variable wage:</b>		
- work nature allowance $700 \times 12$	8400	
- representation allowance $1200 \times 12$	14400	
- social allowance $20 \times 12$	240	
- transportation allowance $100 \times 12$	1200	
- special increment not added to basic salary $120 \times 12$	1440	25680
<b>Total annual revenue</b>		59280
<b>Allowable Deductions:</b>		
<b>1- Sums exempted by social laws:</b>		
- representation allowance	14400	
- social increment	240	
- special increment $320 \times 12$	3840	
<b>2- Sums to meet actual expenses, and related to perform of work:</b>		
- transportation allowance	1200	
3- personal exemption	9000	
4- social insurance contributions $300 \times 12$	3600	(32280)
<b>Net revenue</b>		27000
5- Life insurance premiums:		
- $27000 \times 15\% = 4050$		
- Fixed sum = 10000		
Actual pay = $150 \times 12 =$	1800	(1800)
<b>Annual tax bracket</b>		25200

**Third: Calculation of the tax due:**

**Per year** =  $25200 - 15000 = 10200 \times 2.5\% = \text{L.E. } 255$

**Per month** =  $255 \div 12 = \text{L.E. } 21.25$

**Example (17):** Hassan is an employee in a private sector company gets L.E. 5120 per month as a basic salary, of which L.E. 150 special increment, he receives L.E. 800 representation allowance, L.E. 1000 as work nature allowance, L.E. 300 as special increment not added to his basic salary, and L.E. 10 social increment. Noting that:

- a. He received an encouragement reward of L.E. 1500 on august 2018.
- b. He pays insurance premium of L.E. 450 per month for life insurance policy.
- c. He pays subscription for special insurance funds amount L.E. 50 per month.

**Required:** Compute the tax due for august 2018.

**Solution**

**First: calculation of social insurance:**

		L.E	L.E
On basic salary $5120 \times 14\%$		156.8	
<b>On variable wages:</b>			
Representation allowance	800		
Work nature allowance	1000		
Social increment	10		
Special increment not added to basic salary	<u>300</u>		
<b>Total</b>	2110		
$2110 \times 11\%$		232.1	
<b>Total</b>			389

**Second : Computation of annual tax bracket:**

	L.E.	L.E
Basic salary = $5120 \times 12$		61440
<b>Variable wage:</b>		
- representation allowance $800 \times 12$	9600	
- work nature allowance $1000 \times 12$	12000	
- social allowance $10 \times 12$	120	
- special increment $300 \times 12$	3600	25320
<b>Total annual revenue</b>		86760
<b>Allowable Deductions:</b>		
<b>1- Sums exempted by social laws:</b>		
- social increment	120	
- special increment $450 \times 12$	5400	
<b>2- Sums to meet actual expenses</b>	---	
3- personal exemption	9000	
4- social insurance contributions		
$389 \times 12$	4668	(19188)



<b>Net revenue</b>		67572
5- Life insurance premiums:		
-67572 × 15% = 10135		
- Fixed sum = 10000		
Actual pay = 500 × 12 =		(6000)
<b>Actual tax bracket</b>		61572

**Third: Calculation of tax due:**

15000           exempted

$15000 \times 2.5\% = 375$

$15000 \times 10\% = 1500$

$15000 \times 15\% = 2250$

$1570 \times 20\% = 314$

The due tax per year = 4439

Tax due on the reward :  $1500 \times 20\% = \text{L.E. } 300$

Per month =  $4439 \div 12 = \text{L.E. } 370$

**Note:** After having calculating the tax, with the reward amount added, it is to be subtracted from annual tax for the period before the reward and the deference shall stand as a tax due on the reward.

But as we have done here, we can arrive at the tax due on the reward in another way, by taking the value of the reward as it is, without deduction of social insurance subscription thereon, and proceed as shown above.

**Tax Settlement:**

If income of taxpayer is restricted to salaries and the like only, the employer will make a settlement at the end of each year, to determine differences between the tax due according to this settlement list and the amount of tax deducted from the employee during the same year. If taxes which the employee has actually incurred during the year are more than the tax due, the deference should be refunded to the employer.

**Example(18):**

Aly is an employee in a private sector company gets the following:

- L.E. 2500 per month as a basic salary (of which L.E. 300 special increment).
- L.E. 300 monthly as representation allowance.
- L.E. 100 special increment not added to his basic salary.
- L.E. 10 social increment and L.E. 200 a monthly overtime wage.

On first of July 2018, he got a periodical raise of L.E. 100. At the end of year.

**Additional information:**

- the employee pays insurance premium of L.E. 80 per month on his life in favour of his wife.

- He has no other source of income.

**Required:**

- a. Compute the monthly tax due.
- b. Prepare the settlement list at the end of year 2018.

**Solution**

**A- Calculation of monthly deductible tax:**

It is to be noted here that, there were some changes in the status of employee on July, therefore it is necessary to divide the year, for the purpose of calculating tax, into two periods as follows:

- The first period, from January until end of June.
- The second period, from July until end of December.

**1- The first period (January- June):**

**calculation of social insurance:**

		L.E	L.E
On basic salary $1120 \times 14\%$		156.8	
<b>On variable wages:</b>			
Representation allowance	300		
Special increment	100		
Social increment	10		
- overtime wage	200		
- whatever exceeds maximum limit of basic: $(2500 - 1120)$	<u>1380</u>		
<b>Total</b>	1990		
Thus: $1990 \times 11\%$		218.9	
<b>Total</b>			376

### Determination of annual tax base:

	L.E.	L.E
Basic salary = $2500 \times 12$		30000
<b>Variable wage:</b>		
- representation allowance $300 \times 12$	3600	
- special increment $100 \times 12$	1200	
- social increment $12 \times 10$	120	
- overtime wage $200 \times 12$	2400	7320
<b>Total annual revenue</b>		37320
<b>Deducted from it:</b>		
<b>1- Sums exempted by social laws:</b>		
- social increment	120	
- special increment $400 \times 12$	4800	
<b>2- Sums to meet actual expenses</b>	---	
3- personal exemption	9000	
4- social insurance $376 \times 12$	4512	
		(18432)
<b>Net revenue</b>		18888
5- Life insurance premiums:		
- $18888 \times 15\% = 2833$		
- Fixed sum = 10000		
Actual pay = $80 \times 12 = 960$		(960)
<b>Actual tax bracket</b>		17928

### Calculation of tax due:

$$\text{Per year} = (17928 - 15000) \times 2.5\% = 73$$

$$\text{Per month} = 73 \div 12 = \text{L.E. } 6.08$$

This tax amount is payable for each of the months of January, February, March, April, May, and June.

## 2- The second period (July- December):

### calculation of social insurance:

	L.E	L.E
On basic salary $1120 \times 14\%$	156.8	
On variable wages = $2110 \times 11\%$	2232.1	
<b>Total</b>		389

### Determination of annual tax base:

	L.E.	L.E
Basic salary = $3500 \times 12$		42000
<b>Variable wage:</b>		
- representation allowance $300 \times 12$	3600	
- special increment $100 \times 12$	1200	
- social increment $12 \times 10$	120	
- overtime wage $200 \times 12$	2400	7320
<b>Total annual revenue</b>		49320
<b>Deducted from it:</b>		
<b>1- Sums exempted by social laws:</b>		
- social increment	120	
- special increment $400 \times 12$	4800	
<b>2- Sums to meet actual expenses</b>	---	
3- personal exemption	9000	
4- social insurance $387 \times 12$	4668	
		(18588)
<b>Net revenue</b>		30732
5- Life insurance premiums:		
- $30732 \times 15\% = 4610$		
- Fixed sum = 10000		
Actual pay = $80 \times 12 = 960$		(960)
<b>Actual tax bracket</b>		29772

### Calculation of tax due:

Per year =  $(29770 - 15000) \times 2.5\% = 369.25$

Per month =  $369.5 \div 12 = \text{L.E. } 30.77$

This tax amount is payable for each of the months of July, August, September, October, November, and December.

### The settlement list

	L.E.	L.E
<b>Basic salary:</b>		
Period from January - June= $2500 \times 6$		15000
Period from July - December= $3500 \times 6$		21000
<b>Variable wage:</b>		
- representation allowance $300 \times 12$	3600	
- special increment $100 \times 12$	1200	
- social increment $12 \times 10$	120	
- overtime wage $200 \times 12$	2400	7320
<b>Total annual revenue</b>		43320
<b>Deducted from it:</b>		
<b>1- Sums exempted by social laws:</b>		
- social increment	120	
- special increment $400 \times 12$	4800	
<b>2- Sums to meet actual expenses</b>	---	
3- personal exemption	9000	
4- social insurance $376 \times 6 + 389 \times 6$	4590	
		(18510)
<b>Net revenue</b>		24810
5- Life insurance premiums:		
- $24810 \times 15\% = 3721$		
- Fixed sum = 10000		
Actual pay = $80 \times 12 = 960$		(960)
<b>Annual tax base</b>		23850
a. tax payable: $(23850 - 15000) \times 2.5\%$		221.25

b. tax actually paid during the year: - from 1/1 to 30/6 = $6.08 \times 6$ - from 1/7 to 31/12 = $120.75 \times 6$	36.48 184.62	(221.10)
<b>Tax Difference</b>		(1.30)

**Lump tax:**

Tax applies at the rate of 10% without reduction to meet any costs against the following revenues:

**1- Amounts received by persons residing in Egypt from other than their original work:**

Tax shall apply to the amounts received by any person resident in Egypt from other places of work, apart from his without any reduction to meet costs.

The original places of work means the place from which the employee gets his basic salary.

This tax held at source and turned to concerned tax office within the first 15 days of each month.

**Example(19):**

An employee was delegated to share in faculty of commerce examinations of May 2018. His remuneration amounts to L.E. 900.

**Required:** Calculate the tax due, on the amount received.

**Solution:**

Tax due on this remuneration, shall be:

$$900 \times 10\% = \text{L.E. } 90$$

## **2- Amounts received by persons not- residing in Egypt:**

Tax shall apply to the sums paid to any person not-resident in Egypt (whether Egyptian or foreigner) regardless of the enterprise or body which employs them to carry out the services under its supervision (meaning whether it was government, public sector, public business sector or private sector), without any reduction to meet costs.

This tax held at source and turned to concerned tax office within the first 15 days of each month.

Example(20): A company of the Egyptian public sector concluded an agreement with a foreign expert to work in Egypt during the year of 2018. The terms of his employment includes the following:

- a. Contract period is 3 month.
- b. He shall receive in Egypt an amount of L.E. 20000 per 3 month.
- c. The company will pay the costs of his residence in one of the Egyptian hotels for an amount of L.E. 2000 per 3 month.

### **Required:**

Calculate the tax amount due.



**Solution:**

Since the period of the foreign expert employment in Egypt not exceeds 183 days, therefore the foreign expert is considered not resident in Egypt. then the tax due is calculated as follows:

$$(20000 + 2000) = 22000 \times 10\% = \text{L.E. } 2200$$

**Example (21):**

A company of the Egyptian private sector concluded an agreement with a foreign expert to work in Egypt during the year 2018. The terms of his employment includes the following:

- a. contract period is 7 months.
- b. He will receive an amount of L.E. 10000 per month in Egypt.
- c. An amount of \$ 2000 per month will be transferred to his account abroad.
- d. The company will meet costs of his residence in one of the Egyptian hotels against an amount of L.E. 3000 per month. It was needed to perform the job.

The exchange rate is : \$ 1 = L.E 17.

**Required:**

Calculate the tax due.

**Solution:**

Since, the period of the foreign expert employment in Egypt exceeds 183 days, therefore, he is considered resident in Egypt. thus, tax due is calculated as follows:

	L.E.	L.E.
<b>A - Determination of tax base:</b>		
Sums paid in Egypt $10000 \times 7$	70000	
Sums transferred abroad \$ $2000 \times 7$ month $\times$ L.E. 17	238000	
<b>total</b>		308000
Deduction from it:		
Personal exemption = $9000 \times 7/12$		(5250)
<b>Annual tax base</b>		302750
<b>B – calculation of tax due:</b>		
15000	Exempted	
$15000 \times 2.5\%$	375	
$15000 \times 10\%$	1500	
$15000 \times 15\%$	2250	
$140000 \times 20\%$	28000	
$102750 \times 22.5$	<u>23119</u>	
Tax due	55244	
Note:		
In kind benefit is exempted		

**Example (22):**

A private sector company concluded an agreement with a foreign expert to work in Egypt from first October 2018 until 15 July 2019, and the following are the conditions cited in the contract:

- a. He shall receive in Egypt \$ 200 per day.

b. the company shall transfer \$ 300 per day, to his account abroad.

The exchange rate is \$ 1 = L.E. 17.

**Required:** calculate the tax due.

**Solution:**

In this case, each tax year (calendar year), shall be considered independent from other years, in determining tax due. Therefore, tax due is calculated as follows:

**A – for year 2018:**

The period of foreign expert employment = 31+ 30+ 31 = 92 days, through year 2018.

Therefore, the foreign expert is considered not resident in Egypt, thus, tax due is calculated as follows:

1- amounts paid in Egypt = 92 days × \$ 200 × 17 = L.E. 312800

2- Amount transferred abroad = 92× \$ 300× 17 = L.E. 469200

Total = 312800 + 469200= L.E. 782000

3- Tax due = 782000 × 10% = L.E. 78200

**B – as for year of 2019:**

The period of the foreign exert employment = 31+ 28+ 31+ 30+ 31+30+15= 196 days

Therefore, the foreign expert is considered resident in Egypt, thus, tax due is calculated as follows:

1- Amounts paid in Egypt = 196 days × \$ 200 × 17 = L.E. 666400

2- Amounts transferred abroad = 196 days × \$ 300 × 17 = L.E. 999600

Total = 666400 + 999600 = L.E. 1666000

**Deductions:**

Personal exemption = 9000 × (196/365) = 4833

Annual tax base = 1666000 - 4833 = L.E. 1661167

Thus, tax is calculated as follows:

400000 × 22.5% = 90000

1261167 × 25% = 315292

Tax due 405292

**Example(23):**

A daily worker in a private sector company gets L.E. 250 per day from first of October until end of December 2018. If you learn that:

A – He pays insurance premium of L.E. 1192 annually on his life in favor of his wife.

B – He does not have another source of income.

**Required:**

A – determining of annual tax base:

Total wage: 92 day × L.E. 250 = (-) personal exemption 9000 × 92/365		23000  (2268)
Net revenue (-) life insurance premiums 20732 × 15% = 3110 Fixed sum = 10000 Actually paid 1192		20732   (1192)
Annual tax base		19540

B- calculation of tax due:

$$\text{Per year} = (19540 - 15000) \times 2.5\% = \text{L.E } 113.5$$

### **Obligation of the employer:**

The employer is responsible for withholding the tax shall perform the following:

- **submit a Return;** on a quarterly basis to the concerned tax in January, April, July, and October of each year showing the number of employees, the total salaries during the past three months, and the amounts withheld on account. And the amounts paid, and the changes with occurred to the number of the employees.
- **Deliver to the employee, at his request, a list:** indicating his full name, the amount of income, and the amount of the tax withheld.

- **transfer the amounts withheld on account of tax;** to concerned tax authority within first 15 days of each month.

If the employer or the other person legally under the obligation of payment of the taxable revenue is not residing in Egypt, or if he has no head office or firm in Egypt, the obligation to transfer the tax will be on the person receiving the revenue, and he shall submit a statement to tax office of joint-stock companies, in Cairo or Alexandria, showing the total amount received by him, and tax due prior to suspension of his residence.

If the person receiving the revenue is residing in Egypt, he shall submit a statement showing the total amount received by him during the preceding year, to the tax authority within the precinct of which residence is located.

### **Procedures for Objections:**

Procedures for objection to the assessment of tax are summarized in article (118) of the law as follows:

The taxpayer subject to the tax on salaries and wages may, within thirty days from the date of receiving the taxable revenue, may object to the taxes deducted, by submitting a request to the concerned entity effecting the deduction.

The entity shall send the request coupled with its reply to the concerned tax district office within thirty days from the date of its submission.

The said entity may also object to the tax differences resulting from the inspection as reported to it, within thirty days from the date of receiving the notification.

The tax district office shall assume examining or objecting to the request. If it finds the request to be valid, it shall notify the entity with the tax assessment modification, if it is not convinced with the validity of the request or objection, it shall refer it to the appeal committee according to the provisions of the present law along with notifying the concerned party of this by registered letter with acknowledgement of receipt within thirty days from the date of referral.

If the taxpayer does not have an entity where it will be possible to submit the said request, he may submit it to the concerned tax district office or appeal committee, according to each case.

### **Questions:**

(1)An employee works for a pharmaceutical company. The company rented a car and put it at his disposal to perform his duties, provided that the company should bear its rent

and expenses. The expenses of this car during the year of fuel amounted to 9000 LE and maintenance 3000 LE, and the expenses of repairing the car as a result of the accident, which was exposed while standing in front of the company 18000 LE, the annual rent of this car 24000 LE. Required :Determine the value of the taxable in-kind benefit.

(2)Ashraf Abdo is an Egyptian taxpayer who lives in Egypt and works for the UAE Embassy in Cairo. He receives a monthly salary of 4000 dirhams (average dirham price: 1.95 LE). The taxpayer has a life insurance policy with a monthly premium of LE 550. Required : determine the tax bracket of salaries and the like and due tax.

(3)Required: Determine the value of the taxable benefit obtained by some employees in each of the following cases:

First: one of the workers obtained a loan from the employer for LE 20 thousand at a rate of 4% per annum, knowing that the total amounts received by employee during the six months prior to obtaining the loan were LE 17 thousand.



Second, assuming that in the previous case the interest rate on the loan was 8% per annum.

Third: One of the workers received a loan from his employer of LE 15 thousand at interest rate 6% annually, knowing that the total amounts received by the worker during the six months prior to obtaining the loan was LE 16 thousand.

Fourthly: one of the employees of the company in which he works was given 150 shares for LE100 per share, knowing that the share price on the stock market at the date of receipt of these shares is LE 120.

Fifth: The employer has placed owned car at the disposal of his employee, the cost of the car during the year include fuel and periodic maintenance of LE 6000 in addition to annual depreciation is LE 9000.

Sixth: The company give one of its employee a mobile phone that it had purchased in the amount of LE 5000 for use for purposes of work and his personal purposes, the cost of operating the phone during the month is LE 400.

Seventh: calculation of the tax payable in the case of an employee working in a company at a salary of 5000 LE, paid in full and the employer bear the tax on his behalf.

(4) Saeed Fahmy was appointed at the company in the first of March 2019. With a monthly salary 3000, The company gave him a laptop device costing LE 3500, and put at his personal disposal a car. all of this is for the performance of his duties. The company bear the expenses of the car (fuel, maintenance and insurance), which amounted to LE 9600 for year ended 31/12/2018. The company also deducts from him LE 165.6 monthly social Insurance contribution, In addition to 10% from his basic salary, for employees' fund subscription.

At the end of the year, the company paid him a bonus of 200% of the monthly salary.

Required: The year-end settlement and the tax payable, knowing that he has recently graduated and has not been employed in any other entity during the year.

(5) Employee in one of the investment companies receive LE 800 monthly salary, 1800 LE per month nature of work allowance. The following data were available:

1- The company grants the employee a car for use in work and his personal purposes. The company has to pay the cost of operating the car, which amounted to LE 6000 at

- the end of the year, and car depreciation for the year LE 9000.
- 2- The company gives the employee a bonus for his extraordinary efforts in March of LE 1500.
  - 3- The company decided to raise the salary of the employee from the first of July to become LE 1000 Per month and continue to pay the nature of the work allowance by same amount, and the company gave him in October incentives equivalent to three months' salary.
  - 4- the company deducted from the employee's salary LE 284 for social security subscription until the month of June. As of the first month of July, it deducted LE 310 monthly. Required: Calculation of the tax deducted from the employee per month.
- (6) A public sector company concluded an agreement with a foreign expert to work in Egypt from first October 2017 until 25 July 2018. If you learn that:
- A – He shall receive in Egypt an amount of L.E. 29800.
  - B – The company shall meet costs of his residence in one of the Egyptian hotels for an amount of L.E. 80 per day
- Required:** Calculate the tax due.

(7) An employee received during the month of September the following amounts: 6000 basic salary (includes a special increments of 1000) – nature of work allowance 3500 - 4000 representation allowance - 100 social increments - 500 transportation allowance - 600 special increments not included.

If you know that he paid a life insurance premium for his wife at the rate of 200 per month **Required: Determine the taxable bracket?**

(8) An employee works in a private sector company, and during the month of January of 2020, he obtained the following: 7000 basic salary (includes special increment 1500) - 4000 representation allowance - 3000 work nature allowance - 300 special increments not included for the basic salary -10 social increments.

If you know the following:

This month, he received incentive bonus of 1,500. He paid a life insurance premium for his wife 450, Pay 50 subscriptions to a special fund established in accordance with the provisions of Law No. 54

**Required:**

Calculate the tax due for this month, specifying the amount of tax due for the incentive bonus?

(9) An employee in the governmental sector assigned to work in university exams in return for a reward of 900 L.E.

**Required: calculate the tax due on that bonus?**

(10) A private sector company has contracted with a foreign expert to work in Egypt for a period of two months, starting from July 1, 2021, for 60,000 L.E (including an in-kind benefit related to housing estimated at 10,000 L.E).

Required: calculate the amount of tax due on this expert?

(11) A private sector company has contracted with a foreign expert to work in Egypt for seven months, starting from January 1, 2020, in return for a monthly salary of 40,000 L.E (including 4,000 L.E for residency in Egypt), 1,000 L.E as a monthly work nature allowance, and that the company bears the costs of his stay in Egypt. If you know that he does not participate in the Egyptian health insurance system. Required Calculate the tax due on this expert per month?

(12) A private sector company contracted with a foreign expert to work in Egypt during the period from October 2020 to July 2021, for 289000 L.E. Required: calculate the tax due on this expert during his stay in Egypt?

(13) A private sector company contracted with a foreign expert to work in Egypt during the month of March 2020, for an amount of 120000 then he left the country and returned in the same year, and during the months from July until the end of December he received an amount of 600000. Required: calculate the tax due on this expert during 2020

(14) A foreign expert received from a private oil company during his stay in Egypt from 18/5/2020 the date he entered the country until 18/5/2020 the date he left the country an amount of 200,000 US dollars for services he rendered to the

company and under its supervision Required: calculate the tax due in the following cases:

A-the expert bears the tax.

B-the company bears the tax.

(15)A government employee received for the month of July 2021 the following amounts: 7000 basic salary (includes 415 special bonuses added) - 600 rewards - 500 transportation allowance for actual cost – 315 special increment - 100 work nature allowance - 300 overtime - 10 social increment. Required: calculate the tax due if you know that: - The employee paid 25 L.E per month for a special insurance fund subscription - 100 premiums for his life in favor of his wife and minor children, and he also paid 80 L.E per month as a life insurance premium for his wife for his favor.

