



**South Valley University
Faculty of Commerce**

Tax Accounting (2)

Collections

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Tax Accounting (2):

1- Tax on Profits of Juridical Persons.

2- Value Added Tax.

Chapter One

Tax on Profits of Juridical Persons.

Tax on Profits of Juridical Persons

Introduction:

New income laws introduce a new tax system by which the tax is imposed on profits generated from activities and vocations practiced by juridical persons. This system never existed before under the old tax law No. 157/1981 and its amendments by law No. 187/1993 which was differentiated between taxable profits of both corporation's profits were subject to corporate profit tax. Mean while the partnerships profits tax which is related to the tax on incomes natural persons in which the profits share of each partner was subjected to the income tax (Commercial and industrial profits tax), where as the partner was deemed as a natural person.

The present tax law has considered the partnerships as juridical persons equal to the corporation (joint stock, limited joint stock, and limited companies). All considered as a juridical persons exactly as the case for the partnerships whereas the company's profit is taxable not the partner (s). Book (3) of the law contained the provisions of this tax under Articles from (47) to (55).

In this part we are going to deal with the tax on income of juridical persons.

Since most of the provisions of this tax agree with those of the tax on commercial and industrial activity profits, we shall deal here with the provisions of this tax, in an attempt to illustrate the most important differences between these two taxes.

The Range of the Tax:

Article (47) of the law stipulated that:

"An annual tax shall be imposed on the total net profits of juridical persons whatever their purposes".

The tax shall apply to the following:

- 1- Juridical persons resident in Egypt, with regard to all profits they realize whether from Egypt or from abroad, with the exemption of the national service projects agency at the Ministry of Defense.
- 2- Juridical persons non-resident in Egypt with regard to the profits they realize through a permanent establishment in Egypt.

In applying the provision of article (47) of the present law, the following shall be considered juridical persons:

- Associations of capital and partnerships whatever the law they are subjected to, as well as the corporations de facto.

- Cooperative societies and their unions subject to the exemptions prescribed for them by virtue of the law;
 - Public authorities and other public juridical persons with regard to the taxable activity they exercise subject to the exemptions prescribed in the laws establishing them.
 - Foreign banks, companies and establishments even if their head offices are abroad and their branches are in Egypt;
- 3- The units established by the local government with regard to the taxable activity they exercise;

This article reveals that the characteristics of this tax can be summed up as being an annual tax, applies to net profits, realized by Juridical Persons operating in Egypt.

The explanatory note of the law decisively determined and defined the foreign establishment operating in Egypt as being.

- 1- Foreign companies and establishments operating in Egypt whose sole or main object is the investment in Egypt, even if their Legal Domicile or Head office is overseas.

2- Branches of foreign companies, and export firms by commission in Egypt in relation to the profits they realize for practicing their activity in Egypt.

As for the public authorities and other taxable corporate public persons, the legislator exempted definitely and decisively the National Service projects Agency at the Ministry of Defense from being subjected to this tax.

Tax- Bracket Determination:

Tax-Bracket is determined annually on the basis of exploitation profits, and the casual revenues as well as capital gains after deduction of all costs necessary for the realization of profit.

Article (51) of the Law stipulated that:

The net taxable income shall be determined according to the provisions applicable to the profits of the commercial and industrial activity prescribed in Book (2), Part (3) of the present law, where no special provision is prescribed in this part. All of which explained in Part one chapter One of this Book.

The net taxable profit is determined on the basis of operational result in its various kinds in accordance with the provisions of this law after deduction of all costs.

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 to reach the tax bracket.

Dissimilarity of the accounting net profit (ANP) and the taxable net profit (TNP) may exist for one the following reasons:

- 1- Some accounting revenues may be exempted from taxation, such as returns on securities unrelated to performing the firm's activity.
- 2- Some taxable revenues are not considered on determining the accounting profits, such as the revaluation gains resulting from assets or liabilities.
- 3- Some accounting expenses, considered on determining the accounting profits, are not approved by the tax law, such as reserves made for probable losses and life insurance premiums on employees.
- 4- Some expenses are not considered on determining the accounting profits but approved by the tax, such as

the rental value of building owned by the firm in which it operates.

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	××
Add:	
Accounting expenses not approved by the tax department	××
Taxable revenues not considered on determining ANP	××
Deduct:	
Tax approved expenses not considered on determining ANP	××
Accounting revenues exempted by the tax law	××
Taxable Net Profit (TNP)	×××

In the following section, a detailed discussion will be made on the tax treatment of each item of revenues and expenses.

Revenues:

It must be noted in relation to revenues, that revenues included in the measurement of profit are all revenues related to operations without specifying certain kind of revenues.

Tax administration must also accept the basis adopted by the firm as concerns the recognition of revenues as

long as this basis with the activity nature of the firm and as long it is adopted continuously.

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. The firm may follow some approaches to show the sales figure as less than that what it should be. The following are some of these approaches:

- 1- The firm may not record a part of its sales. This approach may be used by postponing the entry of some sales concluded at end of the current period and delivered to customers, until the beginning of the new period.
- 2- The firm may not record the goods which have been sold by commission agents during the year and postpone their entry until future periods.
- 3- The firm may not record the value of goods with drawn by its owners for their own personal use.
- 4- The firm may not record the goods which customers have accepted during the year, out of the goods which

were sent to them in the form of under-acceptance goods during the year.

- 5- The firm may record artificial sales returns, or record sales returns which are made at the beginning of the new financial period as if they were transacted during the current period.
- 6- The firm may be record sales returns at a value higher than their original sale value, such as not taking into consideration in the pricing which was previously granted to the customer in terms of a commercial allowance or discount.

Example (1):

The net profit of ABC partnership company amounted to L.E. 120,000 for the year ended on Dec. 31st. examining the firm's books revealed the following:

- 1- There were sales mad on 28th of December, received by the customers on the same date, with a value of L.E. 25,000 entered on the 8th 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 3rd, 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 partners 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:

	L.E.	L.E.
Net profit		120000
Add:		
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>

	174100
less:	
sales commission of the agent on goods sold: $20000 \times 5\%$	<u>1000</u>
Taxable Net Profit (TNP)	173100

In some cases, some factors may inflate the sales figure, and show it higher than its true value. Amongst these factors are the following:

- 1- The firm may record some sales by entering sales which were made at the beginning of the new periods as having been occurred during the current period despite the fact that the corresponding goods have been entered into inventory in the current or present period.
- 2- The firm may record goods dispatched to the commission –agents as being sales, without entering them as part of the goods in stock of the end of period.
- 3- The firm may record goods dispatch to customers for sale or return, which were not accepted during the year, as being final sales.
- 4- The firm may not record sales returns made during the year, and put off their entry to future period.

5- The firm may record fixed asset sales as part of the sales, whereas what should have been done is to close the assets accounts using the sale proceeds, while showing the sale profit or loss independently in its financial statements.

If it ensures that the firm has had resources to one of these methods, this means that the net profit figure will appear more inflated than reality. This would require reducing it for the amount of this increase in order to reach the correct profit figure which is to be taken as being the tax bracket for tax on commercial and industrial profits.

Example (2):

In a company, 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
Less:		
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>
Taxable Net Profit (TNP)		35300

Capital Gains:

Capital gains are resulted from liquidation of assets, whether by sale or compensation.

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.

It is a must that we would notice 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 (3):

On 1/1/2012, partnership company 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 calculating the depreciation rate at 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 company, 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
Add:	
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
Less:	
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 (4):

A joint stock company 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:

	L.E.
Net profit	57,000
Add:	
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))	
Taxable Net Profit	63,500

Example (5):

A partnership company 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:

	L.E.
Net profit	24,000
Add:	
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 off. 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- 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).

B- 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 company 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.

Allowable Deductions:

This section of chapter is devoted for the discussion of the rules governing the tax treatment of allowable deductions

The deductible costs and expenses shall conditionally fulfill the following requirements:

1- It has to be related to carry on a business:

A deduction, expense or loss is deductible provided that is paid or incurred in any activity which related to the trade or business or profit production or collecting.

2- It has to be ordinary and necessary:

An expenses is ordinary if it is normally incurred in the type of business in which the company is involved. An expense is necessary if it is appropriate, helpful, or

capable of making a contribution to the company profit seeking activities.

3- It has to be reasonable:

the reasonableness standard is most often applied in situation involving compensation paid for services, such as salary payments.

4- It has to be a current expense (revenue expense)

An expense is deductible provided that it is not a capital expenditure in nature.

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:

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 one.

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 (6):

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
Less:		
Credit interests		<u>(55000)</u>
Deductible Interests (costs)		65000

2- Depreciation of Assets:

There are several factors on basis of which depreciation amount is determined. These factors are: the cost of the asset estimated, life-span of the asset, depreciation method applied, and depreciation rate.

1- Depreciation method to be applied:

Several methods can be adopted for depreciation. The firm's selection of one of them depends on many considerations amongst which is the nature of the assets itself. that the firm selects its own suitable and adequate depreciation method, and that tax administration has to accept this method as long as it ascertain the viability of

the said method and its suitability to the nature of the company, the nature and conditions of operations.

2- Depreciation rate in use:

The depreciation rate used is the means by which a company 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. The rates stipulated by the present law 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.

3- 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.