(16)An employee of a foreign airline operating in Egypt, during the tax period 1/1/2020 to 31/12/2020, received the following amounts: 7000 monthly basic salary - 12000 annual bonus - 240 monthly overtime - 480 annual work nature allowance - 8400 annual representation allowance - 20,000 annual production incentives - 100 monthly transportation allowance against actual cost - 250 cash allowance for the meal. Note that: He got free plane tickets for himself and his wife, worth 7,000 L.E - A participant in one of the special funds at the rate of 600 annually - he paid a life insurance premium in the favor of his minor children at the rate of 2000 L.E annually. Required: Calculate the tax due if you know that the allowances received by the worker are not exempted by special laws?

## **Chapter three**

# **Tax on Revenues of non- Commercial Professions**

## **Introduction:**

The legislator dealt with revenues of the non-commercial professions which are subjected to tax on natural person's income in book two chapter four of law 91 for 2005 starting from article (32) and ending up with article(36), and articles from (70) to(73). the executive regulations of the law issued by the decree of the Minister of Finance No. 991 for the year 2005 also dealt with revenues of non- commercial professions in the articles from (43) to (47).

In this chapter we will address the income of the non-commercial professions subject to tax on the income of natural persons and how to determine the revenues subject to the tax and exemptions approved in the following sections:

### **Section1:Tax bracket determination**

#### **First: taxable professions**

According to article (32) of Law 91 of 2005, as amended by Law 53 of the year 2014 tax shall be levied on:

Tax applies to the net profits of free professions and other non-commercial professions, practiced by taxpayer independently. The basis and fundamental element of revenue is work that resulting from the practice of a



profession or an activity in Egypt or abroad if Egypt is a center of activity

The tax also applies to income obtained by intellectual property rights holders from sale or investment in their rights. Whether these revenues are realized in Egypt or abroad if Egypt is a center of activity. The provision of this article applies also to any other revenues resulting from any profession or activity not stipulated upon in article (6) of this law.

From the context of article(32) of the law it ensures that professions whose revenues are subjected to taxation are:

- 1- Free professions.
- 2- Non-commercial professions.
- 3- Professions and the activities not stipulated in article (6) of this law.

The term "free profession" it is meant those professions which are related to services rendered by a person to others independently. Performance of these profession requires special academic or technical kills, or based on mental activity. Capital is considered a secondary element when

practicing them .example of those professions are the lawyer, the accountant, doctor and artist.

As for non- commercial professions, they stand out as being those professions in which capital does not solely prevail these professions are neither commercial, industrial, agricultural or free- lance professions, those professions has no explicit context in the commercial law, and whose revenue resulting fundamentally from the work element, and which are practiced by taxpayer independently, whereas commercial professions are characterized by the capital being a basic and fundamental element in realizing profit.

As for the professions and activities not stipulated in article (6) of this law, they stand out as being those professions and activities out of which taxpayer earn revenues other than those resulting from capitals, commercial and industrial activities, salaries and the like, non-commercial professions, and the revenues of real estate wealth.

It could be said here that a profession is a work practiced by a person repeatedly, on a professional basis with the aim of realizing profit. The practice of the a profession requires this person to prepare himself both academically and

practically as for the activity, it means employing any effort which would not go up to professionalism until it becomes a craft or a profession , while not coming close to being a casual work and craftsmanship. An example of that is the employee who exploits his free time in trading in stock, goods or cars and whose revenue is resulting from his work is considered as being an activity which would be classified under the revenues of the non-commercial professions.

The decree of the Minister of Finance no.549/2005 determined non- commercial professions as follows:

legal profession, medicine, Engineering( including agricultural engineering), journalism, art, writing and authorship of scientific and literary works inclusive of delivering technical, scientific and literary lectures, accounting and auditing, expertise, translation, religious reading and recitals. Drawing, photographing, engraving and handwriting. Singing. Chanting. Music-playing, writing artistic works and other cinema graphic television and theatre professions. Fashion defiles, custom clearing, typing by piece whoever practices this activity by himself.

**Second, the conditions for subjection the revenues of non-commercial professions to income tax on natural persons:**

It is clear from the text of Article (32) of the amended Law 91 of 2005 that It is required to subject the revenues and activities of a non-commercial nature to the tax, the following terms and conditions must be fulfilled:

**1-independence practice of the profession or the activity**

By independence in practicing the profession, it is meant that the person in whose name the tax will be assessed and practice his professional activity for his own personal account. This means that the results of practicing profession or an activity in terms of profit or loss are added to the elements of his financial obligation, on basis that he is the bearer of the risks of his profession.

In application of this term and condition, what the doctor earns out of performing operations in a certain hospital without his being attached to it as an employee is considered as revenues of non-commercial professions. But if he attached to the service of the hospital in which he performs operations, then his revenue is considered as salaries and the like. Another example in which a revenue is considered

amongst revenues of non-commercial professions is what trainee lawyers earn as long as they are not connected with a lawyer in whose office they are being trained on an employer/employee relationship basis. Yet, if this relationship is realized, whatever remuneration they get therefrom is considered as salaries and the like.

## **2- the profession or the activity must be based fundamentally, on work element:**

The legislator preconditioned that the work must be the fundamental element in the practice of a profession or an activity included in the revenues of non-commercial professions. This condition is considered amongst the terms and conditions which characterize free-lance profession and other activities. Yet it is observed that with the technological development of some professions such as dentology, and x-rays, the element of capital represent a rather important weight in these professions, in the form of instruments and tools used by the doctor. However, technical experience is still the basis in using these instruments and tools efficiently.

## **3- practice of the profession or the activity in Egypt:**

The legislator preconditioned that for subjecting of revenues of non-commercial professions to taxation, they

must result from the practice of the profession or the activity in Egypt. The practice of the profession in Egypt is not connected with the nationality of the performer whether he is Egyptian or foreigner. However, if a doctor is called over from abroad (whether he is an Egyptian or a foreigner) to perform surgical operations in Egypt, or to provide medical consultations therein, then what he receives as a result of that must be subjected to tax.

In addition , what is also subjected to tax are net profits resulting from practicing the profession overseas regardless of the nationality of the performer, if the head office or the permanent office for the practice of the profession is in Egypt according to article (6) and item1 of article(32). For the doctor who has a clinic or a hospital in Egypt, where he practices his medical profession, then he is called to perform operations outside Egypt or to provide medical consultation, whatever he may receive overseas as a result of that will be subjected to taxation, in addition to what profits he has realized from practicing the profession in Egypt. With the implementation of the rules of international tax conventions to prevent double taxation.

#### **4-professionalism of the profession or activity**

It is a precondition for the subjecting of profits resulting from practicing a non-commercial profession to taxation that its performer would be professional therein, meaning that it is considered as a source of a living for him. It is known that professionalism consists of two cornerstones.

A material cornerstone: based on the practice of the profession or the activity repeatedly and regularly, and a moral cornerstone: represented in the intention of realizing profit. These two cornerstone of facts are closely connected, as the one usually evidence the presence and existence of the other.

This precondition may explain why exemption has been granted to charitable societies which are non-profits within the limits of their sportive, social or scientific activity. For this is one of the cases in which the intention of making profits by the performer of such activity is non-existent.

#### **5- practice of the profession or the activity individually:**

The tax on the income of natural persons shall be imposed on the profits earned by the taxpayer from the exercise of a non-commercial profession or an activity without participation with other persons. If the taxpayer

carries out an activity of the free professions with others in the form of the company - if the law of practicing the profession allows it - the profits of the professional company are subject to tax on profits of juridical persons.

**Tax bracket determination:**

The legislator has subjected the revenues of the non-commercial professions in their various kinds to taxation article(33) of the law stipulates that:

Revenues included in the tax bracket are to be determined annually on the basis of net profits throughout the previous year.

Determination of net profits is effected on the basis of the results of the various operations in accordance with the provision of this law including the yields of disposing of any professional assets and yields of transferring the know-how or relinquishing the profession exercise offices wholly or partially and any amounts collected as a result of closing down the office, after deduction of all costs necessary for the practice of the profession, amongst which are

- 1-registration duties, annual subscriptions, professional practice duties.
- 2- amounts paid by the taxpayer in accordance with its syndicate pension system.



3-Life insurance premiums and health insurance on the taxpayer for his favor And the favor of his wife and minors children.

4-direct taxes with the exception of the tax that is paid by the taxpayer in accordance with this law.

In the application of the provisions of items 2 and 3, the sum of tax exempted from the net taxable revenues shall not exceed LE 3000 annually. The same deduction shall not be repeated from any other income provided for in Article 6 of the law.

In light of the foregoing, it is determined that, what would be included in the tax bracket would be net profits realized by the taxpayer out of practicing the profession for one full year starting from the first of January and ending at the end of December. (Except for cases that can be accounted for a period of less than or more than one year).

**This determination is done in light of the following:**

**A) The basis for determining net revenue for free and non-commercial professions.**

The cash basis is used by Income tax law when determining the revenues of non-commercial professions, which is confirmed by the third paragraph of Article (78) of the amended Law No. 91 of 2005 . while for expenses, the

second paragraph of article (33) of the law states that when determining the net revenue we should be deducted all Costs and expenses required to practice the profession including depreciation of assets, , which is consistent with the accrual basis. While article (44) of the Executive Regulations stipulates that the deduction of costs shall be based on the receipts issued by the competent authorities, and this is in accordance with the cash basis.

Based on the above, we tend to take the modified basis, and we believe that this consistent with the provisions of the law where the cash basis is taken for revenues and all types of expenses except capital expenditures, which leads to the formation of professional assets and only its depreciation is deductible within professional costs. And the use of the modified basis is supported by article 54 of the executive Regulations of the law 91/2005.

**B) taxable revenues:**

Article (33) of Law 91 of 2005 specifies the revenues that are included in the tax base and include the following:

- 1-revenues of non –commercial profession(fees, commission, bonus or otherwise).
- 2- yields of disposing of any professional assets.
- 3-yields of transferring the know-how.

4-relinquishing the profession exercise offices wholly or partially.

5-any amounts collected as results of closing down the office.

It is clear from the text of Article (6) and Article (33) of the amended Law 91 of 2005, and the text of Article (43) of the executive regulations of the said law, that All revenues earned by both the free and non-commercial professions at home or abroad, Whether revenues or capital, is included in net income subject to the income tax of natural persons.

However, there are some problems that are related to the income earned abroad and the revenues that may not be related to the practice of the profession but are related to the place of practicing the profession or related to the taxpayer itself. This will be addressed in the following points:

#### **First: Professional income earned abroad**

According to the application of Article (1) of Article (32) as amended by Law 53 for the year 2014 , income earned outside Egypt for free professions and non-commercial professions residing in Egypt shall be taxed on the income of natural persons. If two basic conditions are met, as follows:

1-The natural person shall have a professional activity centered in Egypt.

2-The income generated abroad resulting from practicing the taxpayer for his professional activity.

Example: An Egyptian natural person who lives in Egypt and works as a professor of architecture at Faculty of Engineering, Alex University, has presented a range of architectural design And engineering consultancy to one of the United Arab Emirates company, he achieved an income of 50 thousand Dirhams.

The answer to this case is his income is not taxed under income tax of natural persons in Egypt, because the taxpayer does not have a professional activity in Egypt, and his activity in Egypt is limited to his career as a professor of architecture at Faculty of Engineering, Alex University.

**Second: Other revenues:**

Meaning those revenues resulting from sources not directly connected with the practice of the profession as some professionals may earn other income that their source is not professional practice, but its source the experience of the taxpayer and his scientific qualification, Such as to giving lectures or to participate in seminars or talk on radio and television. Or to be the source of income the place of practicing the profession, such as the revenue of

advertisement in the doctor's clinic, and the revenue of renting a room in the clinic to another doctor.

### **C) Costs deductible from the total revenue:**

There are two kinds of deductible costs from the total taxable revenues in order to arrive at the bracket:

First kind: relates to the costs necessary for the practice of the profession. Second kind: relates to the amount deducted from the net revenue. We will deal with the two kinds briefly hereunder:

#### **First kind: relates to the costs necessary for the practice of the profession:**

Article(33) of the law stipulates that:

"the determination of the net profits on the basis of the result of different operations in accordance with the provision of this law will be after deduction of all costs necessary for the practice of the profession, such as registration duties, annual subscription, charges for practicing the profession, depreciation of assets and amounts owed to syndicates for pension purposes and life insurance premiums of the taxpayer, and direct taxes with the exception of the tax that is paid by the taxpayer in accordance with this law"

Apart from the expenses and costs stipulated upon in article (33) of the law, there are other costs necessary for practices of the profession. There is a precondition for the deduction of these costs, to fulfill the following terms and conditions, in accordance with Article 45 of the Executive Regulations of the Law:

- 1-they are necessary for the practice of the profession in other words, they are not related to the taxpayer personally.
- 2-the payer keeps regular books.
- 3-they are supported by adequate documents, except for costs/expenses that were not traditionally proved by documents. .
- 4-they are of revenue nature not capital nature.
- 5-they should have been actually paid during the year, In accordance with the cash basis, with the exception of certain expenses that are considered to be costs even if no cash was paid during the year, such as fixed asset depreciation.

Article 46 of the executive regulations stipulates that it is applicable in the matter of define what is meant by costs and expenses that are not normally proven by documents that referred to in article (35) of the law, the provision of Article

(28) of the executive regulations, which pointed out that the costs and expenses that are not customarily documented, are the costs and expenses that are often impossible to be proved by external documents, because of their nature, and for which internal exchange orders or price data are available.

Such as:

1. Internal transfer expenses.
- 2 - Buffet expenses for internal hospitality for the clients of the establishment.
- 3- Cleaning expenses.
- 4 - Normal and union stamps required to run the business of the establishment.
5. Regular maintenance expenses.
- 6 - daily, weekly or monthly newspapers and magazines, if required by the nature of the profession or activity.

The amount of costs and expenses that are not customarily documented, including gratuities , should not exceed 7% of total public and administrative expenses supported by documents.

the Tax Authority has indicated in the issued tax return forms, the items of costs and expenses necessary to practice the professional activity as follow:

## **1- Expenses for all professions**

This includes rents, electricity, water and gas expenses, stationery and printing expenses, maintenance and repair expenses, computer supplies, job application announcements, telephone and mobile phones, photocopying, wages and salaries, professional fees, travel and accommodation expenses (both inside and outside) to attend conferences and for research purposes to promote the profession, researches and conferences, Subscriptions, exhibition fees, scientific journals, insurance against fire and theft, breach of trust and cash transfer, depreciation, books and scientific references.

## **2- Specialized expenses for each profession.**

For example, for doctors, these expenses include medical supplies and the salaries of assistant doctors.

We address briefly below some examples of costs to be deducted which relate to all types of professions:

### **1- rent:**

It is allowed to deduct the rent of the location or locations allocated for the practice of the profession or the activity. If the location is owned by the taxpayer , he only deducts the real estate tax of this place in addition to, its depreciation.



## **2- wages, salaries and bonuses:**

These items are deductible costs, as long as the taxpayer has paid them to his employees and his assistants, whether they be cash wages, in-kind wages, or as his share of social security contributions. It is to be into consideration, in case of the taxpayer employing his relatives or family- members that their wages must be within the limits of equivalents, and that they should be disbursed against actual work performed and necessary for the practice of the profession.

## **3- travel and transportation expenses.**

The taxpayer has the right to deduct travel and transportation expenses borne by him towards the practice of the profession whether they are personally related or to the staff members of his office or clinic.

## **4- Sundry general expenses:**

These are considered as deductible costs as long as they are necessary for the practice of the profession such as electricity, water, telephone, telegram, and professional fiscal stamp expenses, in addition to subscriptions to scientific and professional societies, the cost of printed-matter, stationery, reference books, and scientific magazines and reviews.

Also, deductible from revenues are insurance premiums against professional risks, against fire, theft, risk of breach of

trust and otherwise according to the nature of each profession.

### **5- joint expenses:**

Among the deductible costs is the part of joint expenses which concerns profession, and exclude the rest. Examples of joint expenses, telephone expenses, car expenses, real estate expenses in the case of the taxpayer practices his activity in a real estate, part of which is occupied by his own personal accommodation or by others. In this respect, it is the custom and practice to deduct two-thirds of these expenses while excluding the other one-third against personal use.

In case it proves impossible to arrive at the actual costs necessary for the practice of the profession, on the basis of books of the taxpayer and his documents, then another alternative determined by the legislator is applied. This alternative is included in article (35) which stipulates that:

"10% are to be deducted from the revenue of the taxpayer against the costs stipulated upon in article(35) of this law, unless actual costs as based on regular books or documents which are presumed to reveal actual profits of taxpayer, costs of the practice of the profession, and net profit according to the nature of the profession, exceeds this rate. "

It is noted from the context of article(35) of the law that the deduction of costs stipulated upon in article33 is conditional on the taxpayer keeping regular books. In case of non- existence thereof, costs are to be estimated at the equivalent of 10% of revenues.

### **Second kind: amounts deductible from net revenue:**

After having determined net profits of anon-commercial profession or activity on an actual basis(in case of the existence of regular books and documents) or on an arbitrary basis (by determining all costs which are deductible from the total revenues at the rate of 10% in case of the non-existence of regular books and documents). The following amounts are deducted:

#### **1-Donations and Subventions**

Article (34) of the amended Law No. 91 of 2005 stipulates that shall be deducted from the net revenues provided for in Article (32) of this Law the donations paid to government, local administration units, public authorities but not exceeding the annual net income. Also, donation and contributions paid to charitable societies and the Egyptian social organizations duly registered according to the provisions of the laws regulating them, as well as to scientific

institutes and hospitals under the control and supervision of the government within 10% of the annual net profit.

It is impermissible to repeat the deduction of these donations out of any revenues amongst those stipulated in article (6) of this law. Also, it is worthwhile stating here that these proper amounts are not to be deducted except in case of the existence of profits, meaning that they are not to be deducted if the result is a loss.

**2-Amounts paid by the taxpayer to, syndicates in accordance with its pension system, Life insurance premiums and health insurance in his favour and/or in favour of his wife and minor children.**

The tax declaration form issued by the tax authority has been considered the two items as deductions subtracted from the net remaining income after deduction of donations. In accordance with article 33 of the law. The total exemption from net taxable income for these two items shall not exceed 3000 pounds annually.

**3-deduction of previous years losses.**

The last paragraph of article(35) of law 91/2005 stipulates the applicability of the provisions of article(29) of this law if the taxpayer keeps regular books.

This means that the legislator allows, the taxpayer who keeps regular books, to carry forward losses related to one of the years, to be deducted from the profits of the following year or years with a maximum limit of five years. For example, it is allowed to deduct the losses of 2019 from the profit of 2020 with the rest thereof being then deducted from 2021, and so on with a maximum of five years. This deduction does not apply to the taxpayer who does not have regular books.

### **Tax exemptions:**

Exemption stipulated upon by the legislator in relation to some non- commercial revenues are included in article (36) of the law. these exemption represented in the following:

#### **1-exemption of the educational institutes:**

Article (36) stipulated under its third item upon the following being tax exempted "the educational institutes affiliated to, or subjected to the control and supervision of one of the state's administrative units or to one public sector units or public business sector"

It is to be observed here that the legislator has preconditioned for exemption of educational institute that they should be affiliated to, or subject to the supervision of the state as represented by one of its administrative units, or

to the supervision of one the public sector units, in addition to being non- profit entities.

This exemption was canceled by Law No. 114 of 2008, because the State has confirmed the deviation of these educational institutes from the main objective of providing education for all the categories of society without the intention to profit and gain from this activity, Therefore, the State considered that these educational institutes are not eligible for this exemption and have been taxed since 5 May 2008.

Educational institutes shall be exempted from taxation that arises as an association or national institution in accordance with the provisions of Associations and national Institutions Act No. 84 of 2002 within the limits of the purpose for which it was established.

## **2-exemption of authorship and translation profits:**

According to item (2) of article (36) of the law, the following is exempted; profit of authoring and translation of religious, scientific, cultural, and literary books and articles with the exception of the proceeds from selling the work or the translation in a visual or audio form.

It is observed that the reason behind that lies in the legislator's wish to encourage the writing and translation

process, and hence assist in expanding knowledge, science and community. This exemption is confined to the writing and translation activities only if that goes beyond these limits it will be subject to taxation(selling the work or the translation in visual or an audio form).

### **3-exemption of the applied artists:**

According to item no.(4) of article(36), the following are exempted from taxation:

"profits of applied artists, members of the syndicate, as regards the works of painting, engraving and sculpture"

Therefore, this exemption is preconditioned to the following:

A- that he should be an applied artist and a member of the syndicate.

B- that his work should be painting, engraving or sculpture, means that what whoever produces other type of work does not benefit from the exemption even if he is a member of the syndicate.

### **4- exemption of beginner free- professions:**

**Item no. (5) of article no.(36) stipulates the exemption of:**

"practitioners of free professions registered as active members in a professional syndicates in the field of their specialization, for a period of three years from date of the practice of free profession. They shall be obligated to pay tax

except as from the first day of the next month following expiry of the exemption period. Plus the probation period required by the law for the practice of the profession, and the national service period. The duration decreed for exemption is reduced down to one year for whoever is practicing the profession for first time if more than fifteen years have elapsed since graduation. There is a precondition for the applicability of this exemption that he is practicing the profession solely without any participation of other parties unless the latter are themselves beneficiaries of the exemption"

This exemption is temporary for a period of three years from date of practicing the profession, to which are added the duration of training as may be required and dictated for the practice of the profession and Periods of public service, recruitment or call for reserves if they are next to the date of commencement of the profession. The exemption will be for one year for whoever practices the profession after 15 years from graduation date.

The exemption is also restricted by one condition, namely that the practitioner of the profession would be the sole performer without any association with third parties, unless the latter are subjected to the exemption.



However, Law 11 of 2013 introduced an amendment to the item (5) Led to the restriction of exemption in the amount of LE 50 thousand per year throughout the period of exemption, therefore, Article (5) of Law 91 of 2005 provides for exemption of:

"the net income of practitioners of free professions registered as active members in a professional syndicates in the field of their specialization, for a period of three years from date of the practice of free profession and with a maximum limit of LE 50,000 annually. They shall be obligated to pay tax except as from the first day of the next month following expiry of the exemption period. Plus the probation period required by the law for the practice of the profession, and the national service period. The duration decreed for exemption is reduced down to one year for whoever is practicing the profession for first time if more than fifteen years have elapsed since graduation."

**Example(1):**

The following information of revenue and expenses for the year ending on 31/12/2018, were related to a professional accountant office:

**First: receipt during the year:**

L.E. 50000 fees for designing cost system for a company in Dubai.

LE. 30000 received in advance for designing a cost system to an Egyptian private company.

L.E. 20000 fees for auditing the accounts of some Egyptian companies in 2017.

LE. 6000 capital gain from selling air condition.

L.E. 25000 fees for a feasibility study which was accomplished in 2017.

L.E. 50000 net compensation for notifying about a tax evasion crime.

L.E. 45000 award for his research on the disclosure of environmental information.

**Second: payments during the year:**

L.E. 15000 salaries paid to assistants, salaries for November and December have not been paid yet.

L.E. 5000 traveling expenses to Dubai for delivering the cost system.

L.E. 6000 stationary (the value of reminder is L.E. 1000)

L.E. 20000 the cost of new air condition (the taxable depreciation rate 10%)

L.E. 200 syndicate subscription.

L.E. 1000 insurance premium on his life for the favor of his minor children

L.E. 1850 donation paid were L.E. 350 to poor house hold, and the rest to an Egyptian charity approved by the state.

L.E. 600 subscriptions in Yought Club.

L.E. 1500 telephone and telegraph charges, And L.E. 1200 car expenses which used partly in private activities.

L.E. 6000 expenses without documents (7% from salaries expenses)

L.E. 2000 rent expenses (the monthly rent L.E. 200)

**Required:**

Determine the tax due.

Revenue & expense A/C for 31/12/2018

Ex		Re	
Assistants salaries	15000	Revenue in advance	30000
Traveling expenses	5000	Fees for auditing in 2017	20000
Stationary	6000	Capital gain	6000
Air condition deprecation $20000 \times 10\%$	2000	Fees for feasibility study in 2017	25000
Syndicate subscription	200	Fees for designing cost system Dubai	50000
$\frac{2}{3}$ telephone charges $1500 \times \frac{2}{3}$	1000	compensation	50000
$\frac{2}{3}$ of car expenses $1200 \times \frac{2}{3}$	800		
Expenses without documents	1050		

$15000 \times 7\%$			
Rent expense	2000		
Net profit	147950		
	181000		181000

Net Profit 147950

Donation to an Egyptian charity approved (1500)

$$1500 \quad \text{---} \quad 147950 \times 10\% = 14795$$

Which is less

Insurance premium on his life (1000)

For the favor of his wife and his

Minor children

$$3000 \quad \text{---} \quad 1000$$

Which is less

Tax bracket 145450

Exemption (15000)

---

130450

Tax

$$= 15000 \times 2.5\% = 375$$

$$= 15000 \times 10\% = 1500$$

$$= 15000 \times 15\% = 2250$$

$$70450 \times 20\% = 14090$$

---

$$\text{Total tax due} = 18215$$

**Remarks:**

- 1- fees for designing cost system for a company in Dubai taxable because the center of activity in Egypt.
- 2- award for his research not taxable because it does not related to the profession.
- 3- salaries for November and December no expenses because we apply cash basis.
- 4- traveling expenses to Dubai consider expense because it related to revenue realized outside Egypt.
- 5- subscription in Yought Club not expense because it is personal expense.

Example(2): Aly Hassan is an engineer. Owns a private office, at the end of 2018, he presented the following information to the tax administration (Amount in L.E):

- Receipts: 137000 fees for engineering works- 9000 fees for building designs- 5000 remunerations for publishing a paper in the engineering bulletin- 4000 proceed of some sold equipment and tools which their book value were 2500.

**Payments:** 1500 office rent for 10 month- 4400 salaries paid to employees for 11 months only- 200 subscriptions to engineering syndicate- 3600 for life insurance policy in favor of his wife- 3000 contributions (out of which 1000 to non- governmental institutions registered and reminder to Qena university)- 400 utilities expenses- 2400 car expenses (joint expense)- 1200 depreciation expense.

**Other information:**

- Aly keeps regular books.  
- Aly paid during the year taxes amount 1400 (out of which 200 as salaries and the like and the rest as a free profession's tax for 2016).

**Required:**

Determine the taxable net income for 2017 and calculate the tax due.

## Revenue & expense A/C for 31/12/2017

Ex		Re	
Office rent	1500	Fees for engineering works	137000
Salaries to employees	4400	Fees for building designs	9000
Syndicate subscription	200	Proceeds of some sold equipments and tools (4000-2500)	1500
Utilities expense	400		
2/3 of car expenses 2400×2/3	1600		
Depreciation expense	1200		
Taxes	200		
Net profit	138000		
	147500		147500

Net Profit	138000
Donation to Qena University	<u>(2000)</u>
	136000
Non-governmental institutions	<u>(1000)</u>

$$1000 \quad \overbrace{\hspace{10em}} \quad 136000 \times 10\% = 13600$$

Which is less 135000

Insurance  
policy

3600	3000	(3000)
------	------	--------

Which is less

Tax bracket

132000

Exemption

(15000)

117000

Tax

$$= 15000 \times 2.5\% = 375$$

$$= 15000 \times 10\% = 1500$$

$$= 15000 \times 15\% = 2250$$

$$= 57000 \times 20\% = \underline{11400}$$

$$\text{Total tax due} = 15525$$

Remarks:

- 1- remunerations for publishing a paper in the engineering bulletin not revenue because it is not relate to his basic profession.
- 2- salaries expense and rent expense we apply cash basic.
- 3- the free profession's tax paid for 2016 not expense.



**Example ( 3):** The following information related to Dr. Mahmoud clinic for the year ended on Dec. 31/2018 (amounts in L.E.):

**Revenues:**3200 fees received from medical examination in clinic- 1500 fee from medical examination for the workers of private company in the clinic- 6000 his salary from health insurance for working three hours per week- 15000 an fees from surgical operation had been made since 3 years- 15000 an amount received from selling of medical devices in 1/4/2018 the book value of the devices is 10000- 10000 fees from surgical operation made in Saudi Arabia- 5000 fees from medical consultations- 2000 award for his research in a scientific conference hold in Alex- 5000 received from renting his clinic during his annul vacation.

**Expenses:**4500 paid salaries (the monthly salaries 500)- 500 stamp tax for the previous year- 300 subscriptions in medical syndicate- 500 subscription in medical syndicate pension-funds- 300 subscription to Al-Ahly Club- 400 cost of books, journals and periodical (half of them belong to his minor son)- 5000 traveling expenses to Saudi Arabia for training the doctors of the Fakeeh hospital- 200000 the value of new medical device was bought on 1/10/ 2018 (the balance of

medical devices in 1/1/2018 was 300000), the tax depreciation rate is 25%- 200 paid for duties for practicing the profession- 500 insurance premium on taxpayer's life for the benefit of his minor son- 5000 contribution paid to the faculty of medicine, Qena university. **Required:** Determine the tax due for 2018.

Revenue & expense A/C for 31/12/2018

Ex		Re	
Salaries	4500	Fees from medical examination in clinic	3200
Stamp tax	500		
Subscription in medical syndicate	300	Fees from examination in the clinic	15000
Book and periodicals $400 \times \frac{1}{2}$	200	Fees from surgical operation since 3 years	15000
Traveling expense	5000	Capital gain 10000- 15000	5000
Depreciation expense New= $200000 \times \frac{25}{100} \times \frac{3}{12}$ Old= $300000 \times 25\% \times 1 =$	12500 75000	Fees from surgical operation SA	10000
Duties for practicing	200	Medical consultation	5000
		Renting his clinic	5000 40000

		Net loss	
	98200		98200

Net loss	(40000)
donations not deduct because	<u>nil</u>
he did not realize any profit	(40000)
- insurance	<u>(1000)</u>

$$\text{500 + 500 =}$$

Which is less

No tax	<u>(41000)</u>
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**Remarks:**

- 1- Award for his research in a scientific conference not taxable because it is not relate to the profession.
- 2- Subscription to Al-Ahly club not expense because it is personal expense.
- 3- Traveling expenses to Saudi Arabia not expense because, it is not relate to profession in Egypt.

**Example(4):**

The following are revenues and expenses of an accountant, who practice his profession in his private office for year 2018:

**A- Revenue (in L.E.):**60000 fees of accounting and auditing (of which 12000 belong to 2017, and 10000 fees from A Syrian company)- 8000 profit of preparing tax form for his clients- 5000 dividends received from corporation operating in Egypt- 600 capital gain from selling an old air condition.

**B- Expenses:**9000 salaries paid to assistants (the salaries is 1000 per month) – 6500 office rent (the rent is 500 per month)- 400 telephone charges- 300 electricity- 100 subscription in the accountant syndicate pension fund- 1200 insurance premium on the payer life to his hover- 900 donations (of which 300 to a poor family and the rest to an Egyptian society approved by the government)- 900 car expenses (which used in work and in private affairs of the tax payer).The taxpayer keeps regular books, depreciation of fixed assets of his office for 2018 of 1300.  
Required:Determine the tax bracket for accounting office during 2018.

Revenue & expense A/C for 31/12/2018

Ex		Re	
Assistant Salaries	9000	Accounting and auditing fees	60000
Office rent	6500		
telephone charge	400	From preparing tax forms for his clients	8000
Electricity	300	Capital gain	600
2/3 car expense $900 \times \frac{2}{3}$	600		
Depreciation expense	1300		
Net profit	50500		
	58600		68600

Net Profit

50500

Donations

$$600 \quad \quad \quad 50500 \times 10\% = 5050$$

Which is less

(600)

(insurance policy

$$1200 + 100 = 1300 \quad \quad \quad 3000$$

Which is less

(1300)

Tax bracket	48600
Exemption	(15000)
	33600

Tax

$$= 15000 \times 2.5\% = 375$$

$$= 15000 \times 10\% = 1500$$

$$= 3600 \times 15\% = \underline{540}$$

$$\text{Total tax due} = 2415$$

### Questions:

(1) A natural person owned an office to practice his profession as doctor, The revenues of the office for the year 2016 amounted to 100000 LE, The expenses of the office from his books that proved to be irregular 40000 LE, of which 10,000 LE was donated to a recognized Egyptian charity. **Required** :Determine the net taxable income of the office.

(2)A taxpayer started his career as a freelance accountant through his own office in 2019. He graduated from the Faculty of Commerce, South Valley University in 2000. The net revenues of his office at the end of 2019

amounted to 70000 LE. **Required:** a-Determine the net taxable income.b-assume that he graduated from the Faculty of Commerce in 2014, Does the previous answer will change?

(3) Mohammed Aly, a lawyer, provided the following particulars of revenues and expenses for the year 2010:

**First :** revenues received during the year were (in L.E.):

- 20000 retaining fees- 4000 fees received which belong to 2009- 12000 consultation fees for Egyptian companies- 9000 fees received for taxpayer's pleading in a case in Kuwait- 500 capital gain from selling an old air condition- 3000 prize for his research on the fighting methods of terrorism.

**Second:** the following amounts were paid during the year:

- 4400 salaries paid to assistants (the salaries are 500 per month)- 300 telephone and telegraph charges- 1200 travelling expenses to Kuwait for pleading the lawsuit instituted therein- 1000 stationery (the value of the remained stationery is 250)- 400 internal moving, newspaper & magazine expenses and union stamps- 500 subscription in lawyer's syndicate pension- fund- 1600 contributions as follows: 1200 to the Alexandria Governorate and 400 to an Egyptian charity approved by the State- 1500 insurance

premium on the taxpayer's life- 3000 installment for a new air condition (the air condition was bought on 1/1/1999 at L.E. 15000, the taxable depreciation rate is 10%. **Required:** Determine the net taxable income.

(4) Adam Mohamed is an engineer, own a private office. The receipts and payments account of the office for the year ended in 31/12/2018 was as follows:

Receipts & Payments A/C for 31/12/2018

Balance b/d	3540	Salaries to:	
		Staff	20000
Fees from engineering designs	80000	Adam	18000
		Telephone, telegraph, And telex charges	3000
Fees from engineering consultations	60000	Paper & Geometric tools	7000
Prizes	14000	Office expenses	4640
Accrual fees	4000	Subscriptions to the engineer's syndicate	2000
		Car expenses	
		Contributions	3000
		Purchase of typewriter & calculators	5500
		Furniture	24000
		Building tax	4000



		Balance c/d	400
			70000
	161540		161540

Tax examination revealed the following information:

**A- fees from engineering designs include the following amounts (in L.E.):**- 8000 fees in advance for unfinished designs- 7000 fees for designs finished in 2017- 13000 fees received from a Jordanian company for designs carried on in Egypt- 20000 fees received from a Greek company for designs carried on in Cyprus to be executed in Egyptian projects.

**B- fees from engineering consultations are as follows:**

- 4000 received from Syrian companies operated abroad- 34000 received from Egyptian corporations- 12000 received from training- 10000 received in advance from an Egyptian client for giving an opinion related to an engineering design, but the report has not yet been rendered.

**C-** the car is partially used for Adam personal purpose.

**D-** the value of the typewriters and calculators on 31/12/2018 was 42000. The new typewriters and calculators were bought on 1/4/ 2018.

**E-** the value of the furniture on 1/1/ 2018 was 40000. The new furniture was bought on 1/10/2018. The tax depreciation rate is 6%.

**F- contributions paid were as follows:**

- 1500 for meals rendered to poor persons on the mid of Shaban- 4000 the Egyptian Helal Ahmer Society.

**Required:**Determine tax bracket and the due tax.

(5)Hazam Hassan, the chartered accountant has submitted to you the details concerning his office for 2019 (in L.E)

**Revenues:**50000 accounting and auditing fees, 30000 fees for the presentation of tax declarations on behalf of his customers, 20000fees for attending the contestation sessions, 14200fees for attending justices sessions before courts, 40000 gain on selling depreciated computers, 5000gains from the sale of depreciated furniture, 20000 commission for mediating on behalf of one of his customers as regards purchase of agricultural land, 50000profit on selling a vacant lot of land which he had purchased from the commercial syndicate at the 10<sup>th</sup> of Ramadan city, 30000 fees for programming and designing accounting systems for one of the public sector companies after deduction of 10000 under account of tax ,65000 total monthly amounts collected from a

private sector company for designing costs systems therein, noting that the amount for the month of January 2020 had been collected in advance, which amounts to 5000.

**Expenses:** 28000 assistant's bonuses at the office, 3700 subscription to the syndicate of commercialists and accountants including 150 being a sports of club subscription, 13200 being the value of fixed assets depreciation, 19800 being sundry general expenses, 5000 being donations to authorized charitable societies.

**Additional information:**

1-the accounting and auditing fees include an amount of LE 10000 which concerns work which will be performed in 2020 collected in advance.

2-subscription to the sports club amount to LE 200 per annum.

3-he has contracted a life insurance policy in favour of his wife and minor son at a monthly of LE 150.

**Required:** determine the revenues of the non- commercial profession subjected to taxation for 2019. Noting that the taxpayer maintained regular books.

(6)The following are some data about an accountant who practices the profession in his private office for the year 2020:

A- He received an amount of 12,000 L.E represent auditing fees for the year 2020, and 5,000 L.E was owed to him from last year.

B- He traveled to Saudi Arabia to design an accounting system for one of the companies there, and in return he received an amount of 8,000.

C- He received an amount of 15,000 fees in return for ending tax disputes for some of his clients.

D- He sold some devices in the office for a profit of 12000

E- Paid the following during the year:

9000 salaries for office assistants - 1200 office rent - 400 expenses for a car used in the office's work and for its own purposes, and the amount of private use is 20% of it - 120 registration fees in the Accountants Syndicate - 250 books and subscriptions to the Accountant magazine - 200 for the Accountants Syndicate in exchange for the pension - 3500 premiums for life insurance in favor of the children of minors - 6000 donations (of which 500 to the government and the rest to a hospital under government supervision).

If you know that the depreciation of the furniture, tools and equipment in the office has reached 4000, and that the taxpayer keeps regular books. **Required:** Calculate the due tax?

(7) The following are the revenues and expenses of a lawyer's office for a year 2020:

**Revenues:** 62,000 lawsuits fees received during the year - 20,000 fees for one of the lawsuit for which he was contracted but no action was taken - 3,000 remuneration for reporting on a crime of tax evasion - 25,000 remuneration for cases for the previous year - 30,000 fees for one of the lawsuit he pleading in Syria - 10,000 Training revenues for some graduates of the Faculty of Law.

**Expenses:** 10,000 salaries for office assistants- 6000 office rent- 2400 electricity and water- 4,000 office phone expenses- 3,000 car expenses- 500 books and publications- 500 subscriptions to the lawyer's syndicate- 10,000 donations (of which 1,000 are for the poor in the neighborhood, 5,000 are for the government and the rest are for Egyptian charities). **Required:** determine the taxable bracket if you know that the taxpayer does not keep regular books

(8) The following are the revenues and expenses of a physician for the year 2020:

**Revenues:** 30,000 fees from medical examination in the clinic - 2,000 fees from medical examination in home - 40,000 surgical fees for a Saudi in Cairo - 8000 salary for working in a government hospital - 500 as a deposit to perform surgery outside Egypt - 3,000 surgical fees due from the previous year - 5,000 net income from disposal of a medical device.

Expenses: 10,000 nurses' salaries – 3,500 electricity, gas and water expenses – 1,000 medical supplies – 300 subscriptions to the syndicate's pension – 30,000 the purchase price of new medical equipment – 10,000 donations to the government – 7000 donations to Egyptian charitable organizations – 3600 life insurance premiums in favor of his young children – 1,000 purchases of books and Scientific references - 3000 car expenses - 2000 phone expenses - 1000 publications - 1200 buffet expenses - 400 cleaning supplies - 5000 airfare to abroad - 1000 gratuities. **Required:** determine the taxable base (the taxpayer keeps regular books) If you know that: Medical devices were purchased on 1/1/2020 and depreciated at a 25% annually, The car is used for personal purposes in addition to work.

(9) Dr. A is an employee of one of the companies affiliated to the private sector, with a monthly salary of 900 and 400 monthly representation allowance , 200 monthly transportation allowance related to work performance, and

350 monthly special increments (of which 150 are included in the basic salary). At the same time, he owns an office, whose receipts and payments were during 2020 is as follows:

**Receipts:** 16,500 fees of engineering designs, 9000 fees for participation with some engineers in providing engineering consultation, 7500 fees for engineering designs fees in Saudi Arabia, 500 rewards for publishing research in the Journal of Engineers, 5000 the price of selling some of the office's equipment and devices, knowing that their book value is 1500.

**Payments:** 1500 office rent, 2400 salaries for office employees, 180 syndicate memberships (including 120 for pension), 3600 life insurance premiums in favor of his wife. 300 donations (of which 120 to the government and the rest to a charitable organization), 400 electricity and telephone.

If you know the following:

- The taxpayer keeps regular books.
- The depreciation expense of fixed assets in the office for the year 2020 is 1240.
- The taxes deducted under the account during the year 2020 amount to 900 for professional activity and 143 for the salaries and the like.

**Required:** Determine the tax base and calculate tax payable for the year 2020

(10) Ashraf is a professional accountant has earned profit equal to 133000 for the year ended on 31/12/2020, the tax examination revealed the following information:

Revenues include the following amounts:

-15000 auditing fees received from a Kuwait industrial company-8000 profit from his in training center-9000 dividends received from German corporation operating outside Egypt-12000 accrual fees.

Expenses include the following amounts:

-800 subscriptions in the accountant's syndicate pension fund-2000 insurance premium on the taxpayer's life.  
-5000 tax loss for taxable year 2019. **Required:** determine the due tax.

(11) A professional accountant has the following particulars of revenues and expenses for the year ended on 31/12/2021:

-155000 revenues-50000 cash expenses-20000 non-cash expenses.

The tax examination revealed the following amount:

Revenues include the following amounts:

-7000 related to auditing fees-3000 prize.

Cash expenses include the following amounts:-520 building tax for a building owned and occupied by the taxpayer for the purpose of carrying on the profession.-12000 the taxpayer's wife salary, the equivalent salary is 800 per month.

-600 subscriptions in the accountant's syndicate pension fund.-1500 insurance premium on the taxpayer's life in favor



of his mother-5000 contributions include 2000 paid to bank of Alex. To help insolvent bank's client and the rest was paid to the Egyptian Helal Ahmer society.

Noncash expenses include the following:

-2000 provision for the client's account-9000 depreciation includes 5000 for furniture at a rate of 10% and the tax authority approved rate is 6% -5000 previous year's loss, the approved previous year's loss was 4000. Required: determine the taxable bracket (keep regular books).

## **Chapter Four**

# **Tax on Real Estate Wealth Revenues**

## **Introduction:**

The legislator dealt with revenues of real estate wealth which are subjected to the tax on natural person's income in chapter 5 of book two of law 91 of 2005 starting from article(37) and ending with article (46). Taxable revenues of real estate wealth comprise from the following:

First: revenues of agricultural lands (planted with ordinary crops)

Second: revenues of agricultural exploitation of horticulture.

Third: revenues and disposals of constructed real estate properties.

Fourth: revenues of leasing furnished housing units.

The legislator has made several amendments to the legal articles related to the provisions of the tax on real estate wealth, These amendments were made pursuant to the articles of issuing the Real Estate Tax Law No. (196) for the year 2008 As well as under the budget law No. (73) for the

year 2010, and Law No. (11) for the year 2013, which resulted in the following:

**First: Repeal Articles 38, 40,43, 44 of the Income Tax Law promulgated by Law No. 91 of 2005. The cancellation of these articles shall result in:**

- (A) The income from agricultural land shall not be taxed on the income of natural persons, as well as from the agricultural exploitation of horticultural crops.
- (B) The proceeds of constructed real estate rental in accordance with the old rent system shall not be taxed on the income of natural persons.

**Second: Amendment of Articles 37, 39, 45, 46 of the Income Tax Law promulgated by Law No. 91 of 2005. The amendment of these articles shall result in:**

- (A) Income from taxable constructed real estate properties includes the following (Article 37)
  - Revenues of constructed real estate properties leased in accordance with the provisions of the Civil Code.
  - Revenues of furnished units.

- (B) Revenue subject to the income tax of natural persons shall be determined on the basis of the actual rental value achieved by the taxpayer of these real estate properties after excluding 50% for all costs and expenses, whether the property is leased in accordance with the provisions of the Civil Code or furnished lease.
- (C) The taxpayer shall deduct the real estate taxes due on him in accordance with the provisions of (Part Five of the Second Book, and not exceeding this tax).
- (D) The provision of article (39) of the Income Tax Law shall not apply to real estate (built within the assets of the establishment or the company).

Third: Amending Article 42 of the Income Tax Law promulgated by Law No. 91 of 2005. This amendment entails extending the scope of taxation on real estate transactions to include all types of transactions for all types of real estate and land.

In this section, we shall deal with the income of real estate wealth subject to the tax on the income of natural persons in accordance with the provisions of the Income Tax Law, following the amendments thereto, through the following points:

### **First: Revenues of constructed real estate properties:**

By the revenues of the constructed real estate is meant those revenues of real estate properties fully owned by the taxpayer, meaning an absolute right or a usufruct right, as well as the revenues of the real estate properties over which the tax payer has only a usufruct right exclusive of the title of property.

taxable income from constructed real estate in accordance with the provisions of Article (39) includes the revenues resulting from the lease of any property or part of it in accordance with the provisions of the Civil Code (new rent system), and the taxable income is determined on the basis of the actual rent less 50% against all costs and expenses.