4- The date of calculating depreciation on fixed assets:

Opinions have differed as to the starting date of the calculation of depreciation, and whether it should be the date of their actual utilization for the purpose of the firm, or a date preceding operation.

Tax administration has decided upon the dispute by issuing its own explanatory instructions No. 25 of 1961, which included the following:

“It is not always assumed that the depreciation of depreciable fixed assets should start from the date of their actual usage, it may be calculated prior to this date, allowing for example, the calculation of the depreciation of machines to start from the date of their installation and preparation for use, for as from that date, those machines are exposed to actual depreciation and decrease in value

as a result of factors like rusting and other erosion factors which would affect them as time goes on.

The asset may be depreciated from date of preparing it for use as it the case of buildings, if the date of completing construction concedes with the date of beginning of work thereon. Similarly, machines may be depreciated from date of replacing them by other machine of greater production capacity.

In its instruction, the administration concluded that the issue is relevant, And that the matter requires the study of each case on its own separately, applying the prevailing customs and practice in respect of each depreciate asset, and that the tax department shall be entitled to cases and consider conditions and circumstances of each case and adopt prevailing customs and practice.

Actually, these instructions agree with the sound and acceptable accounting rules whereas the depreciation, as previously said, occur for several reasons other than usage. Consequently, if the value of an asset decreases due to factors other than use, and prior to its usage, they are to be calculated on than asset during the period prior to use for an amount equal to the effect of these factors.

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 (7):

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 company 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
Total	620,000
Taxable depreciation expense:	
$200,000 \times 5\%$	10,000
$60,000 \times 5\% \times 8/12$	2,000
$300,000 \times 5\% \times 10/12$	12,500
$60,000 \times 5\% \times 10/12$	2,500
Total	27,000

Example (2) Intangible Assets:

A company 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) the company sold the patent related to product (x) to another individual at the end of June 2016 at L.E. 25,000.

(ii) it prepare its 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:

1- Year 2015:	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
Total	3500
2- Year 2016:	
- 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 × 10% =	3000
Total	
	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 (3) Computer Hardware, Software:

ABC company began its operations on January 1, 2015, and its accounting period ends on December. The firm purchased some computers for operations as follows (amount in L.E.):

- On Nov. 1, 2015 at a cost of 15,000.
- On April 1, 2016 at a cost of 5,000.
- On March 1, 2017 at a cost of 3,000.

Required: Compute the taxable depreciation expense deductible through 2015 till 2017.

Solution:

	L.E.
1- Year 2015:	15,000
Addition of Nov. 1, 2015	
Less: annual depreciation expense 15,000× 50%	(7,500)
Depreciable balance	7500

2- Year 2016:	5000
Addition April 1, 2016	12500
Depreciable balance	(6250)
Less: annual April 1, 2016 = $12500 \times 50\%$	6250
	3000
3- Year 2017:	9250
Additions March 1, 2017	<u>(9250)</u>
Less: annual depreciation expense

Example (4)

A partnership prepares its 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:

Beginning balance	L.E. 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)
Ending Balance	7750

Example (5):

A partnership 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.
Beginning balance	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)
Ending Balance	8750

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)
Less: tax depreciation:	27,000
$27000 \times 50\% \times 10/12$	(5625)
Ending Balance	21375

Example (7):

A company 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:

	L.E.
Beginning Balance	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:

A limited by share company 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:

	L.E.
Beginning Balance	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)
Ending Balance	18900

3- Taxes and Duties:

The concept, at present, is that all taxes which are paid by the firm, a part from this tax, are amongst costs.

We conclude that taxes which are paid by the firm are as follows:

First: Taxes due on juridical person:

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 activity. The following are some examples of these taxes:

- 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.
- Real estate tax on real estate properties owned and occupied by the firm.
- Fiscal stamp duties and taxes.
- Any other duties due on the company 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.

Second: Taxes paid by juridical person as an intermediary:

Taxes which are paid by the firm in its capacity of an intermediary between an entity and another entity charged with the tax are not considered in any case as costs, as they are not charged to the firm.

Examples of these taxes are: salary tax which is deducted by the firm from the salaries and wages of its

employees, tax on movable values charged on debt and loan interest paid by the firm.

4- Donations and Subventions:

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, within the limit of 10% of the net taxable annual profit of the company.

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.

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:

- 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.
- Donations and contributions should be actually paid.
- The value of these donation and contributions should be within the limit 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.

5- Amount deducted for special funds accounts:

Those amounts which the company 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 company'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".

6- Penalties and Indemnifications:

Financial penalties and indemnifications payable by the juridical person as a result of its contractual liability are considered deductible costs with some conditions, they are as follows:

- they are related to practice of the activity, and have relationship with profit realized or its upkeeps.
- They are not applied to criminal violation and the personal fines or contraventions such as the contraventions or violation the provisions of tax law, mandatory pricing or fraud.

7- 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.

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:

Such other expenses are also allowed as deductions because they satisfy the general conditions for allowable deduction, they are as follows:

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 company to its employees.

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. 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.

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 the company 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. 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.

Publicity and Advertisement Expenses:

The company 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.

c- Firms distribution of free samples of its products for publicities sake. The determination of the nature of this expenditure depends on its volume and size the extent to which the company is regular in distributing the same volume of the products periodically. If the volume or size of the expenditure proves reasonable, and the firm distributes this volume regularly, then this expenditure is to be considered a revenue expenditure. But if the volume of this expenditure is sizable, and if there is a distant time lapse separating between the expenditure periods, this expenditure is then considered a deferred revenue expenditure which must be distributed over several periods according to the extent of benefit. The explanatory instructions No. (14) allows as cost those gifts granted for publicities sake by the firm.

d- Fixed publicity posters. For the firm may advertise itself or its products by putting up or renting fixed posters.

If the firm rents these posters the rent paid represent a special revenue expenditure for the period during which it becomes due. However, if these posters are owned by the firm their depreciation being a fixed assets, can be included in the firms expenses. As for the maintenance

and operating expenses of these posters, they stand out as being revenue expenditure to be charged to the period.

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 company.

Reserves and provision

the following shall not be among the deductible costs and expenses:

- 1- Reserves and provision of different kinds.
- 2- Financial fines and penalties, as well as, indemnification's ruled against the company because

one of its employees has committed a deliberate felony or misdemeanor.

3- Income tax payable according the present law.

Therefore, 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. except if it was for actual expense.

Annuity of tax and carrying forward of losses

Annuity of Tax:

When trying to measure business results, accountants are governed by a set of assumptions and principles which direct the practical application. One of the most important assumptions is continuity assumption of the firm which stipulates that the life-span of the firm is continuous and in finite. This assumption agrees with the natural expectation of the management and the owners of the company whereas the possibility and likelihood of liquidation is concerned as an exceptional case.

Therefore, necessity dictated the emergence of the principle of accounting period or the annuity of accounting which divides the life-span of the firm into

periodical which are relatively short. At the end of each period the result of the business operations of the firm and the financial position is determined. Each one of these periods is completely independent from other periods in relation to revenues and expenditures, so that it would be possible to measure the result of its operations.

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. 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 companies to carry forward losses of the year to several consecutive years to be absorbed by the profits of those years.

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.

The firm is entitled to carry forward the loss of each year separately for a period of 5 consecutive years only

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, The loss must be related to the activity and The amount of loss which is carried forward is that approved by the tax administration.

The following shall not be considered within the deductible costs:

- 1- The debit interest paid by the juridical persons prescribed in article (47) of the present law on the loans and advances obtained by them in excess of fourfold the property rights average according to the financial statements to be prepared pursuant to the Egyptian Accounting Standards. This provisions shall not apply to the banks and insurance companies as well as the companies exercising the finance activity that are to be determined by a decree to be issued by the minister;
- 2- Amounts set aside toward forming or feeding all kinds of appropriations, with the exception of the following:
 - a) 80% of the loans appropriations which the banks are committed form according to the rules of drawing up the income statements and the bases of evaluation as issued by the Central Bank;
 - b) The technical appropriations which the insurance companies are committed to form by applying the provisions of the Law on Insurance Supervision and

Control in Egypt as promulgated by law No. 10 for the year 1981.

- 3- The profit shares and distributed dividends, and the attendance fees paid to the shareholders for attending the general assembly's meetings;
- 4- Membership remuneration obtained by the chairman and members of the boards of directors;
- 5- Workers profit share to be distributed according to the law;
- 6- The other costs prescribed in article (24) of the present law, as explained in chapter two, part one of this book.

Tax Rate:

Article (4) determines the rate of tax on juridical persons profits as follows:

The taxable base shall be rounded up to the nearest less ten pounds and shall be subjected to the tax at rate of **22.5%** of the annual profits.

In exception to the rate mentioned in the previous clause, the profits of the Suez Canal Authority, the Egyptian Petroleum Authority, and the Central Bank shall be taxable at a rate of 40%. The profits of oil and

gas exploration and production companies shall also be taxable at a rate of 40.55%.

Juridical persons are exempted from the tax

These juridical persons are as follows:

Ministries and Departments of Government:

Ministries and departments of government are exempted from tax, because these organization not aim to make profit.

Societies and National Institutions:

Societies and national institutions established according to law No 84 of 2002, are exempted from tax, within the limits of the purpose for which they are established.

Organizations not aiming at profit:

Organizations not aiming at profit that they carry out activities of a social, scientific, sports or cultural nature, are exempted from tax within the limits of these activities.