The following example will illustrate that tax treatment:

**Example1:** a taxpayer owns a property consisting of 15 flats. The annual rental value of this property, which is subject to the property tax, is 6000 LE. It was found that the taxpayer lives with his family in one flat, and leases two flats with the new rental system at LE 2,000 per month for each flats. The

remaining units are rented by the old rent system at LE 50 per month.

**Required:** Specify the taxable income on the income of natural persons.

### Solution

the property revenue that taxable on the income of natural persons is determined as follows:

Actual income of flats leased under the new rent system=

(2 flats  $\times$  2000LE  $\times$  12 month) 48000LE

Deducted: 50% for all costs

(48000  $\times$  50%) (24000 LE)

Net taxable income 24000

It is clear from the above example that the flat in which the taxpayer and his family live does not generate income for the taxpayer, and therefore excluded from tax calculation, as well as rent of flats leased by the old rent system were excluded from tax calculation.

This is not required to undergo real estate wealth tax revenues that these properties are subject to property/real

estate taxes. , Where the revenues of real estate wealth is subject to tax on the income of natural persons regardless of whether these properties are subject to property tax or not.

**Example 2:** A taxpayer owns a real estate in 6th of October City consisting of five housing units and is not subject to a property tax. It was found that the taxpayer and his family live in a housing unit. In addition, His mother, who supports her, lives in another unit, and leases two units with the new rental system at 1000 pounds per month per unit. The last unit he does not exploit it.

**Required:** Determine the taxable income on the income tax of natural persons.

### Solution

The taxable income is determined in this case on the basis of the rental income of the fixed-term rent system (new rent) only after excluding 50% against costs.

Then the taxable revenue of constructed real estate =

$$2 \text{ units} \times 1000 \text{ LE} \times 12 \text{ month} \times 50\% = 12000 \text{ LE}$$

It is noted that the unit inhabited by the taxpayer and the unit inhabited by his mother were excluded from tax



calculation as well as the unused unit, This is because these units do not bring the taxpayer actual revenue.

For real estates that have a real estate tax, Article 45 of Law 91 of 2009, as amended by Law 73 of 2010, stipulates that the real estate tax paid shall be deducted from the income of real estate wealth.

It should be noted that the text of Article 45 after the amendment did not clarify whether the deduction of the whole property tax or the tax pertaining to the unit or units leased and taxable. However, it is scientific logic that the real estate tax deducted is that of the units whose revenues are taxed.

**Example 3:**

A taxpayer owns a property of 10 housing units with equal area , and is subject to property tax of 1500 pounds. It turns out that the taxpayer lives with his family in one of them. And his mother lives in another unit without paying rent, and leases four units according to the new rental system by 2000 pounds per month per unit, while the rest of the units are rented by the old rent system by 50 pounds per month.

**Required:** Determine the taxable income on the income tax of natural persons. Note that the taxpayer paid the property tax due.

**Solution**

Actual income of units leased under the new rent system= (4 units × 2000LE × 12 month)	96000LE
Deducted: 50% for all costs (96000 × 50%)	(48000)
Deducted: property tax paid on leased units according to new rent=1500 ÷ 10units × 4units	<u>(600)</u>
Net taxable income	47400

**Second: Revenues of furnished units**

Article (41) stipulates that the tax shall apply to the revenues derived from the leasing of any furnished unit or part thereof whether it is intended for housing, commercial or industrial activity, any non-commercial activity or profession or for any other purpose. The taxable income shall be

determined on the basis of the actual rental value less than fifty percent of the cost for all costs and expenses.

It should be noted that the text of Article (41) clarified comprehensively the scope of the tax on the rental of furnished units, whether rented for the purpose of housing or for the purpose of practicing commercial or industrial activity or any non-commercial activity or profession or for any other purpose, He also explained the rules for determining the taxable profits, which are the same as those applied to the revenues resulting from the rental of real estate units in the new lease system.

**Example 4:** A taxpayer who owns a property in Qena consisting of 10 housing units with equal area, exploits the entire area of two units of the property in his own residence with his family, he leases two units of rent furnished system for varying periods during the year totaled until the end of the year 9 months at a rate of 3500 pounds per month per unit. The rest of the property is leased by the fixed-term rent system (new law) at a monthly rent of LE 900 per unit throughout the year. The property tax on the property is 2,000 pounds and it was found that the taxpayer paid it before the end of the year.

**Required:** Determine the taxable income on the income tax of natural persons.

**Solution**

Actual income of units leased under the new rent system=  (6 units × 900LE × 12 month)	64800 LE
Actual income of units leased by furnished rent=2 units × 3500 LE × 9months	63000 LE
Total	127800 LE
Deducted: 50% for all costs  (127800 × 50%)	(63900)
Deducted: property tax paid on leased units according to new or furnished rent=2000÷10units × 8units	(1600)
Net taxable income	62300 LE

The previous tax laws and the executive regulations required each owner, whether property-owner or renter, to notify the competent tax office within the next fifteen days following the commencement of the lease with a statement of the leased furnished units, the number of rooms thereof, the

value of the furnished lease and the rental value of each taken as the basis for calculating the tax on the property. And upon expiry of the lease, he had to notify the competent tax office within fifteen days from the expiry date of the contract. However, Law 91 of 2005 did not establish special provisions for rented units related to the notification of the beginning of the activity or the cessation. This is left to the general provisions contained in Article (74) of the law, which obliges financiers to report the beginning of the activity within thirty days from the date of commencement of the activity, and Article (79), which obliges to report the cessation of the activity, whether partially or completely, within thirty days from the date of cessation.

**Third: the tax on the disposal of constructed real estate and land:**

Article 42 of Law No. 91 of 2005, as amended by Article 2 of Law 11 of 2013, stipulates that:

A tax shall be levied at a rate of 2.5% without any reduction on the total value of disposing of the built-up real estate or land to build on it, Except for the villages, whether the dispose of them in their condition or after the building establishment on them, whether this disposition includes the

whole property or part of it or a dwelling unit of it or otherwise, Whether the establishments are located on land owned by the taxpayer or others, and whether the contracts of such transactions are registered or not.

Excluded from the activities subject to this tax are the disposal of the heir in the real estate that he has inherited at their same condition in the time of the inheritance. As well as the provision of real estate as in kind shares in return for the contribution to the capital of joint stock companies, provided that the shares representing the value of such reality shall not be disposed of for a period of five years.

The taxpayer shall be obliged to pay the tax within thirty days from the date of disposal and shall be applied against the delay prescribed in Article (110) of the Income Tax Law from the day following the specified period.

In case of registration of the transactions, the real estate registration offices shall collect the tax and supply it to the Tax Authority within thirty days from the date of filing the registration application, unless the tax has been paid to the Tax Authority before this date.

In applying the provision of the present article, the disposal of assets by way of bequest or donation to non-

ascendants, spouses and the determination of usufruct of a realty or renting it for more than fifty years shall be considered taxable disposal. The forced sales whether administrative or juridical, and the expropriation or seizure for the public interest or improvement, shall not be considered a taxable disposal. In addition, disposals by the way of donation or gift to the government, the local government units, the public juridical persons or the public interest projects shall not be considered taxable disposal.

### **Tax bracket on real estate disposals and its price:**

According to article (42) of the law, the tax applies to the total value of the real estate disposition, which is not a tax on profits, but a tax on capital. This is a departure from the distinctive rules and principles of income tax, where net income is the tax base.

As for the following, the tax rate is specified in Article (42) at 2.5% of the total value of the real estate disposal without taking into account any actual expenses that the taxpayer has incurred in order to obtain the value of the property. Accordingly, Article (42) which decided that tax is an exception to the provision of Article (8) of the same Tax Law No. 91 of 2005. Related to determining the tax rate in

general, which is ascending as we have already explained. Hence, the rules for taxing real estate transactions represent a special exception to the rules of taxing the income of natural persons.

### **Cases excluded from the tax on real estate disposals:**

The second and fourth paragraph of the amended Article (42) excluded from taxation the following cases:

- 1- the disposal of the heir in the real estate that he has inherited at their same condition in the time of the inheritance. Therefore, if the heir undertakes actions that would change the condition of the property from the one it was in when it was transferred to him, , Such as the construction on real estate, the disposition of the heir in this real estate after changing its condition will lead to the tax value of the disposition.
- 2- Provision of the real estate as an in-kind share in exchange for as a share in the joint stock company, provided that the corresponding shares are not disposed of for a period of five years. The aim of the legislator is to encourage investment and form joint stock companies.
- 3- Compulsory sales, whether administrative or judicial.



4-Expropriation or appropriation for public benefit or improvement.

5-disposals by the way of donation or gift to the government, the local government units, the public juridical persons or the public interest projects.

6- The disposal of the taxpayer by way of bequest to his ascendants, children and descendants, The fourth paragraph of Article (42) stipulates that the taxable disposal shall be to those other than the ascendants, children or descendants.

**The relationship between the taxation of the income of natural persons in accordance with the provisions of Article 19 item (7) of the amended Law 91 of 2005, and the imposition of tax on real estate transactions in accordance with the provisions of Article (42) of the same law:**

According to the provisions of Article (42) of the law, all real estate transactions, which are mentioned in the text of this tax article, shall be subject to 2.5% of the value of the disposition. If it is proved that accidental conduct by the taxpayer of these real estate transactions without the intention of trading for the purpose of making a profit, he

shall be subject to tax on this basis, as long as the profits he makes are not subject to tax within revenues. As long as its profits are not taxed within the revenues of commercial and industrial activity mentioned in Article 19.

However, if the taxpayer is subject to tax in accordance with the provisions of Article 19 item (7), i.e., practicing the activity of constructing or buying real estate for the purpose of selling it. Its profits from the sale of real estate in which it is traded shall be taxed on the income of natural persons as profits of a commercial and industrial activity in accordance with the tax rates specified in Article (8) as amended from the Income Tax Law. in this case, the last paragraph of the amended Article (42) stipulates that the taxpayer shall deduct the real estate tax paid in accordance with the provisions of Article (42) from the taxes due on him. The following example illustrates the tax treatment in such cases.

**Example 5:**

A taxpayer sold a flat 150000 LE which was bought with an amount of 90000 LE. Required : compute the due tax assuming that:

1-the taxpayer doesn't take this business as his main profession.

2-the taxpayer takes this business as his main profession.

### **Solution**

#### **Assumption one :**

The tax due =  $150000 \times 2.5\% = 3750$  LE

#### **Assumption two :**

a- this transaction shall be taxed as follows:

$150000 \times 2.5\% = 3750$  LE

The disposal shall be subject to the tax provided for in Article (42) at 2.5% of the total sale price amounting to 7500 pounds.

Then, when the taxpayer submits his declaration of his activity at the end of the year, the profit of such disposition will be subject to the tax on the income of natural persons as revenues of commercial and industrial activity, while allowing the deduction of the previous payment of real estate tax, the tax treatment shall be as follows:

B- the profit gained from this transaction shall be included within the tax base of this taxpayer

$150000 - 90000 = 60000$  LE

Then the tax bracket will be on the following :

$$60000 - 15000 = 45000$$

The tax due :

$$15000 \times 2.5\% = 375$$

$$15000 \times 10\% = 1500$$

$$15000 \times 15\% = \underline{2250}$$

Total tax due 4125 LE

Note: because of paying the real estate disposal tax, it must be deducted from the income tax above

The due income tax = 4125 - 3750 = 375 LE

### **Example 6:**

A natural person owns a property that he leases under the new fixed-term lease system. The net income of this property, which is subject to the tax on the income of natural persons for the tax period, was 8000 LE. The taxpayer has paid a real estate tax of 1000 LE for this property, The taxpayer has a commercial activity whose net profit is taxable according to his tax declaration for the same tax period of 24000 LE.

**Required:** Determine the tax on the income of natural persons payable on this taxpayer when submitting his tax return.

### Solution

The tax payable in this case is determined on the basis of the tax payable on the income of the taxpayer after deducting the real estate tax paid as follow:

Net real estate wealth income (8000-1000)=	7000 LE
Net profit of the commercial activity	<u>24000</u>
Total net income	31000
Deduct the non-taxable slice	<u>(15000)</u>
Tax bracket	16000
Tax due $15000 \times 2.5\% = 375$ $1000 \times 10\% = 100$	475 LE

### Example 7:

Taxpayer owns a building consisting of 10 flats. The rental value of this building, which is mainly taken for the assessment of the real estate tax, is 5000 LE, While the

monthly rent for each flat is 75 LE, it turns out that he constructed a new floor with two flats, They have not yet used in the assessment of a real estate tax, and he exploits them by renting the two flats according to the new rental system of LE 2,000 per month per flat.

**Required :** determine the tax bracket.

### Solution

Actual income of flats leased under the new rent system= (2 flats × 2000LE x12 month)	48000 LE
Deducted: 50% for all costs (48000 × 50%)	(24000)
Actual net income of flats leased under the new	24000
Deduct the non-taxable income	<u>(15000)</u>
The tax bracket of natural person income	9000 LE

Example 8:

Adam has an apartment located in Hurghada city, he rented it by the fixed term rent system (new rent) for 1500 LE per month since last year 2018. With the end of the lease

at the end of June of the year, the taxpayer did not rent it after that, and sold it at the end of this year for 550 thousand pounds. Note that this property is not subject to a real estate tax. **Required:** determine the net taxable income.

### Solution

First: the tax on the income of natural persons:

The income generated by the taxpayer from the rental of the apartment is subject to the tax on the income of natural persons.

Actual income = $1500 \times 6$ months	9000
Deduct 50% for all costs = $9000 \times 50\%$	<u>(4500)</u>
Net taxable income	4500

Second: Tax on real estate transactions:

In accordance with the provisions of Article (42) of Law No. 91 of 2005, a tax shall be levied at a rate of 2.5% of the total revenue resulting from the disposal the apartment. The tax shall be determined as follows:

The due tax =  $550000 \times 2.5\% = 13750$  LE

This income is not included in the tax base on the income of natural persons.

**Example 9:** The taxpayer owns an apartment located in the new Qena, The taxpayer does not exploit it because it is still under construction. However, he gave it to his son on December 2019, and wrote the contract of without value.

**Required:** determine taxable income.

### Solution

This apartment does not generate income subject to tax on the income of natural persons. As for the disposition of the taxpayer by relinquishing it to his son, the provision of article (42) of the law concerning the imposition of a tax on real estate transactions shall not apply to this case.

### Questions

- (1) Ahmed owns a building composed of 8 flats of equal rental value, he lives in one of them, he leases 5 flats according to new rent system at 1000 per month for each flat the building tax is 400 LE and other duties amounts to 250 LE. **Required:** determine the taxable revenues
- (2) A natural person owns a building consisting of 5 apartments, 3 of which are rented with fixed term rent (new rent) for 500 pounds per month for the apartment



- and the rest rented furnished with a monthly rent of 1500 pounds for an apartment. Also, the real estate tax paid on the building is 1380 pounds. **Required** : determine the tax bracket.
- (3) Taxpayer owns a building consisting of 10 flats. The rental value of this building, which is mainly taken for the assessment of the real estate tax, is 5000 LE, While the monthly rent for each flat is 75 LE, it turns out that he constructed a new floors with four flats, They have not yet used in the assessment of a real estate tax, and he exploit them by renting the flats according to the new rental system of LE 3,000 per month per flat.**Required** : determine the tax bracket.
- (4) Engineer Hamdi, who owns agricultural land in Aswan governorate and inherited it from his deceased father, The area of agricultural land inherited to the taxpayer 16 acres located within the city of Aswan, It turned out that 6 acres were sold during the year to a tourist company to set up a tourism project by 500 thousand pounds per acre. The taxpayer divided the rest of the land, 10 other acres, into 28 pieces prepared for building. During the year,

they sold 10 pieces for 250 thousand pounds per piece.

**Required:** net taxable income.

(5) A person owns a property in Qena consisting of four floors, each floor has two identical apartments, exploited as follows:

- The taxpayer and his family live on the second floor.
- The taxpayer allocates the ground floor for guests and visitors.
- The taxpayer rents the third and fourth floors furnished for university students at 4000 L.E per apartment.

If you know that the building tax imposed on one apartment is 300 and the tax rate is 10%. **Required:** determine the tax bracket.

(6) One of the individuals rented a furnished flat inside the city cordon with a monthly rent of 4000 for a period of 9 months during 2020, so if you knew that the annual rental value for real estate tax is 70 L.E **Required:** determine the tax bracket.

(7) An individual owns a building in 6th of October City. The original building tax on it is 3600 at a rate of 10%. So if you knew that he had rented it furnished to University to accommodate its students, with a monthly rent of 60000 L.E during 2020. And that he did not pay the building tax for this year. **Required:** determine the due tax

(8) A taxpayer owns a one-floor villa in which he and his family live. The building tax on it is 200 L.E annually, and

the tax price is 10%. In addition, he owns a building consisting of five floors, rented it by 9000 per floor, His son with his wife and children and the building tax on the floor is 1000 L.E, knowing that the tax price is 10%. He did not pay the building tax for this year. Required: determine the due tax.

(9)The following are the data that one of the taxpayers submitted to the Tax Authority for the fiscal year ending on 31/12/2020:

-He owns a property consisting of 5 floors of equal rental value, one of which is inhabited by him and his family, and he uses the ground floor as his own commercial shop, and the rest is rented to others for a monthly rent of 2000 per floor, and the annual rental value of the building is 5000 L.E, knowing that the building tax is 10% annually. The annual real estate expenses amounted to 3500 L.E.

-The net accounting profit of the commercial shop for the year 2020 amounted to 25000 L.E. Required: determine the due tax.

## **Chapter Five**

# **Tax on revenues of commercial and industrial activities**

## **Introduction**

Commercial and industrial activities are one of the most important activities within the framework of income tax on natural persons in particular, and in the framework of direct taxes in general. Therefore, the legislator is always trying to expand the scope of the imposition of tax on such activities.

In this section we shall deal with commercial and industrial activities that are subject to tax on the income of natural persons, the conditions of their subjection to taxation, and how to determine the taxable profit as well as the exemptions associated with commercial and industrial activity in the following sections :

**Section 1:** Conditions for subjecting commercial and industrial activities to tax.

**Section 2:** Types of taxable commercial and industrial activities.

**Section 3:** Determination of taxable profit on the income tax of natural persons from the revenues of commercial and industrial activity.

**Section 4:** Exemptions related to commercial and industrial activity

### **Section 1: Conditions for subjecting commercial and industrial activities to tax:**

The legislator specify general conditions for the subjection of a commercial or industrial activity for a tax. These conditions are:

**First:** The taxpayer shall exercise his commercial and industrial activity independently and for his own account. Any dependent status of a taxpayer must be avoided or the

resulting revenue should be considered salary or wages subject to the tax on salaries and the like.

The legislator has emphasized this requirement in more than one place in the law. In Article (19) the legislator decides that the tax shall be applied on profits of commercial and industrial establishments in item (1), And on the profits of craftsmen and small businesses item (2), And on profits realized as a result of transaction or transactions carried out by brokers or commission agents in item (4), and those who engage in the construction or purchase of properties for purposes of sale (item 7). The texts of the preceding items confirm that the taxpayer must act for his own account and not for the account of others.

**Second:** That the person engaged in the profession or activity habitually: Where the taxpayer must practice the activity frequently and habitually, In the sense of professionalism in the exercise of his activity, This recurrence or familiarity is not required during the same tax period, it depends on the nature of the activity, for example in the activity of construction, the execution of one contract requires more than one tax period. Although, casual transactions is outside the scope of the taxation, the legislator has subjected the profits of a single transaction to tax, but on condition that the transaction being made with the intention of earning or making profit.

**Third:** The activity must be exercised for profit : Legislator always keen on the text that the goal of the activity is to make a profit. In the subjection of profits of a single transaction to tax, although the legislator disregarded the requirement of professionalism, he stressed the availability of the intention of making profit. As, article (25) of the executive regulations of Law No. 91 of 2005 stipulates that the purchase shall be for the purpose of sale, and therefore in

the case of non-profit activities such as social, cultural or religious activities, they are not taxable.

**Fourth:** the taxpayer shall exercise his activity through an individual firm, Where the legislator subjected to tax on the income of natural persons the profits of commercial and industrial activities exercised through an individual firm, While in the event that such activities are carried out by a company (partnership or corporation), the profits of such companies shall be taxed on the profits of juridical persons imposed in the third book of Law 91 of 2005.

**Fifth:** Realization of revenue within or outside Egypt (the principle of tax universality). For taxable commercial and industrial activities, the legislator adopt the principle of tax universality in the sense that the income was realized in Egypt or abroad. article (6) of Law 91 of 2005) stipulates that "an annual tax shall be imposed on the total net income of resident natural persons in respect of their income realized in Egypt or abroad if Egypt is a center of its commercial or Industrial or vocational activity ".

It is clear from the text of Article (6) that applying the principle of tax universality expands the scope of the tax on income earned abroad, when Egypt is the center of the taxpayer activity. the practical problems of taxation according to the global scope of the resident natural person, are the following problems:

**A - The need to be the center of the taxpayer's activity in Egypt, which results in the following:**

- 1- If a natural person does not have a commercial or industrial activity in Egypt and if he realized income from a commercial or industrial activity abroad, the tax on the income of the Egyptian natural persons does not apply to this income.

**Example:** An Egyptian natural person who lives in Egypt, and during his stay in the United Arab Emirates he

completed a commercial deal to import a group of goods from India and sell them in Dubai, which resulted in a net income of 50,000 Dirhams. In this example, the income tax on natural persons cannot be levied, because the taxpayer has no commercial activity in Egypt.

2- If the natural person has a commercial or industrial activity in Egypt, and he realized income from a commercial or industrial activity abroad independent of its activity in Egypt. Then, the tax on the income of Egyptian natural persons does not apply to this income.

For example, a natural person residing in Egypt owns an individual firm that works in the field of division of construction land. He and a Saudi partner established a company in the Kingdom of Saudi Arabia that works in the field of dividing, smoothing and preparing land for construction. , And the taxpayer in this company, a partner with experience due to his experience in this area. His share in the profits of this company amounted to 1000000 Saudi riyals. In this example there is no room to impose a tax on the income of natural persons on the profits of the taxpayer from the company in Saudi Arabia, because these profits were realized from an activity independent of the activity of the individual firm owned by the taxpayer in Egypt, since this individual firm is not a center of its activity abroad.

3- If the natural person has a commercial or industrial activity in Egypt, and achieved from this activity income realized outside Egypt, , In this case the realized income shall subject to the income tax of the Egyptian natural persons.