The exemption are not available if these organizations exercising activities of commercial, industrial, or professional nature.

International Organizations, Technical Cooperative Institutions and their Representatives:

These juridical persons are exempted from tax provided that the international agreements stipulate this exemption.

Special Insurance Funds:

Profits of special insurance funds that are subject to the provisions of law No. 54 of 1975, are exempted from tax.

Investment Funds (Mutual):

Profits and dividends of investment funds established according to the capital market law No. 95 of 1992, are exempted from tax as follows:

- Dividends of investment funds which its investments in securities and other debt instruments are not less than (80%).
- Dividends received by investment funds after adding (10%) of the value of these dividends to the taxable base against non-deductible costs.
- Dividends of holding investment funds.
- Investments returns from cash investments funds.

- Returns of bonds registered on the schedules of the Egyptian Exchange (except: Treasury bills).
- Profits of investment whose activity is confined to investment in money only.

Returns of securities and certificates of deposit issued by The Central Bank:

Returns obtained by the juridical persons on securities and certificates of deposit issued by The Central Bank or the revenues resulting from dealing in them, are exempted from the tax.

Dividends of subsidiaries companies:

Dividends which obtained by the parent company or holding company from subsidiaries company (resident and nonresident), are exempted from the tax after adding (10%) of the value of such dividends to the taxable base of the parent or holding company against non-deductible costs, provided that:

- The participation of the parent or holding company shall not be less than (25%) of the capital stock or voting rights of the subsidiary company, and.
- The holding period of the parent or holding company of such percentage shall not be less than two years, or

alternatively, the parent or holding company shall maintain the said percentage for two years, starting from the date it has acquired the shares of voting rights of that subsidiary.

Land reclamation or cultivation companies:

Profits of land reclamation or cultivation companies are exempted from tax for a period of 10 years effective from the date of starting the activity or the production.

The date of starting the activity or the production, shall be determined as follows:

- If the company practices the reclamation or cultivation activity for account another person, the starting of the period of exemption shall be from the date of concluding the first contract for any of the two activities.
- If the company practices the reclamation or cultivation activity for its own account and sells the reclaimed or cultivated lands, the starting of the period of exemption shall be from the date of selling the first plot or reclaimed or cultivated land.
- If the company practices the reclamation and cultivation activity, or only cultivation activity for its

own account, and have cultivated the land, the starting of the period of exemption shall be from the date of considering the land productive according to a decree to be issued by the Minister of Finance in agreement with the Minister of Agriculture, or to the provisions prescribed in the registers of the directorate of agriculture concerned, according to each case.

Poultry production, Cattle Breeding Stables and its Fattening, Fisheries and Fish Farming and Bee-Nursing Companies:

Profits of these companies are exempted from tax for a period of 10 years effective from date of starting the activity.

Exemptions according to special laws:

Example of these exemptions is the percentage from the profit against the increase in paid in capital,

Notes:

1-Revenues exempted from the tax, are deduct within the limit of the tax base. Therefore, these exemption are not applied if the tax base is loss.

2-Cost of financing and investment related to these exemption are not deductible costs. Therefore, this cost must be added to accounting net profit.

General Examples:

1- A private Egyptian Corporation has a paid-in capital retaining earnings, and reserves amounting to L.E. 1400000.

The income statement of the firm for the year ended on December 31, 2018 showed a net profit of L.E. 850000. A decision was made to allocate the net profit on follows:

ANP	850000
10% less	<u>(85000)</u>
5% a first installment to shareholders and workers	765000
10% of the balance as a bonus to the board of directors	<u>(50000)</u>
	715000
10% a second installment to shareholders and workers	<u>(71500)</u>
	<u>643500</u>
The balance to be brought forward to the coming year	<u>(100000)</u>
	543500

The following information are also available:

A- The first and second installments for shareholders & workers were distributed and the bonus of board of directors was paid.

B- Debit interests paid on loans and advances obtained amounts L.E. 500000. The loans and advances amounts are L.E. 5000000.

C- Machinery depreciation expense amounts to L.E. 20000 it was revealed that the rate used was 10% on the costs which amounts to L.E. 200000. The examination showed that the historical cost of these machinery included beginning showed balance L.E. 100000. Noting that the taxable depreciation expense amounts to L.E. 50000 and tax rate is 25%.

D- Other provisions included as costs L.E. 90000 it included L.E. 60000 a provision of declining the inventory price. The residual amount considered as allowance for doubtful debts.

E- Sundry expenses comprises the following amounts:

L.E. 80000 Donations to Qena University Hospital.

L.E. 40000 Donations to El-helal Al-Ahmar association.

L.E. 120000 Salaries paid to the delegated member of board of directors for his administrative work.

L.E. 160000 Attendance allowances paid to board of directors, members and to shareholders general assembly meeting.

F- L.E. 200000 included as revenues driven from short-term investments-out of them L.E. 50000 gains from sold shares and bonds which are on the list of the market of securities. The residual amount driven from investments of attached firms.

Required: Determine the taxable profit for this juridical person according to law 91/2005.

Solution

	L.E. Add	L.E. Deduct
<p>ANP</p> <p>1- The first and second installments paid to the shareholders (L.E.150000) are not considered amongst the costs as per Article (52).</p> <p>2- Board of directors bonus (L.E.71500) not considered a cost as per Article (52).</p> <p>3- Debit interest paid (L.E.500000) to be considered part of the costs, since it is not exceed 4 times the equity average:</p> <p>Equity average =(equity on 1/1 –</p>	850000	

<p>equity on 31/12 ÷ 2</p> <p>a. Equity on 1/1 = 1000000+ 400000 = 1400000</p> <p>b. Equity on 31/12 = 1400000+ reserves 85000+ retained earnings and profits brought forward 543500 = 2028500</p> <p>c. Equity average = (1400000+ 2028500) ÷ 2= L.E. 1714250</p> <p>d. Four times the equity average = 1714250× 4 times = L.E. 6857000</p> <p>The debit interest paid approved by the tax office because it is paid on loans and advances amounts L.E. 5000000 which it is within the limit.</p> <p>4- Machinery depreciation expenses:</p> <p>This item includes the following:</p> <p>a. Accelerated depreciation. This because a new machine was used during the year, this as per Article (27), 100000× 30%</p> <p>b. Normal depreciation expenses. This item computed using 25% rate</p>		<p>(30000)</p>
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<p>according to Article (26) of the law as follows:</p> <p>machinery book value 1/1 100000</p> <p>(-) Accumulated Depreciation on 1/1 (50000)</p> <p>(+) Value of the new machine 70000</p> <p>Deduct the 30% (100000-30000)</p> <p>The depreciation basis $120000 \times 25\% = 30000$</p> <p>In the income statement showed depreciation amount of 20000</p> <p>The difference is $(30000 - 20000) = 10000$ to be considered as costs.</p> <p>5- Other provisions: this item included the following:</p> <p>a. Allowance for price decline of inventory L.E. 60000 which is not considered as costs.</p> <p>b. The doubtful debts allowance is not considered within the allowable deduction.</p> <p>6- Donations paid to Qena University Hospital approved because it is cited thus by the law.</p>	<p>90000</p>	<p>(10000)</p>
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7- Donations to Helal Ahmar to be added now till to reach the taxable net profit for it to be within the allowable amount which is 10% only.	40000	
8- Salaries paid a member of a board director for his administrative work (L.E.120000) to considered amongst the costs.		
9- Allowances for board of directors and shareholders meetings (L.E.160000) not considered as expense and should be added to the taxable profit.	160000	
10- Revenues from stocks and boards L.E. 200000 are exempted according to Article (50).		(200000)
Total Add	1140000	
Total Deduct	(240000)	

Taxable Profit	900000	
Deduct: Donations to Helal Ahmar at the rate 10% or the actual payment which is less Donation paid L.E. 40000 The 10% = $900000 \times 10\% = 90000$ The allowable deduction shall be only L.E. 40000 Net taxable profit for the company year 2018	(40000)	
	860000	

2- The authorized capital of an industrial shareholding company (private sector) whose shares are listed on the stock exchange reached 8million pounds, of which 6 million pounds is paid, the tax inspection of the accounts of the company for the year 31/12/2019 ending in the following:

A-The profit and loss account for third-party insurance items includes an amount of 600,000 L.E, a final insurance value submitted by the company for a tender obtained last year, But it did not fulfill the required from it, so the final insurance was confiscated.

B- The profit and loss account includes net income on securities of 120,000 L.E, half of which is listed on the

Egyptian Stock Exchange and the other half is not registered.

C- The profit and loss account includes donations worth 5,000,000 L.E, including 300,000 L.E for the Ministry of Health, and the remainder for the Egyptian Red Crescent Society.

D- The revenue side of the profit and loss account includes Irreplaceable provisions, Its data are as follows:

-400,000 L.E, a disputed tax provisions.

- 500,000 L.E for judicial compensation provisions.

F- The profit and loss account includes Provision for declining in inventory prices the amount of 400,000 L.E as the company evaluated a inventory for the last period at the cost of 2000,000 L.E while its market price is1700,000 L.E given that the company used to follow the cost or market price whichever is less.

E- On 1/1/2019, the company sold an old machine in the amount of 1,000,000 L.E the book value of this machine is 4000,000 L.E and the accumulated depreciation approved by tax authority 3300,000. The company included the realized capital gain in the profit and loss account and it purchased a new machine in the amount of

20000000 in 1/5/2019 and started using it in production as of 1/7/2019. The company did not calculate any depreciation for it.

G- The profit and loss account includes, real estate tax 1000, 2000 maintenance expenses, and 7000 depreciation expense, for the building the company owns and operates in it (real estate tax 10%).

H- The general and administrative expenses account included in the profit and loss account includes the following items:

- 1700,000 L.E wages and salaries of workers.
- 500,000 L.E bonus for workers.
- 464,000 L.E The company's share in the employee's pension fund.
- 36,000 L.E allowance for attending the general assembly of shareholders.

L- The profit and loss account for the year ending in 31/12/2019 showed a net profit of 5,000,000 L.E and it was decided to distribute as follows:

- 10% legal reserve.
- 10% of the paid capital as a first installment to shareholders and workers.

- 10% of the rest as bonus for the members of the Board of Directors in exchange for their administrative work.
- The rest is distributed as a second installment to shareholders and workers.

Required:

Calculating the tax on the profits of juridical persons due on the company.

Description	Subtotal	Total
Net accounting profit		5000000
Add:		
1- insurances with third-party are not considered to be deductible costs in general, but in the case of this company, the insurance has been confiscated and cannot be refunded due to its violation of the terms of the contract. Hence, it is consider one of the costs and as it included in the calculation of profits and losses. So, there is no adjustment required.		
2-net revenues of securities		

- 60,000 L.E half of the net revenues from securities not listed on the stock exchange is considered taxable and since it is listed in profit and loss account ,it is not adjusted.

- Half of the revenues pertaining to the securities listed on the stock exchange are exempted from being subject to tax, but it is not currently adjusted and remains a temporary until excluded within the exemptions.

3- Donations

- Donations to the Ministry of Health amounting to 300,000 L.E are considered as r donations to a government agency, and therefore are considered deductible in full, and since they are deducted, there is no adjustment required.

- Donations to the Egyptian Red Crescent Society in the amount of 200,000 L.E, which are

200000

<p>donations to a registered Egyptian association, and thus are added to I temporarily until 10% is determined..</p>		
<p>4- Provision for declining in inventory prices Provision for declining in inventory prices that the company has formed is not considered a deductible costs. And since it is deducted, it should be add to profit</p>	<p>400000</p>	
<p>5- capital gain Realized capital gain from the sale of machinery of 300,000 L.E (1000000- (400000-330000)) must be excluded from taxable revenue because it results from the sale of fixed assets mentioned in item (3) of Article (25) of the law and whose depreciation is calculated according to the depreciation basis, then it should be add.</p>	<p>300000</p>	

6-Expenses of the building owned by the company and practice its activities on it Maintenance and depreciation expenses of the building owned by the company and practice its activities on it amounting to 10,000 L.E are considered deductible costs. And since the amount is included on the debit side of the profit and loss account, there is no amendment is required in its regard.

7-General and administrative expenses

-Wages and salaries of 1700,000 L.E are considered to be fully deductible costs, and as long as they are subtracted from the profit and loss account, there is no adjustment

75000

-The bonus of workers, amounting to 500,000 L.E, is one of the costs to be deducted, but within the limits of three months'

salary of the total wages and salaries of workers bonus within three months = $1700000 \times 3/12 = 450000$ L.E
 Thus, the difference is added to the profit 75000 L.E ($425000 - 500000$)

-The company's share in the employee's pension fund of 464000 L.E, it is one of the deductible costs, but on the condition that it has a special regulation with independent financial liability and the amounts allowed to be deducted equal 20% of the total annual wages and salaries of workers

124000

The calculated amount (20%)= $1700000 \times 20\% = 340000$ L.E
 Thus the difference is added to the profit equal 124000 L.E ($464000 - 340000$)

- allowance for attending the general assembly meetings of

36000

<p>shareholders of 36,000 L.E, it is not considered deductible costs and because it has been deducted, so it is added to the profit.</p>		1135000
		6135000
<p>Deduct:</p> <p>1- Irreplaceable provisions (and the company subsequently considered them as revenue) Disputed tax allowance (400000) and judicial compensation allowance (500000) are not deductible costs, therefore they were previously subject to tax when it was formed, and thus they are deducted so that they are not subject to tax twice</p> <p>2- valuation of the ending inventory at cost or market price whichever is less, and therefore the profit is adjusted for the differences resulting from changing this policy</p> <p>Market price (lowest):</p>	<p>900000</p> <p>300000</p>	

1700000	L.E	
The amount listed in income statement 20000000 L.E		
The difference is deducted from the profit 300000 L.E		
3- Depreciation of machines		700000
-accelerated depreciation of new purchased machines		
= 2000000 x 30% = 600000 L.E		
-normal depreciation according to the depreciation basis		
Purchased machines (2000000-60000)		
1400000		
Machines sold	1000000	
Depreciation basis =	400000	
normal depreciation is	400,000 x 25% = 100000 L.E	
Deductible Depreciation	700000	
(600000+100000)		
4- The rental value of the building owned by the company and practice its activity on it.		10000
Where it is considered a cost to be deducted, and given that the		

company has not deducted it from the profit and loss account, so it is allowed to deduct the rental value = $1000 \times 100/10 = 10,000$ L.E

5- The amounts distributed from the profits

The net accounting profit is distributed as follows:

Legal reserve = $5,000,000 \times 10\%$
= 500,000 L.E

first installment for shareholders and workers = $6,000,000 \times 10\% = 600,000$ L.E

Remaining profit = $5,000,000 - (500,000 + 600,000) = 3,900,000$ L.E

The remuneration for the members of the Board of Directors = $3,900,000 \times 10\% = 390,000$ L.E

The rest of the profits are distributed as a second installment to shareholders and workers = $3,900,000 - 390,000 =$

3510000 L.E		
<p>The tax treatment for the previous amounts are as follows:</p> <ul style="list-style-type: none"> -The legal reserve of 500000 is not considered deductible cost, and since it is not included in the profit and loss account, no adjustment required. 	390000	
<ul style="list-style-type: none"> - The remuneration of the members of the Board of Directors is one of the costs to be deducted, as long as it is against their administrative work, and since it is not included in p&l account . so, , it is deducted . 		
<ul style="list-style-type: none"> - amounts distributed to shareholders and workers are not among the costs to be deducted, and since they are not included, they are not adjusted. 		2300000
Taxable income before deduction of donations		3835000
Deduct: Donations to the Egyptian Red Crescent Society within 10%		200000

Calculated donations = 3835000 x 10/110 = 348636 Actual donations = 200,000 So actual donations are deducted because they are less than 10%.		
Taxable income before exemptions		3635000
Deduct: Revenues from securities listed on the stock exchange is exempt according to Article (50) of the law		60000
Taxable income		3575000

The due tax $3575000 \times 22.5\% = 804375$ L.E

3- Friends Company (a simple limited by share company in it A and B are general partner while Partner C is bequest partner) submitted its tax return for the year ended on 31/12/2019 ,the profit and loss account data was as follows

salaries	4800	Gross profit	30000
Employees bonus	1000	Rental revenue	2000
Provision for declining in inventory prices	900	Revenue of foreign bank bonds	1000
depreciation	2000	Collected bad debts	1500
Advertising	1800	Gain on sale of assets	500
taxes	1000		

donations	1200		
rent	2000		
Car expenses	1800		
Bad debts	1500		
Provision for doubtful debts	5000		
Net profit	12000		
	35000		35000

The examination showed the following:

- The company has recorded the ending inventory in the trading account with an amount of 5000 L.E while its value according to the cost 9000 and the market price 8000.
- The salary includes 1000 L.E annual salaries for partner A, 1400 L.E annual salaries for partner C, and the rest salaries for employees.
- The company owns building in which it practice its activities, and its annual tax are 300 L.E, at a rate of 20%. And the rent included in the profit and loss account is estimated rent.
- The advertisement represents a long-term advertising campaign for a period of three years.
- Taxes are the tax differences on income over previous years.
- The company did not claim its debts, which became bad due to the bankruptcy of the debtors, and this was indicated in the daily newspapers.

- Half of the donations are for the government, and the rest is paid to the Egyptian Association of Wafa and Amal.

- The company bought a new machine that it used in production at 1/1/2019 with a value of 10,000 L.E and the amount included in the profit and loss account is an additional depreciation of the machine at a rate of 20%, and the normal depreciation of these machines was not included.

-Gain on sale of assets is the result of selling an old machine with a net book value at the date of sale 2500 L.E.

If you know that the profits and losses are distributed equally between the partners.

Required: Calculate the due tax.

Descriptions	Subtotal	Total
Net accounting profit		12000
Added:		
Ending inventory	3000	
salaries	2400	
The differences in rental value	500	
advertisement	1200	
taxes	1000	
Bad debts	1500	
Donation temporary added	600	
Employees bonus	400	
Provision of declining in inventory prices	900	
Provision of doubtful debt	5000	16500
		28500

Deduct:		
Real estate tax	300	
depreciation	7500	
gain on sale of assets	500	8300
		20200
Deduct : Donations to the Egyptian Association of Wafa and Amal within 10%		
Calculated = $20200 \times 10/110 = 1836$		
The actual	600	600
Taxable income		20100

Notes:

1-Ending inventory

Given that the enterprise included ending inventory in the trading account in the amount of 5000 L.E and the prevailing rule in the field of evaluation was cost or market whichever is less and the lowest one was 8,000 so the difference is added to the profit which is 3000 L.E.