Example: A natural person who lives in Egypt and owns an individual firm working in the field ceramic tile industry, and has a branch of its business in a foreign country, achieved a profit for the tax period amounted to 50000 US dollars. In this example, the profits of this branch shall be



taxed on the income of natural persons in accordance with the amendment of Law (53) for the year 2014, because the profits of the branch have been realized to the taxpayer abroad for activity its' center in Egypt.

**B) The profits of the taxpayer realized abroad shall be taxed:** As, article (17) stipulates that the profits of commercial and industrial activity shall be taxed. Net income is determined on the basis of revenue earned internally or abroad, after deduction of allowable costs.

Article (22) of Law 91 of 2005 specifies the special conditions for the costs to be deducted, namely:

- 1- Be associated with the commercial or industrial activity of the firm and is required to practice the activity.
- 2- Be actual and supported by documents, except costs and expenses which was not traditionally proven by documents.

Taken into account when calculating the tax payable the tax paid abroad, within the limits of the tax calculated on the revenues earned in abroad, that the tax paid abroad is compared with the tax calculated on these revenues and deducted whichever is lower.

Example: A natural person residing in Egypt who carries out a commercial activity, His revenues from his commercial activity amounted to LE 1.5 million, including of LE 150,000 income earned from his business in a foreign country, for which he paid income tax for the foreign state amounted to LE 30,000 And his net taxable profit from his business in this year LE 450000. Required: Calculate the due tax.

### Solution

**First:** Calculate the tax payable on the taxpayer's profits at the legally determined prices as follows:

15000	Exempted
The next 15000 x 2.5%	375 LE
The next 15000 x 10%	1500 LE
The next 15000 x 15%	2250 LE
The next 140000 x 20%	28000 LE
The next 200000 x 22.5%	45000 LE
The next 50000 x 25%	<u>12500</u>
The tax payable	89625 LE

**Second:** Determine the proportion of revenues generated abroad of the total revenues of the activity: Article (52) of the executive regulations of Law No. 91 of 2005 specify how to calculate the calculated tax as follows:

Percentage of revenue earned abroad

$$=(150000/1500000) \times 100 = 10\%$$

**Third:** Calculation of the Egyptian tax: It is determined as follows:

Egyptian calculated tax =

$$\begin{aligned} &\text{Tax payable} \times \text{Ratio of external revenue} \\ &= 89625 \times 10\% = 8962 \text{ LE} \end{aligned}$$

Fourth: Determining the tax on the income of the natural persons to be paid by the taxpayer

Tax payable on the taxpayer's profits	89625 LE
<b>Deduct:</b> The tax paid abroad is LE 30,000 or the Egyptian calculated tax on the profits LE 8962 whichever is less	(8962)
The due tax	80663 LE

Another example: Assuming in the above example that the tax paid abroad has reached 7000 LE. Required: Calculate the due tax.

### Solution

The tax due in this case shall be determined as follows:

Tax payable on the taxpayer's profits	89625 LE
<b>Deduct:</b> The tax paid abroad is LE 7000 or the Egyptian calculated tax on the profits LE 8962 whichever is less	(7000)
The due tax	82625 LE

### Section 2: Types of taxable commercial and industrial activities:

In article 19 of Law 91 of 2005 and its amendments, the legislator dealt with the commercial and industrial activities that are included in the tax on the income of natural persons and exercised by the taxpayer through an individual firm, They are as follows:

- 1- Profits of commercial or industrial firms, mining, quarries and petroleum firms.
- 2- Profits of craftsmen and small activities.
- 3- Profits realized from any commercial or industrial activity even if limited to one transaction, the executive regulations of this law set forth the special rules for what is considered a single transaction in the application of the provisions of this item.
- 4- Profits realized as a result of the transaction or operations carried out by brokers or commission agents, In general, any profit made by any person engaged in brokerage business to buy, sell or rent real estate or any kind of goods, services or movable values.
- 5- profits from leasing a commercial or industrial shop whether the rent includes all or some of its material or moral elements, As well as profits from the rental of mechanical and electrical machines, except agricultural

tractors and irrigation machines and accessories and machinery and equipment used in agriculture.

- 6- Profits of various types of transport activity.
- 7- Profits generated by those engaged in the construction or purchase of real estate for their own purposes with the intention of selling them (professionally), Whether the profit resulted from the sale of the whole property or divided into apartments, rooms, administrative or commercial units or otherwise.
- 8- Profits resulting from land division operations for disposal or construction.
- 9- Profits of land reclamation or cultivation firms, and projects for the exploitation of poultry farms or automatic hatchery, animal breeding, cattle breeding and fattening, in excess of twenty heads and fish farms and fisheries projects.
- 10- Profits of investment in securities abroad or their disposal.
- 11- Long-term contracts, where the legislator added to the commercial and industrial activities that fall within the tax bracket on the income of natural persons in Article (21) of Law 91 of 2005, long-term contracts in proportion to what was implemented from each contract during the tax period.

**The following are the detailed conditions relating to the taxation of these activities and operations:**

**1- commercial and industrial firms and mines, quarries, petroleum firms.**

There are three basic conditions for the inclusion of profits from commercial or industrial activity within the taxable income of the natural persons as follow:

- 1- There shall be firm.
- 2- The firm shall be working at Egypt.
- 3- The firm shall be in the form of an individual firm.

**The first condition:** is that there should be a firm: for interpretation of the " firm" statement contained in the law there are two directions:

**First direction:**

It is the old one in jurisprudence and sees the need for a firm with a physical existence to carry out activity in Egypt, for example the existence of a shop, office, warehouse or other fixed places designated for the conduct of commercial and industrial activities, This direction has been based on several considerations, most notably:

- 1- This direction was followed by the models of the tax agreement issued by the League of Nations to deal with the problem of international tax duplication. Where these models provided that the profits made by a person of a country from engaging in commercial or industrial activities in another country, the other country can impose taxes on these profits only if he practice his activity through a permanent firm.
- 2-The issuance of many of the provisions of the Egyptian courts support that the profits of foreign investors resulting from commercial and industrial activities in Egypt shall not be subject to Egyptian tax unless they have permanent firm.

**The second direction:**

It is a relatively recent direction, it is opposed to the physical existence of the firm as a condition to subject profit to tax. Where it is enough to just practice the activity as usual, I.e. the practice of activity in Egypt permanently on the basis of professionalism, as the existence or absence of physical place is not important in the possibility of imposing a tax. Although its existence has its evidentiary value on the usual practice of activity. Supporters of this direction believe that there will be a firm operating in Egypt only in the following two cases:

1-The existence of a spatial firm in Egypt through which activity is carried out, such as the existence of a factory, shop, store, sales office or branch of firm located outside Egypt.

2- just to engage in commercial or industrial activity in Egypt frequently, Even in the absence of a spatial firm.

Law 91 of 2005 in Article (1) adopted the second direction

**Third conditions:** The establishment shall take the form of an individual firm (sole owned):

Income from commercial and industrial activities is included in taxable income on the income of natural persons if realized by an individual firm. If such income is realized by a partnership or corporations, it shall be taxable on the profits of juridical persons, which are included in the third book of the Law (91) of 2005.

## **2- Profits of craftsmen and small activities:**

Craftsmen are persons who carry out independent business or activities in which they rely primarily on their own skill and for themselves without relying heavily on capital. Their work is often manual, although they rely on some simple machines. Examples of such craftsmen are carpenter, tailor, plumber, watch repairmen, opticians, mechanics....etc.

It can be argued that the main source of income earned by the craftsman is labor and that reliance on capital as a source of income is small and almost non-existent, and therefore that their profits should have been taxed within the revenues of the free and non-commercial professions. However, the legislator subjected them to taxation within the revenues of commercial and industrial activity due to the conditions prevailing in the seventies and led to the exaggeration of these craftsmen in the prices of the services they provide.

### **3-profits from any commercial or industrial activity, even if limited to single transaction:**

Article (25) of the Executive Regulation of Law No. (91) of 2005 stipulates the special rules for what is considered a single transaction or isolated transaction as follow: isolated transaction is every purchasing occurred by taxpayer resident in Egypt for a movable asset not for personal use conditioned that this transaction would be commercial or industrial and that the sale is made within Twelve months from purchasing date of such assets.

This article is not consistent with professionalism, which was a tax subjection term in the law. However, it was realized that many people made great wealth from what they named one transaction. This wealth was not subject to tax because of the non-continuity, and non-existence of a firm the new tax law aimed to impose tax on these profits.

It is clear from this that three conditions must be met for the profit of single transaction to be subject to income tax on natural persons.

- A) To be for resale of movable assets not purchased for personal use and It was done by a resident in Egypt.
- B) The transaction should result from a commercial or an industrial act.
- c) The sale shall be made within twelve months from the date of purchase.

### **4- the Profits from brokers and commission agents:**

It is any profit made by any person engaged in brokerage business to purchase, sale, lease of a real estate or any kind of commodities, services, or movables.

From the above we understood the following:

- A- The tax on profits from brokerage business shall apply to the purchase, selling and leasing without any other type of contract.

B- Include sale, lease or purchase of any type of goods, services or movable values.

The concept of mediation under this provision is to bring the seller and the buyer closer or the lessor and the tenant. The broker does not conclude the contract in his name, but the commission agent may replace one of them or conclude the contract in his name for a commission. And it is one of the agency's work also insurance agents and trade representatives who work for some companies and act on their behalf in concluding transactions and running the business without being associated with a contract of work and have full freedom to perform the work.

**The conditions for such persons to be taxed are:**

A) The tax is applicable in the event that the work is performed individually.

(B) The tax shall be applicable to net profits, i.e., revenues after being excluded all costs incurred by the agent or broker.

**5- Profits from leasing premises and machinery:**

It is the profit resulting from leasing commercial or industrial premises, whether the lease includes all or part of its material or immaterial elements. The tax also applies to profits resulting from the lease of mechanical, and electrical machines, except for agricultural tractors, irrigation machines and accessories, and machinery and equipment used in agriculture.

The legislator has taxed these profits within the commercial and industrial as facilities prepared by their owners and leased for commercial or industrial purposes, Such as the case of renting shops or spaces within the commercial centers that so-called (mall).

**6- Profits of various types of transport activity:**

It shall be deemed to be a business in accordance with the provisions of Article 2 of the Commercial Law Every



contract and in-depth work in manufactures, trade, commission and land transport or maritime transport. Accordingly, profits from land and maritime transport activity are considered whether it is transporting passengers or goods, profits are the result of business activity, according to the general principle this profits shall be taxable on the income of natural persons whatever means are used.

From above, all transport activities, whether land, air, sea or river, Their profits are subject to tax on the income of natural persons, whenever the taxpayer carried out this activity individually.

#### **7- Profits for the purchase and construction of real estate with the intention of selling:**

The profit realized by those who acquire or purchase real estate for their own account with the aim of sale, with a view to selling them professionally, whether the profit results from the sale of the whole property or divided into apartments, rooms, administrative or commercial units, etc.

The conditions for taxation of these profits are summarized in following:

- 1-The person purchases or constructs real estate for his own account.
- 2- purchase or construction would be for the object of sale.
- 3-The taxpayer used to purchase or construct for the purpose of sale (professionalism), whether the whole or part of the property was sold.

#### **8-Profits arising from land division and disposal of construction lands.**

The conditions for taxation of profits resulting from the division of land and its disposal are as follows:

- 1- the division of land before being sold, but if the person sells the land in one piece without dividing it, the profit from the sale is not subject to tax.

2-The owner of the land shall carry out the necessary works to divide the land, such as the preparation of the land and the provision of utilities, etc., which makes it suitable for construction.

3-The disposal of the land in any form of disposal, whether by sale, gift or will.

**9- Profits of land reclamation and cultivation and livestock and fisheries projects:**

Article (9) of Article (19) states that the tax shall apply to:

A-Profits of land reclamation and cultivation activities.

B-profits from the exploitation of poultry farms or hatchery.

The second paragraph of Article (9) of Article (19) of the law stipulates that "the tax shall be applied to profits resulting from the projects of exploiting poultry farms or automatic hatchery."

It is clear from this text that it is required for the tax to apply to projects of exploiting poultry farms or hatchery to be automatic. Therefore, if there are projects to exploit or hatch poultry farms, but not automatically, it does not apply to the tax, despite the recent spread of projects in the countryside significantly, and these projects may make significant profits

C-Profits of the activities of cattle breeding and fattening.

This tax does not apply to what a farmer uses out of these cattle and livestock for his own benefit. It does not also apply to whatever cattle or livestock he might breed or fatten for his own benefit, all of which should not exceed twenty heads.

**In the application of this provision must:**

1- The 20 heads, which are raised or fattened, should be viewed as a general and complete exemption limit for the practitioners of such activities, so that the tax shall apply only to the profits that they may make from livestock in excess of this number.

2-That the exemption is not granted for any number of cattle or livestock over twenty heads even if this excess number is used for private benefit.

This should point out that this exemption is limited to cattle breeding and fattening without animal breeding .

The legislator has decided to temporarily exempt the profits of the projects of exploiting and fattening cattle breeding fattening - whose activities are already subject to tax - according to the second clause of article (31) of the law. For ten years from the date of practicing the activity.

D-Profits of fish farms and fisheries projects.

#### **10- Profits of investment in or disposal of securities abroad:**

Law 53 for the year 2014 added a second paragraph to Article (19) of Law 91 for the year 2005 stating that "The tax shall also apply to profits resulting from investment in or disposal of securities abroad.

It follows from this provision, subjection of the profits realized by the natural person from investing in securities abroad, including dividends or interest bonds, as well as the profits realized from the disposal of those securities. It is not condition for subjection of such profits that the natural person have a tax file or practice a commercial or industrial activity in Egypt, as this provision considers that investment in abroad is an activity in itself that requires taxation. Regardless of whether the natural person is engaged in this activity frequently and professionally or) is an accidental work for him, However, in light of the provisions of Article (6) of the amended Law 91 of 2005, which came in the second book of amended Law 91 of 2005 which clarifies the scope of taxation on the income of natural persons, The profits of investment in securities abroad or their disposal thereof are not always taxable, but they are subject to

taxation in the event that this profits is realized by a taxpayer who has commercial or industrial activity its center in Egypt.

### **11-profits of long term contracts:**

Long-term contracts are the contracts of manufacturing, processing, construction or performance of the related services executed by the enterprise on behalf of third parties on a specified value and the implementation takes more than one tax period.

Article (21) provides for determining the net taxable profit of the establishment for all associated long-term contracts, on the basis of the percentage of each contract executed (what has been implemented from each contract) during the tax period, according to the following steps:

A- Determine the percentage of what has been implemented from each contract based on the actual cost of the works performed at the end of the tax period relative to the total estimated costs of the contract, which according to the following equation:

Percentage of contract executed during tax period=

$$\text{Actual cost of work performed} \div \text{Total estimated costs for the entire contract} \times 100$$

B- Determination of the estimated profit of the contract, by the difference between the contractual value of the contract and the estimated costs of the contract, which according to the following:

Estimated profit for the whole contract= Contractual value of the entire contract - estimated costs of the entire contract

C- Determine the estimated profit of the contract during each tax period in proportion to what has been implemented by multiplying the output of step (2) in the output step (1) is as follows:

Estimated profit of the contract during the tax period= estimated profit for the whole contract  $\times$  percentage of contract executed during tax period

**Example:**

Assuming that a contractor has contracted to establish a bridge for a local administration unit with a contractual value of LE 25 million, the contracting work will be completed within 24 months. The cost of this contract is estimated at LE 20 million. During the first year of the contract, the first part of the contract was executed. It includes concrete works and works in the depths of the river water below the bridge. The actual cost amounted to 12 million pounds.

**Required:** determine the taxable net profit for the first year.

**Solution**

- 1- Percentage of contract executed during tax period=  
 $12000000 \div 20000000 \times 100 = 60\%$
- 2- Estimated profit for the whole contract =  
 $25000000 - 20000000 = 5000000 \text{ LE}$
- 3- Estimated profit of the contract during the tax period=  
 $5000000 \times 60\% = 3000000 \text{ LE}$

This profit is subject to tax and is included in the tax bracket on the income of natural persons of this contractor. The profit of the contract shall be settled at the end of the tax period in which the execution ends on the basis of actual revenue less actual costs after deducting the previously estimated profits.

Assuming in the previous example that the contractor completed all the works of the construction of the bridge and was delivered and the actual approved costs spent in the second year 9 million pounds.

**Required:** determine the taxable net profit for the second year.

**Solution**

- 1 - The actual costs of contracting in the first and second years= $12000000 + 9000000 = 21000000 \text{ LE}$
- 2- Actual net profit for the whole contract  
 $= 25000000 - 21000000 = 4000000 \text{ LE}$

Since the taxpayer was charged in the first year for 3 million pounds. Therefore, the taxpayer is accounted in the second year for actual profits after deducting the profits previously taxed.

3- Net taxable profit in the second year=  
 $4000000 - 3000000 = 1000000$  LE

If the calculation of the tax period during which the contract is completed, result in a loss. This loss is deducted from the profits of the previous tax period or periods, that contract shall be executed during them and not exceed the profits of the contract during that period. The tax is recalculated on this basis and the taxpayer recovers the amount he paid in excess (carried backwards). If the loss exceeds the profit, the remainder of the loss is carried forward to the following years up to a maximum of 5 consecutive years.

**Example:**

An establishment operating in the construction activity, was awarded during 2013 the implementation of a building contract for 9 million pounds at an estimated cost of 8 million pounds. The implementation process takes 30 months starting from mid-2013 and ending at the end of 2015. The actual costs of implementing the contract during 2013 amounted to 2.8 million pounds and in 2014 amounted to 3.6 million pounds.

**Required:**

First: the determination of taxable profits in tax periods 2013, 2014.

Second: Determine the tax treatment of the profits of the establishment upon completion of the contract at the end of 2015 by assuming the following:

- A- The actual costs for 2015 amounted to LE 1.5 million.
- B- The actual costs for 2015 amounted to LE 2 million.
- C- The actual costs for 2015 amounted to LE 3 million.

### Solution

First: Determination of taxable profits in 2013 and 2014 (estimated):

1- Determination of estimated profit of the contract = total contract value - Estimated costs of the contract = 9 million - 8 million = 1 million pounds

2 - Determining the estimated profit for the contract in 2013

A- completion rate =  $2.8 \div 8 \times 100 = 35\%$

B- Estimated profit in 2013 =  $1000000 \times 35\% = 350000$  LE

3 - Determining the estimated profit for the contract in 2014

A- completion rate =  $3.6 \div 8 \times 100 = 45\%$

B- Estimated profit in 2013 =  $1000000 \times 45\% = 450000$  LE

Second: Determination of the tax treatment of the profits of the establishment in 2015 end of the contract (actual profit)

A- Assuming that the actual costs for 2015 amounted to LE 1.5 million

Total actual contract revenues	9000000
(-) Actual contract costs(2.8+3.6+1.5)	(7900000)
Actual net profit of the contract	1100000
Estimated profit in previous years (350000+450000)	(800000)
Net taxable profit in the tax period 2015	300000

B- Assuming that the actual costs for 2015 amounted to LE 2 million

Total actual contract revenues	9000000
(-) Actual contract costs(2.8+3.6+2)	(8400000)
Actual net profit of the contract	600000
Estimated profit in previous years (350000+450000)	(800000)
Net tax loss in tax period 2015	(200000)

In this case, the loss of LE 200 thousand is carried backward to 2014, The tax is deducted from the 2014 earnings and the tax is recalculated on that basis And refund the overpaid tax.

C- Assuming that the actual costs for 2015 amounted to LE 3 million

Total actual contract revenues	9000000
(-) Actual contract costs(2.8+3.6+3)	(9400000)
Actual net loss of the contract	(400000)
Estimated profit in previous years (350000+450000)	(800000)
Net tax loss in tax period 2015	(1200000)

In this case, the loss is carried backward, i.e. the loss (800000LE) is deducted from estimated tax in years 2013, 2014. And refund the tax paid on them, the remainder of the 400,000 LE loss balance is carried forward to subsequent years up to a maximum of 5 consecutive years.

### **Section 3: Determination of taxable profit on the income taxes of natural persons from the revenues of commercial and industrial activity.**

According to Article No. (17) of the tax law, it is stipulated that taxation is imposed on the “ net profit...” Article No. (22) has also stipulated that tax is to determined annually on the basis of net profit during the preceding year, or the period of the twelve months result of which was considered as basis for preparing the last balance sheet as the case may be; and it stipulates that the taxable net profit is determined on the basis of the result or outcome of transaction, or the operations of different kinds and sorts, in accordance with the provisions of this law.

But the accounting profit figure may not always be the same as the tax bracket for several reasons therefore, it is necessary to perform an adjustment of the accounting profit figure which is effected in the tax bracket of the taxpayer.



To determining the taxable net profit (TNP), the accounting net profit (ANP) is adjusted as follows:

Accounting net profit (ANP), as it appears in the income statement	××
<b>Add:</b>	
Accounting expenses not approved by the tax department	××
Taxable revenues not considered on determining ANP	××
<b>Deduct:</b>	
Tax approved expenses not considered on determining ANP	××
Accounting revenues exempted by the tax law	××
<b>Taxable Net Profit (TNP)</b>	<b>×××</b>

In the following section, a detailed discussion will be made on the tax treatment of each item of revenues and expenses.

### **Revenues:**

The most important kinds of revenues which appears in financial statements are as follows:

#### **Sales:**

Sales revenue represents the most important kinds of the firm's revenues. Sales revenue is exposed to several factors which may show it contrary to its nature on a plus or minus basis. Consequently, it may affect the accounting on the net profit so that it would be realistic.

#### **Example (1):**

The net profit of ABC firm amounted to L.E. 120,000 for the year ended on Dec. 31<sup>st</sup>. examining the firm's books revealed the following:

- 1- There were sales mad on 28<sup>th</sup> of December, received by the customers on the same date, with a value of L.E. 25,000 entered on the 8<sup>th</sup> of January.
- 2- Amongst the goods sent commission- agents during the month of December with a value L.E. 50,000 a part was

sold for the amount of L.E. 20,000 with agent's commission thereon being 5% still due. But, this transaction was not recorded during the financial year, and only the part remaining unsold was included in inventory.

- 3- Sales returns recorded during the year included sales returns a value of L.E. 5,000 were actually returned on 3<sup>rd</sup>, January of the new year. It was also revealed that half of the goods which were sold for an amount of L.E. 6,000 were returned, but recording was effected for the amount of L.E. 3,100.
- 4- The owner withdraw goods for personal use, the costs of which was estimated at the amount of L.E. 4,000 which did not appear in the books.

**Required:**

Determine the taxable net profit.