2-salaries

the bequest partners 'salary is not considered deductible cost, therefore it is added to the profit of 1400 L.E, and the general partner's salary is not from the costs, it is a distribution of profit, not a burden, and it is added to the profit of 1000 L.E. That is, the salaries added at 2,400 L.E, while the rest of the employees 'salaries are 2,400 L.E (2,800 - 2,400) are not adjusted by assuming that they are for the year and are supported by documents.

3-Rent and taxes

Building rent and real estate taxes are among the deductible costs. In the case of ownership of the building, it allowed to deduct the rental value that can be calculated as $= 300 \times 100/20 = 1500$ L.E. Then the difference $= 2000 - 1500 = 500$ L.E is added to the profit. With regard to the real estate tax itself, it is deducted from the profit, and by assuming that it has not been deducted with the expenses included in the profit and loss account, and therefore deducts 300 L.E real estate taxes.

4- Advertisement

The tax legislator approved to consume advertising campaign expenses for 5-8 years, so the annual share $1/3$ of the expense $= 1800/3 = 600$ L.E. The rest is 1200 L.E added to the profit.

5-Tax difference

The tax legislator decides to consider direct taxes as costs, except the tax that he pays in accordance with this law. Therefore, 1000t L.E is added to profit that is not recognized as a cost.

6-Bad debt

As the company did not claim the debts that it considered uncollectable, it is not considered one of the costs, as the judicial claim specifies if the debt in whole or part thereof consider bad, therefore, 1500 L.E is added

to profit because of the lack of the conditions of the bad debt.

7-Donations

With regard to donations to the government of 600 L.E, it is considered a deduction, regardless of its amount, assuming that the company submitted the documents that prove the donation. As for the Donations to the Egyptian Association of Wafa and Amal, which amount to 600 L.E, it is temporarily added to the profit and deducted within 10%, assuming that it submit the documents.

8- Depreciation

The tax legislator has approved the deduction of additional depreciation for newly purchased machines, provided that they are used in production and the company maintain regular books.

Beginning Balance	2500
Additions:	10000
Less: A, D=10000 X 30%=(3000)	7000
Less: sale proceeds	<u>(3000)</u>
Depreciation basis	6500L.E

Given that the depreciation basis is less than 10,000, it is considered deductible cost in full.

Tax depreciation=Additional depreciation of 3000+Depreciation basis 6500=9500 L.E

9- gain on sale of assets

It is not considered deductible cost because it is included in the depreciation calculation and therefore it should be deducted from the profit.

10- Employees' bonus

The tax legislator permits that it is one of the due costs. The deduction of the remuneration for workers and employees within three months' salary.

Monthly employees salary = $12/2400 = 200$ L.E

And 3 months' salary = $200 \times 3 = 600$ L.E

Therefore, 400 increase in bonus (1000-600) 400 will add to the profit.

11- provision of declining in inventory prices provision are not considered to be deductible costs, and given that it is recorded in profit and loss account, so it is added.

12- Rental revenue and Revenue of foreign bank bonds

They are considered taxable revenue, and since they are listed, there is no amendment.

13- provision for doubtful debts

Provisions are not deductible costs and since it is included in the profit and loss account, it should be added to the profit.

14-collected bad debts

It subject to tax on the condition that it was approved as expenses in the year in which it is consider bad and as long as it is included there is no amendment.

Questions:

1- Al-Amal Company, a simple bequest company in which the partner Mahmoud is general, and the partners Muhammad and Ahmad are bequest partners. The company's capital amounts to 350000 L.E distributed between the partners at a ratio of 4: 2: 2 The company contract stipulates the following:

A- The partners are entitled to annual interest rate of 10% on their capital.

B-, as company manager, partner Mahmoud receives a monthly salary of 3,000 L.E.

C- Partners divide profits equally.

The profit and loss account prepared for the year ended 31/12/2019 has shown a net profit of 120000 L.E, and by examining the elements of this account, It turns out the following:

-Include on the debit side of the profit and loss account the capital interest due to the partners, as well as the annual salary of Mahmoud.

-The item of workers' wages and salaries appeared in a profit and loss account of 70,000 L.E, and by examining

this item, it turned out to be 54,000 L.E of salaries paid to workers, knowing that the monthly salaries of workers is 5,000 L.E and The rest is 16,000 L.E which is the amount paid by the company to the Employees Fund in exchange for leaving the service compensation.

-The item of paid insurance appeared in a profit and loss account in the amount of 35,000 L.E, turned out to be 15,000 L.E, insurance paid for bids and tenders, 16,000 L.E, the company's share in the social insurance of the company's employees, and the rest is the social insurance of the general partner of the company.

- The company at the beginning of the year purchased computers and a set of accounting programs With the aim of mechanizing the company's accounts. The cost of these devices and programs reached 30000 L.E fully charged to the profit and loss account in the same year.

- It was found that there were withdrawals for the partners from the company's products recorded in sales at cost at the amount of 5,000 L.E for Mahmoud, 2000 L.E for Muhammad and 3000 L.E for Ahmed. Note that the company follows the policy of pricing its products on the basis of cost plus a profit margin of 20% of the cost.

- It was included in a calculation of profits and losses of bad debts amounting to 14,000 L.E, and it became clear that this debt is on one of the clients of the company and he is in a state of financial hardship and threatened with bankruptcy, but the company did not take any procedures to claim this debt.

- By examining the item of general expenses, it was found that it includes an amount of 40000 L.E which is a compensation imposed on the company as a result of an accident by the company car, caused by the driver, who was imprisoned because he was faulty, and the company paid this compensation instead of imprisoning him.

Required: calculate the due tax.

2- Al-Ridaa Trading Company is a registered Egyptian joint stock company on the stock exchange, Its issued capital is 20 million pounds, and the paid-up capital is 12 million pounds. presented to you the prepared income statement for the year ending in 31/12/2019 and you asked to prepare the tax return, and upon examination, you find the following :

-The distributable surplus is 6200000 L.E, after deducting the tax on the company's profits at a rate of 22.5% It was decided to distribute it as follows: 10%

legal reserve, 5% first installment for shareholders and workers, 10% of the remainder is remuneration for members of the Board of Directors, and the rest is carried over to a general reserve.

-The total revenues of the company, based on the income statement 40 million pounds.

-The income statement includes salaries and attendance allowances for members of the Board of Directors, which amount to 400,000 L.E. In addition, the amount of 60,000 L.E for attending the general assembly meetings of the shareholders.

-the item for income from financial investments in the income statement included the following:

+760000 L.E The net share of the company in the dividends of the subsidiary Al Hassan Company, which resides in Egypt (Al-Amal Trading Company contributed to the establishment of it two years ago at 75 percent of its capital) after deducting the 5 withholding tax on the dividends.

+ 200000 L.E interest on bonds registered in the official tables of the stock exchange.

+ 160000 L.E gain from the sale of shares not registered in the Egyptian Stock Exchange.

- The depreciation item is shown in the income statement as follows:

+ 20,000 L.E depreciation of the company's buildings at a rate of 2% a year of cost.

+ 30000 L.E depreciation of furnishings appliances at a rate of 15% of its cost, knowing that the accumulated tax depreciation for these furnishings appliances at the beginning of the year amounted to 60,000.

+ 18000 L.E Depreciation of computers and information systems at a rate of 30 annually, note that it is newly acquired at the beginning of the year.

- Donations included the following items:

+ 250,000 L.E donations to Nasser Social Bank.

+ 150,000 L.E donations to the Red Crescent Society.

- General and administrative expenses appeared in the amount of one million pounds, which are the following items:

+ 25,000 L.E real estate tax for real estate owned by the company.

+ 1690000 L.E salary of employees.
+ 270000 company share in the insurance fund for workers.

+15000 L.E judicial expenses.

- the item of provisions included: 600,000 L.E provision for bad debts, including 400,000 L.E for debts owed on a company that has already declared bankruptcy and the company has taken the necessary legal procedures to claim debts more than two years ago and was unable to collect it, and the remainder is a provision made up as a percent of the remaining debtors.

-included in the income statement amount of 2350000 L.E provision for taxes disputed for the profits of previous years.

- Extraordinary income in the income statement included 2300,000 L.E, canceled provision, , which is a provision that was previously formed in previous years to face judicial compensation and was not approved by the Tax Authority.

- Extraordinary expenses appeared on the income statement 140,000 L.E which are losses resulting from

the sale of shares of companies listed on the Egyptian Stock Exchange.

Required: calculate the tax bracket and the due tax.

3-A private Egyptian Corporation has a paid-in Capital of L.E. 200000. This firm is recorded in the Egyptian Stock Market. The deposit interest rate determined by the Central Bank is 15%. The Income Summary Account of the firm for the year ended on June 30th, 2018 showed a net profit of L.E. 1000000. A decision was made to allocate the net profit as follows: 5% a legal reserve, 10% a regular reserve, 5% a first installment to shareholders and workers, 10% of the balance as a bonus to the board of directors, 3% a second installment to shareholders and workers, and the balance to be forwarded to the following year.

The following information are also available:

A- The following items were charged to the income summary a/c.

- L.E. 20000 bonuses to the chairman and elected members of directory board for their managerial work.
- L.E. 5000 attendance allowances.
- L.E. 30000 advertising campaign.

- L.E. 50000 workers' bonuses (salaries of 5 months).
- L.E. 400 building tax for the building that is owned and occupied by the firm (in the rate of 10%).
- L.E. 30000 corporate tax of the previous year.
- L.E. 60000 depreciation of fixed assets (including the building).

B- The Income Summary was credited by the following:

- L.E. 40000 stock dividend revenue.
- L.E. 30000 capital gain on the sale of a truck purchased for L.E. 70000 and sold for L.E. 60000 when its accumulated depreciation was L.E. 45000.

Required: Prepare the firm's tax declaration for 2018 and calculate its due tax given that the tax rate is 22.5%.

4- 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.	25000	(16000)	16500	30000	2500

Required : determine the tax bracket for each year.

Chapter Two

Value Added Tax

Introduction:

Commodity taxes and fees have evolved in the Arab Republic of Egypt from tax to Production to the tax on consumption and then to the general tax on sales to become after that A value-added tax if it extends to the various stages of production and distribution.

Tax Development Stages

First: The Production Tax:

Egypt started imposing production duties since 1921, when the State imposed a production duty on alcohol. The range of these duties then expanded successively, in addition to imposing consumption duties on imported commodities similar to those on which production duties were imposed. As a result, the provisions regulating the production duties and consumption duties were dispersed and scattered, which led in turn to a disparity in the bases and rules that regulate or govern these duties.

Second: The Consumption Tax:

In 1981, the fiscal legislation was issued to assemble production and consumption duties in one tax, which was called the consumption tax. This was by law No, 133 of 1981, and its consequential amendments. Yet, the

practical application of the consumption tax revealed the existence of several problems and loopholes, the most important of which are:

1- The variety of methods of calculating the tax on different commodities, as more than one criterion was adopted in calculating that tax, using the unit as a basis for the calculation of the tax on some commodities, and a percentage of the value of the commodity as a basis for calculating the tax on some other commodities.

2- The diversity of tax rates and its multiplicity, which ranged between 2% and 50% on local products, and between 1.95% and 32.5% on imported commodities.

3- Some locally produced commodities were subjected to tax rates higher than the imported ones. This resulted in creating unfair competitive circumstances in favour of imported commodities.

4- The existence of a duplication in the payment of tax, the tax is paid on parts included in the production of the end-commodity, in addition to, the end-commodity being charged with the imposed tax.

5- The tax becomes due upon withdrawal of the commodity from the stores and prior to actual sale. This

led to creating confusion when determining the incident originating the tax, and to several complaints from the taxpayer.

6- The payment of the tax every ten days created several problems and procedures which overburdened the taxpayer, in addition to complications in dealing with the Tax Administration.

Third: General Sales Tax:

As a result of the problems and loopholes which accompanied the application of the consumption tax, it was deemed better to adopt a general sales tax since 1991. After having conducted several studies, the consumption tax was cancelled, and a general sales tax was imposed by Law 11 of 1991.

In law 11 of 1991, the legislator endeavored to avoid the shortcomings, defects and problems which accompanied the application of the consumption tax especially the following:

1- The Sales Tax becomes due upon the completion of sale of the commodity subjected to tax, not upon withdrawal from stores as was the case with the consumption tax.

2- Authorizing the taxpayers to deduct the paid tax on their inputs from the tax due on their sales, as well as deducting the tax on the sales returns, with the aim of avoiding duplication existing under the consumption tax system.

3- The imposition of the General Sales Tax on the imported commodities in such a way as to achieve fair competition with local counterparts in order to activate and encourage local manufacturing, instead of the consumption tax system which used to create unfair competitive conditions in favour of imported commodities in most cases.

4- Progression in the rate of the General Sales Tax according to the commodity importance to the masses. There are tax-exempted commodities and others subjected to the tax at a reduced rate (5%), others subjected to the tax at an average rate (20%), and others subjected at a high-rate tax (30%), in addition to a general tax rate of (10%).

5- The smooth running and simplification of procedures. The form of presenting the tax declaration to the Sales Tax Administration, includes, the tax payable after deduction of the tax on inputs and returns, with payment

of the tax during the thirty days following the accounting month, instead of the consumption tax system which dictated payment every ten days.

The General Sales Tax applied by Law No, 11 of 1991 is characterized by flexibility, which allows developing it towards the adoption of tax on the value-added by extending it to subsequent stages of production, such as of wholesale, and retail stages.

Article One of Law 11 of 1991 indicates the tax application stages in three stages as follow:

The first stage: In which the industrial producer, the importer and the provider of service shall be requisitioned to collect the tax and pay it to the Tax Administration.

The second stage: In which the industrial producer, the importer and the provider of service shall be, in addition to the wholesale trader, requisitioned to collect the tax and pay it to the Tax Administration.

The third stage: In which the industrial producer, the importer, the supplier of service, the wholesaler and retailer shall be requisitioned to collect the tax and pay it to the Tax Administration. Article four of Law 11 of

1991 stipulated that the first stage of the application of the tax shall apply from the date of putting this law into effect. It shall be permissible, by decree from the president of the Republic, to move ahead, into the second stage or the third stage as the case may be.

The value added Tax shall be considered, after having completed the application of its three stages, a tax on the value added to the commodity, as it is imposed on the amount of the increase that occurs to the value of the commodity in each stage from producer, to the wholesaler, to the retailer and to the end-consumer.

Fourth: Value-added Tax:

The value-added tax is imposed on the amount of the increase in the value of the commodity in each stage of its transition from the producer to the wholesaler, the retailer, and then the final consumer.

The thinking has always been to shift towards a value-added tax to treat the problems resulting from the application of the general sales tax. In order to address the general sales tax problems, and move to apply the general sales tax as a value-added tax, it was necessary to issue a new tax legislation that addresses all of these

problems, and Law 67 of 2016 was issued for this purpose. The main features of this law are as follows:

1- All goods and services are subject as a general principle, with the exception of some goods and services proposed to be exempted from tax, provided that the law is attached with a schedule specifying the types of these goods and services.

2- Increasing and unifying the registration limit, to become half a million pounds for all tax- charged categories, with the exception of categories that deal in goods and services listed in the schedule, who are obligated to register regardless of their sales value.

3- Unifying the value-added tax rate, to be a single general price for all goods and services.

4- Setting specific controls to determine the value taken as the basis for assessing the value-added tax for local and imported goods and services, as well as in cases of sale to related persons.

5- Amending the additional tax rate to become 1.5% for each month of delay or fractions following the legally defined payment period, and thus this tax becomes 18%

for the year, instead of 26% in the case of the current law.

6- Addressing the problems resulting from determining the sales value in the case of installment sales.

7- Expanding the tax refund base to include not only the tax paid on the inputs of exports, to include the tax paid on machinery and equipment used in the production of a taxable good or service, and the tax credit that has passed more than six consecutive tax periods.

8- Subjecting the schedule's goods to value-added tax.

9- Reverse assignment in the case of services imported from abroad, where the recipient of the service is obligated to supply the value added tax.

10- Unifying the procedures for appealing the tax assessments of the authority, so that it becomes the same as the appeal procedures in the income tax, thus unifying legal procedures in the case of tax disputes, and thus enabling the issuance of unified legislation to end tax disputes.

11-Explicitly stipulating that used goods shall be subject to value added tax.

Example:

If we assume that a commodity needs raw materials to be produced, its cost is 300 pounds, and the producer of the commodity is sold to the wholesaler for 750 pounds, who in turn sells it to the retailer for 1050 EGP. The retailer sells the commodity to the final consumer for 1500. Assuming that the tax rate is 14%, it is required to calculate the tax due on the commodity

The value-added tax due on the commodity can be reached by following one of the two methods

The first method: imposing the tax on the amount of the increase only that occurs in the value of the commodity in each case stage, as shown in the following table:

The stage	The value added	The payable tax
Raw material producer stage	300	$300 \times 14\% = 42$
Commodity producer stage	$750 - 300 = 450$	$450 \times 14\% = 63$

Wholesaler stage	$1050-750=300$	$300 \times 14\%=42$
Retailer stage	$1500-1050=450$	$450 \times 14\%=63$
The total tax paid on the commodity in its different stages= $42+63+42+63=210$ L.E		

The second method: imposing tax on the selling price of the commodity at each stage, with deduction of the tax that It has already been paid in the previous stage, and accordingly we find:

By Applying on the data of the previous example, the following is done:

1-Raw material producer: When selling the raw material to the commodity producer, he shall issue an invoice stating the following:

Sales price	300
+ value added tax	<u>42</u>
Total price to the commodity producer	342

Provided that the producer of the raw material supplies the tax mentioned in the invoice to the Tax Authority, in

this case, it is equivalent to the value-added tax at this stage 42 L.E.

2- The industrial producer of the commodity: The producer of the commodity when selling the finished commodity to the wholesaler by issuing an invoice stating the following:

Sales price	750
+ value added tax	<u>105</u>
Total price to the wholesaler	855

Provided that when supplying the tax mentioned in the invoice, the manufacturer deducts the previous tax that he Pay it on his input from the raw material and supply the difference to the tax authority.

Then, the tax payable at this stage = $105 - 42 = 63$ L.E, which is equivalent to the value-added tax at this stage.