**Solution:**

Net profit	L.E.	L.E.
		120000
<b>Add:</b>		
Sales effected during year not recorded	25000	
Sales by commission-agent not recorded	20000	
Sales returns related to the following year	5000	
Difference in the value of sales returns	100	
Value of withdrawals which were not recorded	<u>4000</u>	
		<u>54100</u>
<b>less:</b>		174100
sales commission of the agent on goods sold: 20000 × 5%		<u>1000</u>
<b>Taxable Net Profit (TNP)</b>		<b>173100</b>

**Example (2):**

In a firm, its income statement showed:

A net profit amounting to L.E. 40,000. Upon examining the sales figure, it was revealed that there were sales for the value of L.E. 3,000 which were made at beginning of the

new period and were delivered on same date. Yet they were entered in the sales of the current year although they were included as part of inventory at cost. Goods sent to commission-agent, amounting to L.E.7,000 were also entered as being actual sales, without entering them in inventory, noting that their cost amount to L.E. 5,500 and some goods costing L.E. 1,200 sold for the amount of L.E. 1400 were actually returned during the year, without being recorded as sales returns and were not entered as part of the inventory.

**Required:**

Determine the taxable net profit.

**Solution:**

	L.E.	L.E.
Net profit		40000
<b>Less:</b>		
Sales related to the new period but recorded during the current year	3000	
Profit on goods sent to commission agent and recorded as sales	1500	
Profit on goods returned and not recorded	200	
		<u>4700</u>
<b>Taxable Net Profit (TNP)</b>		<b>35300</b>

Amounts in Pound			
Dr.			Cr.
Balance (value of the asset)	15,000	Depreciation	4,500
		Cash (the sale price)	7,000
		Loss on sale	3,500
	15,000		15,000

## Capital Gains:

Capital gains are resulted from one of the following sources:

- Profits resulting from liquidation of assets, whether by sale or compensation.
- Profits resulting from revaluation of assets at a value exceeding their book value.

Each of these sources differs as to the extent to which it may be subjected to taxation. We are going to discuss each source separately as follows:

### **(A) Profit on Liquidation of Capital Assets:**

The tax law determined the fixed assets which their capital gains are subjected to tax as follows:

- 1- Buildings, constructions, outfits, ships, and aircrafts.
- 2- Intangible assets which are not have physical existence and are kept for use in production, supplying goods and services or for renting them out to third parties such as; licenses, intellectual property rights, trade names, copyrights, plants, publication rights, movies and animated cartoon which the firm obtains in return for payment of a certain amount of money. Capital gains resulting from the above intangible assets are taxable if the firm bought them and paid in cash or other property for them.
- 3- Lands, workers of art, antiquities, Jewelry, and other asset of the firm that are un-consumable by their nature and they are non-depreciable.

As for the capital gains realized from compensations for destruction or requisition of those assets, in case of insures them, whereas the increase in value of the compensation which the firm receives from the insurance company over net book value of the asset after excluding depreciation approved by tax authority, are considered capital gains which are taxable according to article (17) of the law.

As for capital gains of other assets such as computers, Information systems, software and data storage sets and all other assets of activity, such as gains are exempted from being taxed.

**(B) Revaluation Profits:**

This profit does not yield an real increase in the equity of the owner, and does not result in any cash profits for the owner of the individual firm. Thereof, these profits should not be subjected to tax on commercial and industrial profits.

**Example (1):**

A single firm purchased a building as a store for L.E. 90,000 on April 2018, the legal duties and fees were L.E. 4,000 other expenses related were L.E. 2,000 on first of April 2020, the firm spent L.E. 14,000 to renew the building. On Dec. 31, 2010 the building was sold at L.E. 150,000 and expenses related to this process were L.E. 15,000. Noting that:

- The annual maintenance expenses amounted to L.E. 1,000.
- The depreciation rate for tax purposes is 5% annually.

**Required:**

Determine taxable capital gains of the building.

**Solution:**

	L.E.	L.E.
Sales proceeds: 150,000- 15,000		135000
<b>Less: Book value</b>		
Purchase price	90,000	
Legal duties	4,000	
Other expenses related	<u>2,000</u>	
Total cost	96,000	
Renewable expenses	<u>14000</u>	
Less: Accumulated depreciation	110000	
Till April1, 2018 = $96000 \times 5\% \times 2 =$	(9,600)	
From April1, 2020 = $110,000 \times 5\% \times$ 9/12=	(4,125)	
Book value		<u>(96,275)</u>
<b>Taxable capital Gains</b>		38,725

**Note:**

Maintenance expenses are not included

We have to state some restraints concerning this article. It is a must that we would notice that by determining the capital gain resulting from the sale of assets or the proceeds of compensation, a comparison is to be made between the sale value and the net book value of the fixed assets adding thereto any costs resulting from the removal of the asset. Note that the balance is determined by the difference between the original cost of the asset and balance of the asset, accumulated depreciation until date of stopping using the asset. Two issues must be observed with respect to depreciation, namely:

**First:** it is necessary to calculate the depreciation of the asset sold or destroyed from the beginning of the year until date of stoppage, and to compute accumulate depreciation which is deducted from the original cost of the asset.

**Second:** That figure of accumulated depreciation which is duly deducted from the original cost is the depreciation accepted by the tax administration, and not the depreciation according to the books of the firm as long as the depreciation rate used by the firm is different from the rate approved by the tax administration. Any other treatment may subject capital gain more than reality to taxation.

**Example (2):**

On 1/1/2012, the firm purchased premises with the amount of L.E 200,000 and decided to depreciate them at the rate of 20%. But the tax administration was reckoning the firm to bases of a depreciation rate of 12.5%.

On 1/7/2015 these premises were sold for an amount of L.E. 75,000.

**Required:** Determine capital gains for these transactions.

**Solution:**

According to the books of the firm, we find out that the accumulated depreciation balance on 1/7/2015 amounted to L.E.120,000 which is equal to the annual depreciation at the rate of 20% for the period of 3 years.

However, as previously stated, it is a must, when recording the sale transaction in the books, to calculate depreciation for the asset sold from beginning of the year, until date of stopping using it, i.e., for the period of 6 months in our present example  $(200,000 \times 20\% \times 0.5) =$  L.E. 20,000 while carrying forward this amount into the premises accumulated

depreciation account by the following entry:

Depreciation expense	20,000	
Accumulated depreciation		20,000

Then the accumulated depreciation of the asset becomes =  $120,000 + 20,000 =$  L.E. 140,000

Hence, we arrive at the net book value of these assets which is L.E. 60,000  $(200,000 - 140,000)$ , and accordingly,

the capital gain will amount to L.E. 15,000 (75,000 – 60,000) from the point view of the firm.

As for the calculation from the point of view of the tax administration, the net book value will stand as follows: (the original cost – depreciation for the period of 3.5 years at the rate of 12.5%)

$$= 200,000 - 87,500 = \text{L.E. } 112,500$$

By comparing the net book value according to the tax administration depreciation, and the sale price, it result in the sale transaction resulting in a loss amounting to L.E. 37,500 (75,000 – 112,500) rather than gain of L.E. 15,000 (75,000 – 60,000).

Assuming in our present example that the profit figure shown by the income statement of this firm has amounted to L.E. 70,000 including the capital gain. Should we wish to arrive to tax bracket figure, then the following adjustment must be made.

Net profit	L.E. 70,000
<b>Add:</b> Depreciation difference in relation to the assets sold, whereas the firm calculated depreciation at the rate of 20%, with the rate accepted by the tax administration being 12.5% only (20,000 – 12,500)	7,500
	77,500
<b>Less:</b> Difference of capital gains whereas the company has entered capital gains amounting to L.E. 15,000, whereas from the tax administration standpoint, it has realized capital losses amounting to L.E. 37,500	52,500
Taxable net profit	25,000



Hereunder two examples to clarify the treatment methods under difference conditions and circumstances.

**Example (1):**

A single firm sold premises, the net book value of which amount to L.E. 40,000 for the amount of L.E. 48,000 bearing removal costs amounting to L.E.1,500 the profit for the year amounting to L.E. 57,000 exclusive of gains on the premises sales.

**Required:** Determine the proper tax bracket noting that the firm holds regular accounts.

**Solution:**

Net profit	L.E. 57,000
<b>Add:</b>	
Net capital gains resulting from the sale of the premises.	6,500
This is calculated as follows: ((sale price – (net book value + removal expenses)) (( 48,000 – (40,000 + 1,500))	
<b>Taxable Net Profit</b>	<b>63,500</b>

**Example (2):**

A single firm collected a compensation for the damage of one of its building in full in 2015. The value thereof amounted to L.E. 350,000 the net book value of this building was L.E. 280,000 with the firm calculating depreciation for this building at the same rate which is adopted and accepted by the tax administration. The firm carried forward the gains to a reserve account to use such amount in the future for new construction.

**Required:**Determine the tax bracket if you learn that the net profit at the end of the year amounted L.E. 24,000.

**Solution:**

Net profit	L.E. 24,000
<b>Add:</b> Compensation gains (it is taxable according to the law)	70,000
	94,000

**Recovered Bad Debts:**

Recovered bad debts are debts which the firm succeeds to recover during the year from the customers whose debts were written off in previous years. From the accounting standpoint, this element represents a recovery of previous losses. Therefore, there is no objection to considering them as a revenue in the year during which this recovery (collection) is made.

As for the point of view of tax determination, the matter requires the necessity of referring to what was done when writing off this debt upon tax determination. We shall find one of two probable situations, namely:

- a- That the tax administration approved this debt as a cost or expenditure in the year during which it was written off. In this case, when collecting this debt, the tax administration has the right to subject it to taxation, and accordingly include it in the elements of revenues on tax bracket determination.
- b- That the tax administration did not approve this debt as part of the elements of expenditures in the year, during which it was written of. In this case, the recovered debt must be not be included in taxable revenues.

If we suppose that a firm collected, during the year, debts which were written off during previous years for an amount of L.E. 2,500 which it included into the profit as a revenue. When examining these debts it was revealed that there is a part amounting to L.E. 1,900 the tax administration approved

as a bad debt in the year, in which it was written-off, with the remaining balance not approved by the administration. When preparing the tax bracket for the current year an amount of L.E. 600 is to be excluded from the taxable net profit for the value of collected bad debts which the administration did not approved as a bad debt during the year in which it was written-off.

### **Subsidiary Revenues:**

These revenues emanating from carrying the firm out transactions which are not included within its basic activity.

The following are some examples of such revenues:

#### **A- Building and Agriculture Land Revenues:**

Revenues which the firm gets from buildings and agriculture lands owned and lease to others. Such revenues are included in the taxable revenues of the firm as long as they are emanating from assets of the firm. Including such revenues amongst taxable revenue means double taxation because these revenues under another taxes' i.e.; building tax. In order to avoid this situation, the legislator considered these taxes among deductible expenses according to article (23) of the present law.

#### **B- Compensations:**

These items are amounts received from others for damages suffered by the firm resulting from un-implementation of contracts or delay in their implementation, or breach of contract. Such compensations are entered in the taxable revenues of the firm on cash basis.

If compensations received from insurance companies as a result of damage occurred to fixed assets of the firm, the excess over the book values of the assets is considered as capital gains and is entered in taxable revenues of the firm (refer back to the taxable capital gains in previous pages).

**C- Subsidies:**

Subsidies are amounts the firm use to receive from some other entities to achieve economic or social objectives, they include not only cash Amounts, but also other property or services received. Cash subsidies are taxable on a cash basis. If subsidies are in a form of other than cash, the amount to be included in the taxable profits is the fair market value of the subsidy at the time it is received.

**D- Foreign Currency Gains:**

In case of transactions between business firms of different countries, the amounts receivable and payable are denominated in the local currency of the buying firm or the selling one. If there is a change in the exchange rate of currency, the excess amount is realized by the taxpayer, and this excess amount is treated as taxable profit. On the other hand, if the excess amount occurs as a result of translating the accounts into local currency as fictitious profit, therefore, will not be included in the taxable profit.

**E- Revenues of Securities:**

Revenues emanating from investment which the firm carry out of its choice. Examples of such revenues are returns earned from dividends received on investments in stocks of stock companies or returns earned from investments in bonds issued by other entities.

**F- Returns of Deposits and Saving Accounts:**

Such returns derived from deposits and saving accounts with registered banks and post-office saving fund. These returns are exempted from tax according to the present law as cited in article No. (31).

**Examples:**

Net profit of sole proprietorship for the year 2018 was L.E. 35,000. The tax examination revealed the following:

A- Revenues of the firm include: (Amounts in L.E.) 4000  
bad debts collected which an amount of 3500 was

approved by tax authority- 2000 juridical compensation in favors of the firm for counterfeiting its trade name, noting that the amount collected was 1200 only- 5000 interest of installment sales- 3000 as a profit on sale of securities listed on the Egyptian stock exchange- 2500 profits of shares in private Egyptian shareholding company- 8000 interests of deposits with banks- 11000 revenue of realty (nothing that the monthly rent is 1000)- foreign currency variance of 8000 which include 1500 as a result of translating the foreign account into local currency.

B- Revenues of the firm not included: 7000 compensation received from an insurance company for goods which were damaged by fire, nothing that this amount was used to purchase other goods- 4000 subsidies received from the city council of which 1000 in cash and the rest is in the form of computer hardware, its market value is 5000.

**Required:**

Determine the taxable net profit for the year 2018

**Solution:**

	L.E.	L.E.
ANP		35000
Add:		
1- accrued revenue of realty according to the accrual basis (1000× 12) – 11000 =	1000	
2- the entire amount of compensation for damage goods, because it is taxable regardless the replacement	7000	
3- Subsidy received in cash, because it is taxable	1000	
4- the market value of subsidy received in	5000	

kind, because it is taxable.		<u>14000</u>
<b>Total</b>		49000
<b>Deduct:</b>		
1- bad debts collected, not taxable because it was not previously deductible 4000 – 3500	500	
	800	
2- juridical compensation not collected because it was taxable on cash basis 2000- 1200		
3- the currency gain of translation, not taxable because it is fictitious profit.	1500	
		<u>2800</u>
<b>Adjusted net profit</b>		46200
<b>Exemptions:</b>		
1- profits on sale of securities listed on the Egyptian Stock Exchange	3000	
2- interests of deposits with banks	<u>8000</u>	<u>11000</u>
<b>Taxable Net Profit</b>		35200

### **Allowable Deductions:**

This section of chapter is devoted for the discussion of the rules governing the tax treatment of allowable deductions. It is divided into three sections. The first discusses the criteria for determining whether a deduction is allowable. Expenses specifically allowably by the law are examined in the second section. The last section presents the tax treatment of losses carry forward to subsequent years.

### **Allowable Deductions by Law:**

The taxable net commercial and industrial profits shall be determined on basis of the total profit after deducting all costs and expenses necessary for realizing those profits. The

deductible costs and expenses shall conditionally fulfill the following requirements:

- 1- It has to be related to carry on a business:**
- 2- It has to be ordinary and necessary:**
- 3- It has to be reasonable:**
- 4- It has to be a current expense (revenue expense)**
- 5- It has to be true and supported documentarily, with the exception of the expenses and costs that are not customarily established by documents.**

#### **Deductible Expenses by Law:**

Article No. (23) of the present law lists nine items as deductible expenses. These items in detail as follows:

##### **1- Interests on loans:**

Interests which are due on the firm because of its dealings and transactions with external parties, and whatever loans it may contract in relation to its own activity are considered as costs deductible when determining taxable income of the firm, as long as they supported by documents, examples of these interests are those due to banks, on loans or advances. The law sets some conditions for such expenses to be deductible; they are as follows:

a- the loans shall be paid to natural person who is subjected to tax. If this natural person is not subjected to tax or exempted from it, the interests on loan and debts are not considered as deductible costs, according to item (5) of article (24) of the law.

On the other hand, the interests on the bonds that one put to public subscription, are considered as deductible costs even is paid to a natural person who is not subjected to tax or exempted taxpayer.

b- The interests paid shall not exceed twice the discount rate of interest declared lay the Central Bank at the start of the calendar year (on first January), or on the first work day at the start of the calendar year

The interests increased to twice the discount interest rate declared by the Central Bank, are not considered as deductible costs, according to item (4) of article (24) of the present law.

c- The credit interests received by the firm from others shall be deducted from the debit interests, whether these credit interests are not subject to tax or exempted from it.

Examples of such interests and returns are interests on deposits with banks, and on certificates issued by the banks if the debit interests or returns exceed the credit interests and returns, the excess of debit ones are considered as deductible costs.

**Example:**

The loans borrowed by a commercial single firm to be used in its activity were L.E. 500,000. If you learn that:

- The interest paid for those loans for the year 2017 was L.E. 125,000.
- The discount rate declared by the Central Bank on January, 2017 was 12%.
- Revenues of the firm for 2017 included L.E. 55,000 credit interests.

**Required:** Determine the deductible interests for year 2017

**Solution:**

	L.E.	L.E.
Interest paid	125000	
maximum amount of interest (twice the discount rate of central bank)		
$500,000 \times 12\% \times 2$	120000	
Debit interest approved by the tax authority		120000
<b>Less:</b>		
Credit interests		<u>(55000)</u>
Deductible Interests (costs)		65000



## **2- Depreciation of Assets:**

Article No. (23) in its clause stipulated that amongst the deductible costs are “the real depreciation expense which occurred within the framework of what is applicable in practice according to the customs and the nature of each industry, trade or work”.

### **1- Depreciation rate in use:**

The depreciation rate used is the means by which a firm can determine the amount of annual depreciation which leads to the distribution of the asset value over estimated life-time justly and fairly.

Specialists determine the annual depreciation rate on basis of their assessment of the anticipated life-time for each asset separately, therefore, each firm uses its own asset depreciation rates depending on the special conditions and circumstances of its own assets. Tax law down certain depreciation rates, which differ according to assets. The rates stipulated by the present law in article (25) are as follows:

- a- Five percent (5%) of the cost of purchase, establishment, development, renovation or reconstruction of any of the buildings, establishments, installations, ships and aircraft for each fiscal period;
- b- Ten percent (10%) of the cost of purchase, development, improvement or renovation of any of the intangible assets to be purchased including the goodwill of the activity, for each fiscal period;
- c- The two categories here below of the establishment assets shall be depreciated according to the depreciation basis method at the rates indicated next to each of them:
  - Computers, information systems, and data storage sets: 50% of the depreciation basis for each fiscal year;
  - All other assets of the activity: 25% of the depreciation basis for each fiscal year.

d- No depreciation shall be calculated for the land, artistic and antiquities works, jewelry and the other assets of the establishment that are non-depreciable by nature.

**2- The value according to which depreciation is calculated:**

The depreciation basis, in applying the provisions of article (25) of the present law, shall mean the book value of the assets as recorded in the opening balance sheet of the fiscal period. This basis shall increase by the equivalent of the cost of the used assets and the cost of development, improvement, renovation or reconstruction during the fiscal period. The depreciation basis shall decrease by the equivalent of the value of annual depreciation and the sale value of assets that are disposed of as well as the fiscal period.

If the depreciation basis is negative, the value of disposal or indemnification of the asset shall be added to the tax payer's commercial and industrial profits. If, however, the depreciation basis does not exceed ten thousand pounds, the depreciation basis shall be wholly considered among the deductible costs.

**Accelerated Depreciation:**

Article (27) stipulated that costs include:

“ 30% of the cost of machines and equipment purchased by the firm provided that they are new or which the firm manufactures for use in production and for one-time only which means that the calculation of depreciation stipulated in the previous paragraph is calculated after deduction of 30% of cost referred to in this paragraph on condition that the firm keeps regular accounts in accordance with the provisions of this law”.

Accelerated depreciation was not known in the Egyptian law prior to promulgation of law 157/181, it is similar to investment credit known by the fiscal or tax legislation in

Britain, with the aim of encouraging investment and replacement of old machines.

The fact is that the Egyptian legislator has resorted accelerated depreciation as an option to encourage investment, and also to spur firms into developing their investments, expanding their works, and into replacing their equipment to cope with the latest technological developments by granting them such a tax benefit.

The following points have to be noted about this depreciation:

**First:** This depreciation would allow and able the firm to depreciate its own fixed assets over a period shorter than their production life-span, since in the first year the asset is depreciate at the normal rate plus the 30% rate, which would consequently result in a decrease in the tax bracket of that year for this amount against the increase of the tax bracket during the later years of the life-span of the asset for this same amount, meaning that this treatment results in postponing the payment of tax.

**Second:** this depreciation is calculated at the rate of 30% of the cost of machines and equipment and for once only (in the first fiscal period during those assets are employed).

**Third:** Firms do not benefit from this reduction except on purchase of new machines and equipment. It is obvious and clear that the Egyptian legislator is affected and influenced by the Egyptian legislation which grants this reduction to encourage investment, and to stimulate the replacement of old machines rather than cash investment.

**Fourth:** Firms benefit from this accelerated depreciation during the year in which the utilization of the asset starts. The year in which the utilization is effected benefits from the full reduction regardless of the actual usage date of the year. Our evidence to that effect, is that the legislator did not stipulate that the depreciation rate is annual, and

that the sentence “as from the date of utilization” is meant to dignify that the benefits year is the utilization year.

**Fifth:** This reduction applies to machines and equipment the word “equipment” includes most of the fixed assets which are used in production such as transportation equipment, handling equipment and likewise.

**Sixth:** It is a precondition to benefit from this accelerated depreciation that the firm keeps regular accounts. This is made clear by the article, and therefore, the tax payer will not benefit from this reduction unless he keeps regular books approved by the tax administration.

**Example:**

The capital cost of machine purchased new by the firm on January first of the year amounted to L.E. 500,000 noting that the firm had resolved to depreciate this machine at a rate of 25% annually.

**Required:** Indicate the accounting treatment and fiscal tackling of depreciation of this machine during its production life-span.

**Solution:** From the point of view of accounting the company will calculate depreciation at the rate of 25% charging same to its final accounts. Consequently, the accounting depreciation amount is:

$$= 500,000 \times 25\% = \text{L.E. } 125,000$$

With its income statement not being charged with the value of the accelerated depreciation at the rate of 30%. Whereas the depreciation from the tax standpoint will be as follows in the first year.

Accelerated depreciation:

$$= 500,000 \times 30\% = \text{L.E. } 150,000$$

Ordinary depreciation:

$$= (500,000 - 150,000) \times 25\% = \text{L.E. } 87,500$$

Consequently, it is a must, when preparing the tax bracket to deduct the value of accelerated depreciation from the accounting profit figure, and deduct the difference of depreciation between accounting depreciation and tax depreciation as follows:

Net Profit	xxx
Plus: difference in depreciation (125,000-87,500)	62,500
Less : accelerated depreciation	150,000
The tax bracket	xxx

In every one of the following years, we can observe that the accounting depreciation amounts to L.E. 125,000 whereas the fiscal depreciation amounts to L.E. 87,500 which means that it is a must to add the difference between them both over the accounting forfeit figure when preparing the tax bracket. The following are examples to clarify the calculations of depreciation expense for assets as per law 91/2005.