3- Wholesaler: The wholesaler, when selling to the retailer, issues an invoice indicating the following:

Sales price	1050
+ value added tax	<u>147</u>
Total price to the retailer	1197

Provided that the wholesaler, upon supplying the tax mentioned in the invoice, deducts the previously paid tax on his input from the finished goods and pays the difference to the Tax Authority.

Then, The tax payable at this stage = $147 - 105 = 42$ which equivalent to the value-added tax at this stage

4-Retailer: When selling to the end consumer, the retailer issues an invoice that includes the following:

Sales price	1500
+ value added tax	<u>210</u>
Total price to the retailer	1710

Provided that the retailer, upon supplying the tax mentioned in the invoice, deducts the previously paid tax on his input from the goods and remits the difference.

The tax payable at this stage = $210 - 147 = 63$ L.E which is equivalent to the value added tax at this stage.

We will note that the sum of the taxes that were paid = $42 + 63 + 42 + 63 = 210$ L.E which is the same as the tax on the total value added, which is shown in the first method.

Characteristics of Value added tax:

The value added tax has the following characteristics:

1- It is an indirect tax:

The general value-added tax is considered an indirect tax because it is imposed on the uses of wealth and income when spent, where a certain person pays this tax and then transfers its burden to another person, the consumer, by adding its value to the selling price of the commodity to the last person, and this means that there is an intermediary Between the consumer who bears the tax burden and the state's public treasury represented by the Tax Authority.

2- A tax that applies to goods and services at all stages of their circulation :

Article No. (1) of the Value Added Tax Law stipulates that the tax shall apply to goods and services, whether local or imported, in all stages of their circulation, except for what is excluded by a special provision.

3-It is a regulatory tax:

The Tax Authority can use the value-added tax as a means of controlling the taxpayers of the tax on the income of natural persons and the tax on the profits of judicial persons. Its sales are based on its declaration and books, and the examination made for value added tax purposes. The result of these comparisons will be useful in narrowing the chances of tax evasion, whether in relation to general taxes or value-added tax. This, and we also point out in this regard that after applying the tax in all stages of trading, it is in the interest of each taxpayer to ensure that the other party pays the tax so that he can deduct it from the tax due on him when selling the commodity or performing the service.

4-It is a regional tax:

The Egyptian legislator took the principle of the territoriality of the tax in relation to value-added tax and made it spatially apply to goods and services subject to it within the borders of the Arab Republic of Egypt without exceeding it, limiting the collection of value-added tax to the state's territory only, and therefore the tax collection does not extend beyond the borders of the state's territory. This principle is combined with the principle of access, where the value-added tax is imposed in the consuming country of the good or service, and the application of this principle requires that the tax be imposed on exports at a zero rate, and on imports at the rate applied in the country to which they are received.

5-It is a deductible and non-deductible tax at the same time:

The value added tax combines two opposing characteristics at the same time. It is a deductible tax according to the text of Law 67 of 2016, where Article No. (22) stipulates that the tax due on the sales value of goods and services must be deducted from the previously paid or calculated tax on sales returns and what has already been charged from this tax on inputs.

On the other hand, the value tax is considered a non-deductible tax in the following cases:

A - Schedule tax, for what is not mentioned in a special text.

B- tax on inputs included in the cost.

C- Exempt goods and services.

6- It is a fair tax:

The value-added tax achieves a fair distribution of the tax burden, in a way that works to achieve social justice, by deciding tax exemptions for the basic essential commodities needed for people with limited incomes, and achieving a gradation in tax treatment according to the importance of commodities to the citizens, through the gradual rise in relation to Tax prices whenever the goods are luxuries, by subjecting these goods to a schedule tax and value-added tax. It is noted that some entertainment goods, such as TV, that is larger than 32 inches, are subject to a schedule tax at 8%, provided that the price of the TV, in addition to the fee of 8%, is subject to value-added tax at a rate of 14%, so the total tax paid for this item is 23.12% .

7- It is a proportional tax in general and qualitative in some cases:

The value-added tax rate is a proportional rate, as its price is 14% on goods and services, whether they are local or imported. This is in addition to the rate of (zero%) on goods and services that are exported abroad. Some goods are excluded from the proportional rate, where the tax on them is qualitative, and they are the goods that came first in the accompanying schedule of the law, where the tax is due for these goods according to the rate shown in front of each of them.

Tax Rates and Chargeability

Tax Rates:

General Rate:

General tax rate on commodities and services shall be (13%) for the fiscal year 2016/2017 and shall be (14%) as of the beginning of the fiscal 2017/2018, provided that a percentage of (1%) of tax shall be allocated to expenditure on social justice programs.

Low Rate:

The rate on machines and equipment (local or imported) used only for commodity or service

production, as per a decree to be issued by the Minister of Finance, shall be (5%) except for buses and vehicles; as they shall be subject to the general rate of the tax, and/ or the rates of schedule tax, as the case may be.

Machinery and equipment shall include complete production lines with all their components.

If the use of such machinery and equipment isn't confined to commodity or service production, they shall be subject to the general rate of the tax, and/ or the rates of the schedule tax, as the case may be.

Parts and spare parts of machinery and equipment shall be taxable at the general rate of the tax.

Zero Rate:

Exported commodities and services shall be subject to tax at the rate of zero. The reason for this is to enable the registrant to refund the tax he had already paid against inputs to such commodities and services, as this refund is not possible, if such commodities and services were exempted from the tax.

The commodities and services exported abroad shall be subject to tax at zero rate with the following conditions and terms:

1- For exported commodities, the exporter should follow the applicable customs procedures, and should maintain for a period of five years the relevant documents and the documents evidencing the completion of the export process, including the export certificate issued by the competent customs house, or any equivalent official certificate from the customs bodies.

2- For exported services, the dealing between the service provider in Egypt and the recipient abroad should be proven by the service contract, or by any other evidence compatible with the nature of the service. Additionally, the following documents should be provided:

- A carbon or electronic copy of the tax invoice or certificate payment.

- A copy of the document proving the payment of the service price via a bank transfer from abroad to a bank regulated by the Central Bank of Egypt.

Tax Rate on Smuggled Sales:

Smuggled sales and sales made contrary to the rules stated herein shall be subject to tax rates effective on the date of crime or offense. If the date is impossible to define, such sales shall be subject to the effective tax rates at the time of seizure or when detecting the offense.

Tax declaration:

Article No. (14) of Law 67 of 2016 stipulates that the registrant is obligated to submit a monthly tax declaration on the due value-added tax and schedule tax, or one of them, that includes his sales and inputs, and states the value of the tax he will pay, no later than two months after the end of the month for which he submits The declaration, with the exception of the April declaration, where the period for filing the declaration and paying the tax is a month and a half after the end of the month, i.e., no later than June 15.

In the event that the registrar delays submitting the declaration within the legally specified period and not exceeding 60 days, he shall be penalized in accordance with Article (66) of the Value Added Tax Law with a fine of not less than 500 L.E and not exceeding 5000

L.E, and an additional tax of 1.5% of the taxes due and not paid. It is paid for each month of delay or fraction.

Assuming that the value-added tax payable on one of the registrants for the January declaration of the year 2021 amounted to 80,000 L.E and he submitted his declaration for this month and paid the tax due on him in mid-May of the same year, so the amount of tax payable in this case is determined on The basis of a delay period of two months after the end of the legally specified period for the payment of tax and the submission of the return, as follows:

The tax payable	80000L.E
+ additional tax= $80000 \times 1.5\% \times 2$ months	2400
The due tax that paid to the tax authority	82400 L.E

The registrar is liable to at least a fine of 500 L.E, the tax due and the additional tax.

If the delay period exceeds more than sixty days following the end of the legal period for submitting the

declaration and paying the tax, the registrant shall be punished in accordance with the provisions of Article (66) of the Value Added Tax Law, with imprisonment for a period of no less than three years and not exceeding five years, and a fine of no less than 5000 L.E and not more than 50000 L.E, or either of these two penalties.

The registrant is also obligated to submit the aforementioned tax return even if he has not made sales or performed taxable services during the tax period.

Tax Chargeability:

Local Commodities:

Tax on local commodities is due at the time of selling by taxable persons in all stages of circulation, regardless of the method of selling including the electronic means.

The sale shall mean transfer of the commodity ownership from the seller to the purchaser. The following shall be considered as selling, whichever is earlier:

- Issuing of the invoice.
- Delivery of the commodity.
- Payment of the price of commodity (in full or part, to credit account, or any other way).

In case of distribution of commodity through agents, movement of the commodity from taxable person to agent, is not considered a sale event which renders Value Added Tax due. It shall only be due, however, upon its actual sale by agent to account of taxable person.

The following acts shall not be deemed taxable sales:

- Transfer of ownership of a commodity on death, by way of inheritance or will, and
- Any product a person produces by himself and for his own use, and such product is not intended for producing another commodity or service to be sold others, or not intended for sale or for circulation from one stage to another.

Imported Commodities:

Tax shall be payable on the imported commodities, regardless of the importation purpose thereof (including personal consumption or special use), during the release stage from the customs when customs duty is due. Tax shall also be payable after customs release at all stages of circulation thereof within the country rules related to the special customs regimes shall be applied on imported

commodities unless otherwise stated by virtue of a special provision herein.

Tax shall not be due on the transit commodities, provided that such commodities are transported under control of customs authority in accordance with the rules stated in the customs law.