**Example (1) Depreciation of Buildings, Constructions, etc.:**

ABC firm owned a factory which was built on January 1, 2005 at a cost of L.E. 200,000 on March 2016, the firm built a new factory at a cost of L.E. 400,000 of which the land purchase for this building costs L.E. 100,000. The firm build an office as a reception lodge at a cost of L.E. 60,000. On may1, 2016 the firm renewed its old factory at a cost of L.E. 70,000 of which L.E. 10,000 repairs expenses.

**Additional information:**

- The new building was used from June, 1, 2016.
- The book value of the old factory on January 1, 2016 was L.E. 100,000
- The accounting period ends on December each year.

**Required:** Compute the taxable depreciation expense for 2016.

**Solution:**

Amounts subjected to depreciation	L.E.
a- Original cost of old factory	200,000
b- Renewable cost as from 1/5/2016 70,000 – 10,0000	60,000
c- Original cost of the new factory as from 1/3/2016: 400,000- 100,000	300,000
d- Cost of reception office as from 1/3/2016	60,000
<b>Total</b>	620,000
Taxable depreciation expense:	
200,000 × 5%	10,000
60,000 × 5% × 8/12	2,000
300,000 × 5% × 10/12	12,500
60,000 × 5% × 10/12	2,500
<b>Total</b>	27,000

**Example (2) Intangible Assets:**

An individual purchases a patents for some products as follows:

- a- L.E. 24,000 for the patent of product (x) on first March 2015.
- b- L.E. 30,000 for the patent product (y) on first July 2015.

**If you learn that:**

- (i) He sold the patent related to product (x) to another individual at the end of June 2016 at L.E. 25,000.
- (ii) He prepare his accounts on 31. Dec. of every year.

**Required:**

Compute the tax depreciation that must be considered as deductible costs for the year 2015& 2016.

**Solution:**

<b>1- Year 2015:</b>	L.E.
- Depreciation of cost patent for product (x) = $24,000 \times 10\% \times 10/12 =$	2000
- Depreciation of cost of patent for product (y) = $30,000 \times 10\% \times 6/12 =$	1500
<b>Total</b>	3500
<b>2- Year 2016:</b>	
- Depreciation of cost patent for product (x) = $24,000 \times 10\% \times 6/12 =$	1200
- Depreciation of cost of patent for product (y) = $30,000 \times 10\% =$	3000
<b>Total</b>	4200

**Note:** Capital gains related to selling the patent of product (x) =  $25000 - 20800 = 4200$ , must be included in the revenues that taxable for the year 2016.

**Example (4)**

A sole proprietorship prepares final accounts on December 31. The following transactions took place during 2016:

a- 15 June 2016, computer sold (originally purchased for 6000) for 6500.

b- 10 May 2016, computer purchased for L.E. 10000.

**If you learn** that the depreciable balance on 1 January 2016 was L.E. 12000.

**Required:** compute the taxable depreciation expense for 2016.

**Solution:**

	L.E.
<b>Beginning balance</b>	12,000
Additions- 10 May, 2016	10,000
	22,000
Less: sale proceeds- 15 June 2016	(6,500)
	15500
Less: annual depreciation: $15500 \times 50\%$	(7750)
<b>Ending Balance</b>	<b>7750</b>

**Example (5):**

A sole proprietorship prepares final accounts for the nine-month period ended Dec. 31, 2016. At 1 April 2016 the balance brought forward on the pool of expenditure was L.E. 12400, on 13 May 2016 the firm acquired computer costing L.E. 7200 that is included in the pool, and sold computer for L.E. 5600.

**Required:**

Compute the taxable depreciation expense for the period ended Dec. 31, 2016.

**Solution:**

	L.E.
<b>Beginning balance</b>	12,400
Additions- 31 May, 2016	7200
	19,600
Less: sale proceeds	(5,600)
	14,000
Less: tax depreciation: $14000 \times 50\% \times 9/12$	(5250)
<b>Ending Balance</b>	<b>8750</b>

**Note:** if the tax period is less than 12 months long, then the depreciation is scaled down proportionately.



**Example (6) Other Assets:**

An individual began this commercial business on March 1, 2016, he purchased a furniture and a car on July 1, at a cost of L.E. 20000 and L.E. 35000 respectively. On 31 Dec. 2016 he sold the car for L.E.28000.

**If you learn** that he prepares his accounts to 31 Dec.

**Required:**

Compute the taxable depreciation expense for the period ended Dec. 31, 2016.

**Solution:**

	L.E.
Additions- July 1, 2016	
- Furniture	20,000
- Car	35,000
	55,000
Less: sale proceeds for car	(28,000)
	27,000
Less: tax depreciation: $27000 \times 50\% \times 10/12$	(5625)
<b>Ending Balance</b>	<b>21375</b>

**Example (7):**

A sole proprietorship prepares final accounts on Dec. 31, 2016. The following transactions took place in 2016:

- a- On June 1, 2016 furniture sold for L.E. 6000.
- b- On May 1, 2016, furniture purchased for L.E. 2500.

**If you learn** that the beginning balance on January 1, 2016 was L.E. 3000.

**Required:**

Indicate the effect of these transactions on the taxable profit for the year 2016.

**Solution:**

<b>Beginning Balance</b>	L.E. 3000
Additions- May 1, 2016	2500
	5,500
Less: sale proceeds – June 1 , 2016	(6,000)
	(500)

Since, the depreciation basis was negative by a value of L.E. 500, thus it shall be added to the taxable profit of the firm.

**Example (8) Accelerated Depreciation:**

An industrial sole proprietorship prepares its ending financial accounts at Dec. 31, the firm had the following transactions in 2016:

- a- On June 15, purchased new machines& equipment for L.E. 6500.
- b- On August, purchased new machines & equipment for L.E 12000.
- c- On November 30, sold machines & equipment for L.E 2800. The beginning of machines & equipment at 1 January 2016 was L.E 15050

**If you learn** that the firm has regular books, and the machines & equipment was used through the year 2016

**Required:**

Compute the taxable depreciation expense for the year 2016.

**Solution:**

<b>Beginning Balance</b>		L.E. 15050
Additions: 15 June 2016= 6500		
31 Aug. 2016= <u>12000</u>	18500	
Less: A,D. = $18500 \times 30\%$	<u>(6550)</u>	12950
		28,000
Less: sale proceeds 30 Nov. 2016		(2,800)
		25,200
Less: tax depreciation: $25200 \times 25\%$		(6300)
<b>Ending Balance</b>		18900

**3- Taxes and Duties:**

all taxes which are paid by the firm, a part from the tax on commercial and industrial activity profits, are amongst costs.

We conclude that taxes which are paid by the firm are as follows:

**Taxes due on the firm:**

Taxes which are considered a charge on the firm are all direct and indirect taxes, whether Egyptian or foreign, paid by the firm as a result of practicing its commercial or industrial activity, and imposed on the firm as an independent corporate entity. The following are some examples of these taxes:

- A- Taxes and custom duties on what is imported by the firm in items of commodities or assets for its own account taking into consideration that if taxes and custom duties are due on fixed assets, they are to be added to the cost of these assets.
- B- Real estate tax on real estate properties owned and occupied by the firm.
- C- Fiscal stamp duties and taxes.

D- Any other duties due on the firm or any royalties such as the improvement royalties.

What is considered a tax is the original tax without any penalties for non-payment of tax or delay penalties.

#### **4- Donations and Subventions:**

Article (23) stipulated that the following are considered as costs:

- a- Donations paid to the government, local administration units, and public authorities whatever may be their amounts.
- b- Donations and contributions paid to charitable institutions, and Egyptian social organizations notarized and publicized as per the provisions of their regulating laws, as well as to the scientific institutes and hospital under governmental supervision and control, not exceeding 10% of the net taxable annual profit of the firm. It is also impermissible to repeat the deduction of the same donations out of any other revenues amongst those stipulated upon in article (6) of this law.

The general rule here is that donations are considered a disposal of the income and are not considered as costs unless their aim is the achievement of some benefit for the firm or for advertising.

Prior to the law containing a context to the effect that donations are considered as deductible costs, some verdicts were passed in relation to disputes which arose between taxpayers and tax administration. It ensues from clause (7) of article (23) of the law that the law considers as costs those donations paid to the government, local administration units, and to public authorities.

The tax administration approves of the charity and alms paid to the alms fund with the Nasser Social Bank as being deductible costs although they go beyond the donations concept.

The law also considered donations and contributions paid to charitable entities, social organizations, scientific institutes and hospitals as part of costs if the following terms and conditions are fulfilled:

- 1- Donations and contributions should be paid to Egyptian charitable entities and social organizations exclusive of the foreign ones. Those organizations should be registered. Donations and contributions may also be paid to scientific institutes and hospitals under governmental supervision and control.
- 2- Donations and contributions should be actually paid.
- 3- The value of these donation and contributions should not exceed 10% of the annual net profit of the firm.

What is meant here by the annual net profit is the taxable net profit and not the accounting net profit.’

So, donations must be temporary added to the accounting net profit, then deducted from the adjusted net profit given that these donations are not more than 10% of taxable net profit. If donations are more than 10% then only 10% of the taxable net profit must be deducted for donations.

#### **5- Social Security Installment:**

Item (4) of article (23) stipulated that amongst costs are “the social security installments imposed on the owner of the firm in favour of his employees and in his own favour and which are paid to the general social security authority or to insurance and pensions general authority”.

It is understood out of this context that the share of employees in terms of the social security installments is considered as part of costs deducted when determining the tax bracket.

#### **6- Amount deducted for special funds accounts:**

Items (5) stipulated that amongst costs are “those amounts which the firm deducts annually from its funds or profits for the account of special funds to provide for savings or

pensions or others, whether they were set up according to the special funds law 54/1975 or law 64/1980 concerning alternative social security private systems or if set up according to a system which has its own statute or special terms and conditions, not exceeding 20% of salaries and wages of the firm's employees. It is a precondition that what the firm pays as an end of service bonus or pension cover their obligation under the said system, and that the funds of this system are separate and independent from the funds of the firm, and invested for its own account”.

To consider these amounts as deducted costs when settling accounts tax-wise, it must fulfill the following terms and conditions:

- a- Deducted amounts should not exceed 20% of the salaries and wages of employees. Consequently, if the deducted amount exceeds the 20% in question, the excess should be added back to profits when settling accounts tax-wise, if the amount had been charged to the final accounts as cost. Only the equivalent of 20% salaries and wages is deducted from profits as cost.
- b- The system must have its own statute special terms, and conditions determining what is to be disbursed by the firm in respect of the end-of-service bonus or pension.
- c- Resources of the fund must be separate and independent from the funds of the firm and duly invested for funds' benefit in special and private investments independent from firm investments.

These terms and conditions must all be fulfilled so that a firm can benefit from this deduction. It is to be noted here that the legislator has restricted it to 20% wages and salaries exclusive of the other elements. That is due to the fact that the tax law, when decreed, had not allowed the variable wages to be deducted as part of social security and pensions contributions. But after the promulgation of the social

security law we believe that the deduction rate for the account of private funds should extend to variable wages beside fixed wages.

#### **7- Insurance Premiums Related to Tax Payer:**

Article (23) in its item (6) stipulated that insurance premiums concluded by taxpayer against his disability or decease, or for obtaining an amount or revenue providing the value of premiums shall not exceed L.E. 3000 a year.

#### **8- Penalties and Indemnifications:**

Financial penalties and indemnifications payable by the taxpayer as a result of his contractual liability are considered deductible costs with some conditions, they are as follows:

- The originate from professional work. As for legal expenses incurred such as law suits fees, lawyers' fees and others, which are connected with the taxpayer's personal expenses, they may not be considered as costs, because they are not considered related to practice of the profession, and have no relationship with profit realized or its upkeeps.
- They are not applied to criminal violation and the personal fines or contraventions sentenced on the taxpayer such as the contraventions or violation the provisions of tax law, mandatory pricing or fraud.

#### **9- Bad Debts:**

Bad debts are those debts which the firm ascertains the impossibility of collecting them. Amongst factors which ascertain the impossibility of collection are the declaration of bankruptcy of the debtor and insufficiency of liquidation funds to repay his debts, death of debtor without having left a legacy sufficient to cover his debts, confiscation of his wealth, or his disappearance without leaving adequate funds repayment.

Actual bad debts differ from those debts for which a bad provision is formed in that amount of bad debts in the latter cannot be definite determined.

Bad debts are considered as a loss for the firm. Accordingly, there must be no objection as to that, on part of the tax administration, as long as the evidence confirm the impossibility of collection of these debts, through a report from one of the accountants registered evidence satisfaction of the following conditions:

- The firm maintains regular book.
- The debt is related to the firm's activity.
- The debt has been recorded in the accounts of the firm.
- The firm took all serious procedures to recover such debt, but it has failed to collect it within 18 months after the due date.

Explanatory instructions of the tax administration No. (6) article (39) of law 14/1939 replaced by the new tax law stipulated that bad debts are not approved as being amongst costs, unless they become an actually realized loss. They are not to be approved except after the firm undertakes legal claim procedures, and that upon implementing this, the collection impossibility is ascertain. Bad debts are to be approved as part of costs in the year, during which it is evidence and proof that it is impossible to collect.

However, some tax departments agree with the firm in writing-off small debts were legal claim expenses exceed their value on condition that they have been actually written off in books of the firm as a result of the debtor's bankruptcy, or due to his non-existence. Although this is permitted for convenience only, it would be preferable not to expand it.

### **Other Deductible Expenses:**

#### **Wages and Salaries:**

Wages and salaries are amongst the cost elements which there are no disputes as in considering them as cost, and it is



allowed to deduct all wages and salaries which are paid by the firm to its employees

**a) Salary of the firm's owner:**

according to present law, it is not permitted to consider any salaries of the owner of an individual firm as part of deductible charges when determining the commercial and industrial profits.

**Example:** The net profit of a company, have net profit amounted to L.E. 100,000. When examined, it is revealed that the owner had received salary of L.E. 26,000

**Required:** Prepare the tax bracket.

**Solution:**

<b>First:</b> the tax bracket:	L.E.
Net profit	100,000
Plus: owner's salary	<u>26,000</u>
The tax bracket	<u>126,000</u>

**b) Salaries of relatives:**

The firm's owner may employ his relatives to work for the firm, consequently considering their salaries as part of costs, all of which would be on condition that they perform actual work in the firm, and that their salaries would be within the reasonable limits compared with the salaries of equals.

**Expenses are not Supported by Documents:**

By the term above it is meant all amounts paid by the firm to facilitate performance of its operations, whether that has taken place through offering amounts of cash as a grant, or tip or in the form in-kind benefits, or free samples of their products for the same purpose. Such expenses rarely supported by documents of external nature. That is why the verdict pronounced by the court of cessation sentenced that they should be approved without presentation of supporting documents. This verdict is in line with the instructions of the

tax administration No. 14, replaced by article (24) of the new tax law, wherein it is stipulated that what is considered as “admissible” costs deductible from profits, what has been paid by custom and practice in terms of gratuities closely connected with the realization of profits, on condition that they have been actually paid, and do not exceed 7% of total general and administrative document expenses. Accordingly, as long as these gratuities are within this limit, they are authorized and approved.

However, if they exceed that much, only what within the limits of the role in question can be approved, with the rest being added back to profits.

We believe that these expenses should be characterized with the following features in order to allow their deduction:

- 1- Their amounts should be within the limits, with which gratuities are usually paid.
- 2- They should be paid to persons whose social and employment level would not be of an upper nature.
- 3- They have to be paid voluntarily or optionally.

**Example of these expenses are:**

- Internal travel
- Refreshment, (buffet expenses).
- Postage's.
- Petty cash expenses.
- Cleaning expenses.

**Rent Value of Building and Real Estates:**

The value of rent of premises occupied by a firm is considered a part of its cost elements.

In the case of the premises or building rented from others, there is no problem, for the rent is an expense incurred in the process of generating of revenues and accordingly have to be charged to the result accounts, the rent contract should be in the name of the firm and not its owners. In other words, the firm must be the occupant of these buildings, not one of its

owners. It must also be noted that rent charged to the result accounts have to be rent for the period according to the accrual basis.

**Example (1):**

A firm owns its buildings, occupies half of them and leased the other half. Examining the accounts of the firm revealed that the income summary account includes the following elements. (Amounts in L.E.)

3,000 rent revenue collected 270 depreciation expense of buildings, 600 maintenance expense for the building, 250 real estate tax (10%) on the building, 34,450 net profit.

**Required:**

Prepare the tax bracket.

**Solution:**

Prior to preparing the tax bracket or the tax return, we must differentiate between buildings owned and occupied by the firm and buildings owned and rented to outsiders, whereas any expenses related to this part shall be added to the ANP as well as the total rent received according to the present law.

This appears in the tax bracket as follows:

Net profit	L.E. 34,450
<b>Add:</b> Expenses related to half of the real estate rented to others (270) depreciation+ 600 maintenance+ 250 taxes × 0.5	560
The total revenue of the real estate rented to others	2700
<b>The Tax Bracket</b>	<b>37,710</b>

**Maintenance Expenses:**

Maintenance, repair and renovation expenses include different kinds of expenses, consider deductible costs.

### **Publicity and Advertisement Expenses:**

The firm incurs several expenses on publicity and advertisement, whose nature differs in quality, objectives, effective period, and the length of their expending periods.

These expenses can be classified into the following categories:

a- Periodical promotional publicity expenses, which represent the petty publicity expenses spent periodically and repeatedly, and which are characterized with their short time limited effect.

Consequently, they are considered as revenue expenditure to be fully charged to the year during which they become due.

b- Advertising campaigns (introductory and market penetration publicity). These expense are spent with the aim of presenting a new product for the first time in the market or with the aim of giving a strong impetus for one of its products whose sales rate has slowed down, or to face competitive products. Expenses of advertising campaigns are deferred revenue expenditures which must be distributed over the estimated benefit years related to this advertisement in an equitable manner.

### **Insurance Premiums:**

Insurance premiums means amounts paid by a firm as an expenditure to get insurance protection in its different forms such as insurance against theft, accidents, fire or otherwise. Accordingly, they do not include retrievable deposits water, electricity meters, or deposits for participation in tenders and adjudications as they are not considered as part of costs but as asset elements.

As for insurance premiums which the firm pays as an insurance covering probable risks such as risks of theft, or fire are considered as part of the costs of the firm as long as

the insurance relates to properties owned by the firm and not the personal properties of its owners.

As for life insurance covering the individual firm owner. It is not be considered as an expense, but costs related to its owners and is considered as a tax-payers usage of his own personal income.

### **Commission Paid:**

Commission paid by a firm to external parties for services obtained are considered one of the costs.

### **Reserves:**

Article (24) the law stipulated that, the following shall not be among the deductible costs and expenses:

- 1- Reserves and appropriations of all different kinds.
- 2- Financial fines and penalties, as well as, indemnification's ruled against the tax payer because he or his sub-ordinates has committed a deliberate felony or misdemeanor.
- 3- Income tax payable according the present law.

if a firm includes amongst the elements of profits and losses any reserves, they will not be approved as part of its costs and must be added back to profits when preparing the tax bracket, whether these reserves were a mere detainment of profits or to face a probable lose.

### **Losses:**

The firm may suffer some losses as a result of practicing its activity such as the loss resulting from deterioration of goods, or the loss resulting from theft or robbery or embezzlement of some of its assets and properties without being in a position to retrieve the value of this loss either in full or in part.

losses resulting from what has been ascertained to have been on the firm in terms of robbery or embezzlement should be deducted from taxable profits as long as these were not actually refunded to the taxpayer regardless of the taxpayer

having slackened or neglected implementing the verdict pronounced against the robber, thief or embezzler; for the taxpayer cannot be questioned as to what he neglected to collect in items in terms of profit or failed to prevent in terms of losses, but should be questioned about those profits or losses which were actually realized.

### **Joint Expenses:**

The term joint expenses means those expenses of which an element of a personal expenditure of the owners of the project, such as the expenses disbursed or incurred towards the tax-payer's living, or the living of his family or towards his house, or towards any other personal purpose.

If the taxpayer expends certain expenses towards his own personal affairs but also in which the business benefits, what is adopted in such a case is to divide these amounts according to the importance of each one of the two aspects for which those amounts were spent, and deducting from the tax bracket, that part of the expenditure which related to the firm.

It has been the practice of the tax administration as regards these expenses to approve two-thirds of these costs as part of the firm's costs, without approving the remaining one-third considering it is personal expenses for the taxpayer.

### **Annuity of tax and carrying forward of losses**

#### **Annuity of Tax:**

the tax legislator adopted the principle of the annuity for tax accountability. It is stipulated in the second paragraph of article (17) that "this tax is imposed on net profits realized during the year out of any commercial or industrial activity".

It is stipulated in article (22) that tax bracket is determined on basis of the net profit during the previous years or during the period of the twelve months, whose result are taken as a basis for the preparation of the latest balance sheet, as the case may be.

### **Carrying Forward of Losses:**

When the establishment suffers loss in a year, it result from this loss a decrease in its capital with the value of this loss. The application of the stability of capital principle requires that the firm preserves its capital fixed since it is a general guarantee for creditors. The preservation of capital is to be through using the realized profits in the following years in writing off the balance of losses realized until they are fully covered, and until the capital is restored to its state and condition.

From the accounting point of view, the realized profits in a certain year, result from the increase of revenues over the expenditures during that year. Also, from the accounting standpoint, the profits realized in the current are used to cover losses of previous years. Any company is abstained from disbursing profits in general prior to covering losses of previous years, otherwise this distribution is to be considered a capital distribution.

From the viewpoint of taxes, subjecting the profits of the year to taxation in spite of the existence of losses carried forward from previous years means the imposition of the tax on part of the capital, which contravenes the settled rules of taxation. That is why the tax law permits the firm to carry forward losses of the year to several consecutive years to be absorbed by the profits of those years.

Article No. (29) stipulated that if the results of certain year is ended up with a loss, then loss would be deducted from the profits of the following year, if the profit are not sufficient to cover the loss in full, the rest is carried forward to the following year. If after that there remains part of the loss, it would then be carried forward to the next year, and up to the fifth year. However, it is impermissible after that to carry forward any part of the loss to the account of any other years.

This provision does not apply to aspects of activity on which tax is assessed on fixed basis.

In case of mandatory stoppage, the stoppage period is not counted amongst the periods stipulated in this article.

We can determine the following elements as related to the right of the firm to carry forward its losses:

**First:** the term “losses” in this article means losses of the year as a whole, not a certain kind or a certain part of this loss, as the profit and loss account is the recipient of all revenues and expenses of the firm; and its result shows the net profits or loss of the firm as a whole. It obvious that when legislator mentioned that case the account of a certain year ended up with a loss, he in fact mean the profit and loss account and no other.

**Second:** The firm is entitled to carry forward the loss of each year separately for a period of 5 consecutive years only. In case there are not enough profits during these years to absorb and offset all loss, the firm forfeit its right to deduct the remaining part of the loss from its forthcoming profits.

If the loss years are numerous, then the loss of each years alone and separately should be carried forward up a maximum of 5 consecutive years. For if we assume that a firm has realized in year (1) a loss amounting to L.E. 100,000 realized a loss in year (2) amounting to L.E. 70,000 then realized in year (3) a profit amounting to L.E. 40,000 and in year (4) realized a profit amounting to L.E 32,000 and in year (5) realized a profit of L.E. 40,000 and in year (6) realized a profit amounting to L.E. 22,000 and in year (7) realized a profit amounting to L.E. 17,000 then in this case the firm is entitled to carry forward the loss of each of year (1) and (2) for the period of the following 5 years from the date of their occurrence.

We can find that the loss of the first year amounting to L.E. 100,000 results in the firm's right to carry it forward



until year (6), whereas it is the right of the firm to carry forward the loss of year (2) up to year (7) only.

In our present example, the loss of year (1) will be covered by the amount of L.E. 40,000 profits of year (3) the amount of L.E. 32,000 profits of years (4), then the rest amounting to L.E. 28,000 is to be covered out of the fifth year.

As for the loss of year (2), an amount of L.E. 12,000 of them is covered out of the remaining profits of year (5), and the amount of L.E. 22,000 profits of year (6), and the amount of L.E. 17,000 profits of years (7), then the remaining part of the loss of the second year, amounting to L.E. 19,000 is not to be carried forward any more, and the firm forfeits its right to carry it forward, with any profit realized after that are subjected to taxation.

**Third:** The amount of loss which is carried forward is that approved by the tax administration.

**Fourth:** In case of mandatory stoppage of the activity, the stoppage period is not calculated as part of the period of five years for which it is allowed to carry forward its losses.

**Fifth:** The loss must be related to the activity practiced by the taxpayer whose income is subjected to taxation. If the loss has affected funds owned by the taxpayer, not related to the activity subjected to the tax on commercial and industrial profits, it is not to be deducted from the profits resulting from the activity subjected to this tax.

**Sixth:** No one shall benefit from the provision of the article except the taxpayer in whose name exclusively the loss is linked, whether he continued to practice the taxable activity in the same firm or in case of the discontinuance of the same activity or another activity subjected to the tax on commercial and industrial profits in another firm, for the loss in his own personal capacity not to the firm itself, and the carrying forward of the loss is nothing but a method to reduce and lessen the bracket on which the tax is assessed in

the name of this taxpayer personally in the years following the year of loss.

The transfer of the ownership of the firm to another taxpayer whether by sale, or by assignment does not transfer the right of carrying forward the loss to this taxpayer.

The same provision applies to heirs. They do not benefit from the provision of the article as they are new taxpayer whose obligation is independence from the obligation of their testator, even if they continue exploiting the firm of their testator and share the result of its operations.

#### **Section4:Tax exemptions:**

Article (31) of the law 91/2005 stipulated several exemptions which are considered as a reflection of the legislator's use of tax exemptions as investment incentives.

These exemption are confined to the following:

- 1- Profits of the land reclamation or cultivation establishments for a period of ten years effective from the date of beginning the exercise of activity.
- 2- Profits of establishments of poultry production, bees breeding, cattle breeding and fattening, and fisheries projects, as well as profits of trawlers projects, for a period of ten years from the date of beginning the exercise of activity.
- 3- Yield of the natural person's dealing in their investments in securities listed in the Egyptian stock exchange alone with non-permitting the deduction of losses resulting from this dealing or carrying them forward to the following years.

This exemption was canceled under Article 4 of Law 53 of 2014, thereby making these revenues subject to tax according to special rules set by Articles 46 added under Law 53 of 2014. However, the tax legislator revoked the law 96 for the year 2015, and suspended the tax on the profits of dealing in securities listed on the Egyptian stock market for two years, thus reinstating the previous exemption of such profits in law 91 of 2005 when it was issued.

- 4- all that the natural persons obtain as represented in:
- A- interest of all kind of debentures and finance bonds listed in the Egyptian stock exchange, which are issued by the government or corporations.
  - B- dividends of the shares of joint stock companies and partnership limited by shares.
  - C- dividends of the shares of the capital of limited liability companies, partnerships, and non-shareholders partners in limited by shares companies.
  - D- Dividends of the investment securities issued by the investment funds.

The exemptions mentioned in (b, c, and d) have been abolished and are subject to tax under special rules in accordance with Articles 46 bis, and bis (1) and bis (2), added by Law 53 of 2014 and amended by Law 96 of 2015. Also, The exemption mentioned in (a) has been canceled and this income is taxable according to the general rules for taxation and is included in the revenues of the taxable activity.

5- returns obtained by the natural persons from deposits, saving accounts in the banks registered in the Arab Republic of Egypt, the investment, saving and deposits certificates issued by these banks, as well as the deposits and saving accounts in postal saving offices, and the securities and deposits certificates issued by the central banks.

6- profits realized from the new projects established by finance from the social fund for development within the limits of the ratio of this finance for a period of five years from the date of beginning the exercise of the activity or beginning the production,

However, because some investors abused the funds they receive from the Social Fund so that this exemption does not achieve the desired social and economic objective, the exemption mentioned in item (6) has been amended by Law

11 of 2013 in such a way that it has been restricted and not benefited from, Except under certain conditions, the text of item (6) which decides this exemption is amended as follows:

"Profits realized from new projects established with funding from the Social Fund for Development within the limits of the ratio of this financing to the invested capital, with a maximum of 50% of the annual profit, and not exceeding fifty thousand pounds, for a period of five years from the date of practicing the activity or starting Production as the case, provided that regular books and accounts are maintained."

It is clear from the text of item (6) that the profits of projects financed by the Social Fund are exempted from the tax within the limits and the following conditions:

A-The exemption shall be within the limits of the ratio of financing from the Social Fund to the capital invested in the project.

The capital invested means the total funds invested in the project from fixed capital(fixed assets) and working capital (current assets - current liabilities).

B- Exempted from annual profits within the limits of the funding from the Social Fund and with a maximum of 50% of the net annual profit, and not to exceed LE 50000 per year.

As a result, the exemption shall be as follows:

The amount of profits within the ratio of financing from the Social Fund	Or 50% of net annual profit	Or LE50,000 of annual profits
Which is less		

For example, one of the taxpayer set up a factory to produce silk products with an invested capital of LE 200000, of which LE 150000 was financed by a loan obtained by the taxpayer from the Social Fund at an annual interest rate of

4%. The rest was funded by his own money. At the end of the first year of operation, the factory achieved a net profit of LE 60000.

**Required:** Specify the tax treatment of the profits of the taxpayer from this factory.

**Solution**

Since this factory is one of the projects established with funding from the Social Fund, its profits are exempted from the tax within the limits of this financing percentage:

Funding ratio = loan from the Social Fund / Total capital invested

Funding ratio =  $150000 \div 200000 \times 100 = 75\%$

The exemption is as follows:

The amount of profits within the ratio of financing from the Social Fund	Or 50% of net annual profit	Or LE50,000 of annual profits
$60000 \times 75\% = 45000$	$60000 \times 50\% = 30000$	50000
Which is less		

Based on the above it is exempted from the annual profit for the taxpayer LE 30000 and above that is subject to tax.

C-This exemption shall last for five years from the date of practicing the activity or commencing production as the case may be.

D- In order for the taxpayer to benefit from this exemption, it is necessary to practice his activity through an individual establishment, and keep books and regular accounts.

**Example (1):**

The following are the balances of a sole proprietorship as presented to the tax department enclosed to the tax bracket of the year ended Dec. 31, 2017.

Wages, salaries&	30,000	Gross profits	140,000
Bonuses		Discount earned	10,000
Reserves	20,000	Recovered bad debts	20,000
Insurance premiums&	10,000		
Deposits		Stock dividend revenue	30,000
Advertisement expenses	15,000		
General expenses			
Net profit	7,000		
	105,000		
	200,000		200,000

Tax examination of the firm's books revealed the followings:

**1- Wages and salaries included:**

- L.E. 10,000 an annual salary for the son of the firm's owner. He actually manages the firm (Equivalent manager's salary is L.E. 8,000).
- L.E. 2,000 a bonus to the firm's owner.
- L.E. 6,000 a bonus to the firm's staff members as a distribution of the firm's profits, and the remaining is the staff members' salaries.

**2- Reserves included:**

- L.E. 5,000 a reserves for fixed assets depreciation.
- L.E. 6,000 a reserves for doubtful debts, and the remaining is an emergency reserves.

**3- Insurance premiums and deposits included:**

- L.E. 5,000 a deposit for a governmental bid, and the remaining amounts are fire and the insurance premiums on the firm's assets.

**4- Advertising expenses included:**

- L.E. 10,000 the cost of an advertising campaign of a new product, and the remaining amounts are periodical advertising costs.

**5- From the recovered bad debts**, the tax department approved only L.E. 12,000 in 2016 when these debts were considered uncollectible.

**6- Taxes included:**

- L.E. 3,200 tax on stock dividend revenue.
- L.E. 5,800 tax on commercial and industrial activities, revenues deducted from the sales revenue that the firm earned from sales to a governmental entity, and the remaining are custom duties for imported goods.

7- **general expenses** include L.E. 500 not documented expenses.

**Required:**

Determine the taxable net profit for 2017 given that the firm's results for previous years were as follows:

2014	2015	2016
L.E. 50,000 profit	L.E.40,000 profit	L.E20.000 Loss

**Solution:**

Determination of Taxable Net Profit

Description	Additional to net profit	Deduction from net profit
<b>Accounting net profit</b>	105000	
<b>1- Wages, salaries and Bonuses:</b>		
- the excess in the salary of the firm owner's son over the salary of equivalent managers (L.E. 10000- 8000= 2000).	2000	
- Bonus of the firm's owner are not considered expenses. It must be taxed according to art. no.30 of the law	2000	
- Staff members bonuses are a distribution of the firm's profits are not approved as expenses.	6000	
<b>2- Reserves:</b>		
- Provision of fixed assets depreciation is approved because it is an actual expense.		
- Reserve for doubtful debts not approved.		
- Emergency reserve is not approved because it is considered as a reserve.	6000	
<b>3- Deposits and Insurance premiums:</b>		
- Bid deposit is not approved as an expense because it will be retrieved, then it must be added to net profit.	9000	
- Fire and theft insurance premiums are approved as expenses in full.	5000	
<b>4- Advertising expenses:</b>		
- The cost of the advertising campaign must be allocated over a period of 3 to 5 years.		
- The annual approved part of this cost = $10,000 \div 5 = \text{L.E } 2000$		
- The excess L.E. 8000 must be added to the net profit because they are deferred revenue expenses.	2000	
- Periodical Advertising expenses are approved.		
<b>5- Recovered Bad Debts.</b>	8000	
Bad debts that were not approved by the tax		



<p>department as uncollectible in 2016, are not to be taxed when recovered in 2017. They must be deducted from net profits.</p> <p>The unapproved amount: = 20000- 12000 = 8000</p> <p><b>6- Taxes:</b></p> <ul style="list-style-type: none"> <li>- the tax on stock dividend revenue is not approved as an expense (art.no.29), it is added</li> <li>- The tax deducted from the sales revenues is not approved as an expense because it is a tax on commercial and industrial activity revenue (art.no.23), then it must be added.</li> <li>- Custom duties are approved</li> </ul> <p><b>7- Expenses without Documented:</b></p> <p>Approved is an amount that does not exceed 7% of total general expenses.</p>	<p>----</p> <p>3200</p> <p>5800</p> <p>---</p> <p>45</p>	<p>8000</p>
<b>Total profits after additions</b>	152,045	
<b>Total deductions</b>	(8,000)	(8,000)
<b>Net profit</b>	144,045	
<b>Less: losses forward from previous years</b>	(20,000)	
<b>Taxable Net Profit</b>	124045	

### Example (2):

The following is the income summary of ABC industrial firm presented to the tax department with their tax bracket for 2018 (amounts in L.E.):

Wages, salaries	5,800	Gross profits	13,650
Depreciation of fixed assets	300	Recovered bad debts	100
Advertisement expenses	1,600	Discount earned	4,450
Differences in taxation	200		
Donations	1,000		
Bad debts	300		
General expenses	4,000		
Revaluation losses	2,000		
Net profit	3,000		
	18,200		18,200

On tax examination, the following facts were revealed:

1- Salaries included the following:

- A monthly salary to the owner of L.E. 150.
- L.E.1,000 annual bonus to staff members equal to 3 months salary, and the remaining is the total annual salaries of staff members.

2- A new machine was purchased and used in production starting from Jan. 1, 2018. Its cost was L.E. 4,000. The firm did not record any depreciation for that machine.

3- Advertising expenses include L.E. 1,500 the cost of a campaign that will last for 3 years starting from July 1st, 2018, the balance represented periodical publicity expense.

4- Donations consist of L.E. 500 to a poor family, and the balance to an Egyptian charity associating.

5- The firm did not take legal actions to collect the bad debts, and recovered bad debts were not approved by the tax department when they were wrote off.

6- General expenses included L.E. 1200 as the firm's car that was also used by the owner for his private affairs, and L.E. 400 the cost of a present for his daughter on her marriage.

7- The cost of ending inventory recorded was L.E. 4000 its actual cost was L.E. 9000 and its selling price was L.E. 13000 (the firm used to determine inventory value based on the cost or selling price whichever is lower).

**Required:**

Given the firm's books were approved by the tax department calculate the tax on the revenue of industrial activity for this firm.

**Solution:**

Determination of Taxable Net Profit:

<b>Accounting Net Profit</b>	3000
<b>Add:</b>	
- The annual salary of owner it is not an expense but a profit distribution ( $150 \times 12$ )	1800
- The staff members bonus is not expense	250
- The excess over the year's share of the advertising campaign's cost The year's share = $1500 \times \frac{1}{3} \times \frac{6}{12} = 250$ $\therefore$ The excess = $1500 - 250 = \text{L.E. } 1250$	1250
The remaining advertising expenses are approved in full because they are periodical advertising expenses	---
- Donations to the poor family are not approved as expenses.	500
- Donations to the Egyptian charity association are to be added temporarily in order to determine the taxable net profit.	500
- Bad debts are not approved as expenses because the firm did not take legal actions to collect them.	300
- 1/3 of car expenses used by owner in his private affairs.	400
- The cost of the present to his daughter for her marriage is not an expense, it is a profit distribution.	400
- The difference in the value of ending inventory that had to be valued on cost or selling price which is lower. The difference = $9000 - 4000 = \text{L.E. } 5000$	5000

- Differences in taxation are not expenses.	200
- Revaluation losses are not approved as expenses because they are artificial losses	2000
<b>Net Profit Adjusted by Additions</b>	15600
<b>Less:</b>	
- Accelerated depreciation of the new machine (according to item 2 of art. No. 23) = $4000 \times 30\% = 1200$	(1200)
- Normal depreciation of the machine = $(4000 - 1200) \times 25\% = \text{L.E. } 700$	(700)
- Recovered bad debts that were not approved by the department when written off.	(100)
<b>Net Profit before Deducting Donations</b>	13600
<b>Less:</b>	
Donations to the Egyptian charity association which are approved is not more than 10% of the annual net profit. Paid donations = L.E. 500 $10\% \text{ of profit} = 13600 \times 10\% = \text{L.E. } 1360$ $\therefore$ The amount to be deducted is 500	(500)
<b>Taxable Net Profit</b>	13100

**Questions:**

(1) The accounting net profit before tax from the income statement of one of the individual commercial company amounted to 135,000 for the year ending on December 13, 2020:

The company's revenues for this year included the following amounts: 4000 L.E bad debts, from which 3500 L.E were previously approved, by the tax authority - 2000 L.E the value of judicial compensation in favor of the company for imitating its trade name, knowing that it only got 1200 L.E from them - 2000 L.E discount - 3000 L.E Profits from selling securities listed in the Egyptian Stock Exchange - 2500 L.E dividends From a private sector joint-stock

company - 8000 returns on deposits in Al-Ahly Bank - 11,000 rent revenue (monthly rent 1000) - 5000 interests from installment sale.

If you know the following:

- The company obtained a compensation of 7,000 L.E for the damage caused to its goods as a result of a fire in one of its warehouses. It did not include it in its revenues because it used it completely to buy new goods instead of the damaged ones.

- The company obtained a subsidy from third parties (not included in its revenues) which amounted to 1,000 L.E. It also obtained a computer that it listed in the books on the basis of an amount of 3,000 L.E, while its market value amounted to 5,000 L.E. Required: determine the due tax

(2) The accounting net profit before tax for one of the individual commercial establishments is 90,000 for the year ending 12/31/2020: If you know the following: Expenses include: 2500 donations (of which 500 L.E for the poor, 600 L.E paid to Nasser Social Bank, and the rest to the Egyptian Red Crescent Society), 3000 L.E losses on securities listed in the Egyptian stock market, 2,200 paid social insurance premiums, knowing that the company did not pay the December installment, 9000 depreciation of machinery and equipment (noting that it was purchased on January 1, 2020 at an amount of 90,000 L.E and is depreciated at a rate of 10%), 300 L.E as a building tax on the property owned by the business in which it operates, 6000 bad debts (12 months have passed since its due date), 1500 insurance premiums on the life of the owner.

Revenues include: 2000 interest from installment sale, 3500 L.E as dividends from a joint stock company, 5000 L.E interest on deposits in Bank Misr. Required: determine the taxable bracket.

(3) The approved losses of one of the taxpayer on his commercial activity during 2020 amounted to 150000 L.E, so if the approved profits during the following five years: 25000 L.E, 30000 L.E, 55000 L.E, 40,000 L.E, 40,000 respectively. Required: Determine the taxable bracket for each year.

(4) The approved losses of one of the taxpayer on his commercial activity during 2020 amounted to: 200,000 L.E, so if the approved profits during the following five years amounted to: 30,000 L.E, 40,000 L.E, 28,000 L.E, 27,000 L.E, 20,000 L.E, respectively. Required: Determine the taxable bracket for each year

(5) The approved losses of one of the taxpayers on his commercial activity during 2020 amounted to: 130,000 L.E, so if the tax authority approved during the next five years the following results: 25,000 L.E, (16,000) L.E, 16500 L.E, 27000 L.E, 15,000 L.E, respectively. Required: Determine the taxable base for each year

(6) The accounting net profit of a commercial company for the year ended on 31/12/2020 amounted to 100,000 L.E. And the tax examination of the company's income statement showed that it included an amount of 23,000 L.E for general expenses, from which an amount of 3000 expenses that are not supported by documents represented as follows - 1300 gratuities - 800 expenses for internal transfers - 500 buffet expenses - 400 cleaning and maintenance expenses. Required: Determine the taxable bracket

(7) The accounting net profit of one of the industrial companies amounted to 500,000 L.E for the year ended 31/12/2020. Upon examination, it became clear that the income statement included the following:

A-125,000 depreciation of machinery, noting that:

-The book value of the machines on 1/1/2020 is 300,000 L.E  
- used machine was purchased during the fiscal year for the amount of 100,000, and it began to be used in production on

1/1/2020, and the installation expenses amounted to 5000 L.E.

-The cost of overhauls on the machines during the year amounted to 60,000 .

-One of the dilapidated machines was sold for 80,000 L.E, while its book value on the date of sale is 70,000 L.E.

B- 12000 Building depreciation at a rate of 6% annually.

C- 10,000 patents depreciation at a rate of 20% annually

Required: determine the taxable bracket.

(8)The accounting net profit from the income statement of one of the individual industrial establishments amounted to 120,000 L.E for the year ending in 31/12/2020:

If you know the following: company expenses include: 20,000 L.E remunerations to workers equivalent to four months - 11,000 L.E Depreciation of new purchased machines and equipment at a rate of 20% (noting that its cost is 132,000 L.E and the date of its purchase is 1/8/2020, and it was installed on 1/10/2020 And the book value of the machines and equipment on is 90000, and the company sold machines and equipment by 18000 on 1/9/2020) - 3,000 advertising expenses, of which 1,800 an advertising campaign paid on July 1, 2020 for three years -6,000 donations of which 4000 are for charitable association and the rest are for the heirs of former employees of the company- 15000 for the end of the service reward, knowing that this amount was deposited in a special fund that has an independent financial accounts - 4000 premiums for the life insurance of the taxpayer.

Company's revenues include: 1500 delays interest, from some suppliers - 16000 bad debts collected, half of which was previously approved by the tax authority - 20000 rent for a warehouse owned by the company and leased to others at an amount of 2000 per month. Required: determine the taxable bracket.

(9) An individual has established on the first January of 2005 a factory costing L.E. 900,000 (out of which L.E. 300,000 for the land), and on the first April 2016 he renewed it costing him L.E. 50,000 (out of which L.E. 8,000 for maintenance expenses). If you learn that the taxpayer prepares his final accounts on Dec. 31, each year.

Required: Calculate the taxable depreciation expenses for the year 2016.

(10) On the first march of 2018, an individual sole proprietorship purchased machines and equipment for L.E. 13,000, on the first October 2018 purchased used machines and equipment for L.E. 9,000 and at the end of year it sold machines and equipment for L.E. 4,000.

If you learn that:

a- The accumulated depreciation of the machinery machines and equipment on the first January of 2018 amounts L.E. 40,000.

B- The machinery and equipment purchased were used during the year of 2018.

Required: Calculate the tax depreciation.

(11) The net profit of an industrial sole-proprietorship amounted to L.E. 90,000 for the year ended on Dec. 31, 2017. You learn the following:

A- The expenses of the firm includes: (amounts in L.E.) 2200 social premiums paid during the year (noting that the firm did not pay the premium of December)- 17000 salaries and wages (out of which 12000 as basic salaries and the rest is rewards)- 400 buildings tax for the building owned by the firm, half of which it occupied by it, and the other half is rented for 300 per month- 900 contributions for a private school under to the governmental supervision- 800 cost of goods withdrawn by the employer for his private use- 10000 a depreciation with a rate of 10% of the machine cost on first Jan 2017 (noting that depreciable balance of machines and



equipment on such date was 40000 and the firm sold the machine for 15000 on the first December of the same year)-30000 interests for loans used in the business with a rate of 10% of their value (noting that credit and discount rate declared by the Central Bank on the first Jan 2017 was 12%.

B- The revenues of the firms includes: 3900 return of a building- 3000 profits realized from selling securities in the Egyptian Stock Exchange- 3000 returns of bonds from a limited company by shares- 1500 dividends from an joint stock company.

Required: Prepare the taxable net profit of 2017.

(12) Losses approved for a sole proprietorship for its commercial business for the year of 2013 amounted L.E. 13,000. If you know that the results approved for the following years were as follows:

Year	2014	2015	2016	2017	2018
Net profit (loss) L.E.	<b>25000</b>	<b>(16000</b>	<b>16500</b>	<b>30000</b>	<b>2500</b>
		<b>)</b>			

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