Local Services:

The tax shall be due upon rendering the service by taxable person regardless of the method of rendering or circulation, including the electronic means.

This event is realized by the following any ways whichever is earlier:

- Issuing of the invoice.
- Rendering the service.
- Payment of the price of services.

Services that are rendered on a regular uninterrupted basis to satisfy the needs of their beneficiaries shall be considered services of continuous nature, such as; communication and facsimile services, contracting services of construction and building, cleaning and guarding services, and transport services of commodities and materials.

In this cases, issuance of invoice by service render is considered tax chargeable event.

The service is provided over stages inside the same unit or entity that is committed to provide it, shall not be taxable.

Imported Services:

In tax becomes chargeable at the event of benefiting from the service in Egypt, whether such service is rendered by a person who is a non-resident of Egypt or by an agent thereof, or via electronic means, or any other means.

Using for Personal Consumption or Special Usage:

Using commodity and service for personal consumption or special usage, or disposing of it in any legal way, is considered a kind of sale which renders it subject to Value Added Tax.

Personal consumption shall means using a commodity or benefiting from a service for purposes not rated to the activity. For example, if a car producer allocates a car of his production for personal consumption, or disposes of it by way of donation or contribution, the Value Added

Tax become due, at the date of using exactly the same as if he had sold it to others.

Special usage shall means using a commodity or benefiting from a service in purposes related to the activity. For example, if a car producer allocates a car of his production for used to his activity, the Value Added Tax becomes due at the date of using.

Distribution by holding (parent) companies of the cost of the taxable service which they render, or which they receive from others in exchange for payment to their subsidiaries receiving that service, shall be considered private usage.

The following items shall not be taxable:

- Transfer of the commodity from a production stage to another production stage among the production lines inside or outside the factory, without prejudice to the chargeability of the tax on the services performed on that commodity.
- Transfer of the commodity from production locations or commercial warehouses to distribution outlets owned by the same registered person, without prejudice to the

chargeability of the tax on the services performed on that commodity or service.

Termination and Liquidation of the Activity:

In case of cessation or liquidation of the activity related to a taxable commodity or service, the Value Added Tax shall be chargeable on the commodities in the possession of registrant at the time of disposal unless the successor of the registrant is or shall be registered in accordance with the law.

Cessation of activity shall mean complete termination or liquidation of the activity relating to a taxable commodity or service, or assignment of such activity to third parties (successors).

In this case, the registrant must notify in writing the head of the competent tax inspectorate of cessation of the activity no later than thirty days from date of cessation, liquidation or assignment.

Free Zones, Cities and Markets:

The law distinguished between 2 cases as follows:

Commodities and Services imported from abroad:

In this case, tax is due as follows:

- Transiting commodities, shall not be taxable, provided that they should be transported under the supervision of the customs authority and that the procedures, conditions, guarantees and control systems applicable with regard to customs duties should be strictly observed.
- Taxable commodities or services imported for trading or local consumption purposes inside the free zones, cities and markets, shall be taxable at the time of customs release. But, in case these commodities are admitted to the local market inside the country, the tax shall also be due against the value of the customs taxes only.
- Commodities and services imported from abroad by projects free zones, cities, and markets, that are necessary for them to practice their licensed activity inside these locations, shall be taxable at zero rate according to the customs systems applicable in the regard, except passenger vehicles which are taxable at the time of customs release.
- Commodities and services imported from local market by projects free zones, cities and markets, that are necessary for them to practice their licensed activity inside these locations, shall be taxable at zero rate, except passenger vehicles, provided that the following

documents should be submitted by the seller registered with the authority:

- * A copy of the sale invoice of the commodity exported to the free zone.

- * A letter issued by the general authority for investment advising that commodities and services are necessary for practicing the activity licensed to the project inside the free zone.

- * A copy of the export certificate (from No. 3 customs).

Commodities manufactured in the projects of free zones and free cities, then admitted inside the country:

The services and commodities manufactured within the projects of the free zones and cities shall be treated in the same way as the imported commodities from abroad, upon their withdrawal for local consumption or use.

Taxable Value

Local Commodities and Services:

The value which should be adopted as a basis of tax assessment of taxable local commodities and services, shall be the amounts collected from the purchaser or the service recipient under any name as long as such

amounts are related to commodity sale or service provision, and all incidental expenses such as the costs of commission, packaging, sorting, transportation, insurance charged by the seller on the purchaser.

In case of the sale of a commodity or provision of a service free of charge, or at a lower price, the value payable shall be computed according to the market forces and transaction conditions.

In the case, the following shall be observed:

Trade and Cash Discount:

Trade discount is not included in taxable value of commodity or service, if the sale is carried out between a registrant seller and an independent buyer, provided that tax base shall be the value actually paid.

This discount based on prior pricing decisions, as is the case for the trade discount given on the occasion of the occasions or on the occasion of holidays and school entry.

But, cash discount is not excluding from taxable value of commodity or service that is not reflected in the tax invoice and that the recognition of this discount may sometimes enrich the seller at the buyer's account with

the amount of tax deducted of the due tax on sales in case the buyer fails to pay the price during the discount period.

Sales by Bartering:

In this case, the value of commodity or service taken as basis for tax assessment shall be the sale price according to the market forces and the transaction condition, between the two unrelated parties.

In this case, both parties to the swap contract commit to issue an invoice for the commodity or service in the place of the barter contract and charge it with the tax as if it was sold in the market in cash.

Personal Consumption and Private Usage:

The value of commodity and services used for personal consumption shall be determined according to market forces and transaction condition, such as the car manufacturer to allocate a car for the use of personal.

The value subject to tax for commodity and services used for private usage shall be determined based on the total cost, as in the case of internal works.

Installment Sales:

The value for installment sale taken as a basis of Value Added Tax assessment shall include the installment sale interest that exceeds the credit and discount rate declared by the Central Bank of Egypt on the selling date, according the following rules and procedures:

- The installment sale contract should be drawn up in two originals, with one copy to be maintained by taxable person (seller).
- The price of the installment sale should be exceed than the value of the commodity, according to the market forces and the transaction condition.
- The value of the interest on the installment should be separate from the value of the commodity indicated in the tax invoice.
- Agreement to pay the price in installment should be incorporated in the basic terms of the contract, commensurately with the nature of the item sold, and contracting conditions.
- The seller should keep regular books and accounts.

Platinum, Golden, Silver and precious Stoned Jewelry:

The value taken as a basis for tax assessment on sale of platinum, golden, silver and precious stoned jewelry, shall be the value of manufacturing, based on the difference between the announced gram price and the value shown in the invoice.

Precious stones shall include diamond and others which are indicated in the notes and texts of the items set out in the sections and chapters contained in the customs tariff schedules.

The tax base for imported jewelry upon customs release shall be the value of manufacturing specified by the customs authority in addition to customs tax and other taxes and chargeable duties.

Used Commodities:

The value taken as a basis for tax assessment on purchased new commodities by the registrant and resold after local use for at least two years, shall be (30%) of the sale value, with the following all conditions:

- The taxable person should be who has bought the commodity, and that commodity should be new and has not been used before.
- The taxable person should use the commodity locally for a period not less than two year, and
- The commodity should be sold by the same taxable person.

In this regard, the deduction rules prescribed in the law, should not apply as of the date of sale, in case non-completion of the deduction of the full tax due on such commodity when it is bought new.

If any of the foregoing conditions is not met, the tax base shall be the full sale value.

The provisions of the a foresaid item shall not apply in the following cases:

- Selling of used commodities in the local market.
- Imports are commodities abroad or at free zones.
- Residues and scrap.

Bid-Sold Commodities:

The value subject to tax for Bid-Sold Commodities is the value paid by the buyer. The indicative expenses and other duties not included to this value.

Industrial Wastes:

The industrial wastes are considered a commodity and should therefore be taxed when sold on the basis of its actual selling value provided that it is the result from a taxable commodities. If these wastes result from a commodities exempted from the tax, the value actual selling value is also exempt from tax.

Defective Final Product:

The defective final product shall be taxable based on its actual selling value.

Example (1):

The following is a list by sales made by an producer registered at Tax Authority for (Y) local commodities that are subjected to Value Added Tax through March 2019:

- L.E. 20000 sales to a wholesaler on 15/3 at 5% discount, n/30 and the wholesaler paid at 20/3.

- L.E. 30000 cash sales to a retailer on 25/3 at 5%, also 2% for cash discount.

If you learn that the commodities not included among commodities subjected to schedule tax.

Required:

- To calculate Value Added Tax due for March 2019.
- Journal entries to record sales and collection of cash.
- Current account of tax authority.

Solution

Calculation of Value Added Tax

- Value Added Tax due on sales of wholesaler = $20000 \times 95\% \times 14\% =$	2260
- Value Added Tax due on sales of retailer = $30000 \times 95\% \times 98 \times 14\%$	3910.2
Total Value Added Tax	6570.2

Journal entries

Account receivables a/c	21660	
Sales a/c		19000
Current tax authority a/c		2660
Cash a/c	21280	
Discount on sales a/c	380	
Account receivable a/c		21660

Cash a/c	31840.2	
Sales a/c		27930
Current tax authority a/c		3910.2

Current Tax Authority

Balance		A/R	2660
	6570.2	Cash	3810.2
	6570.2		6570.2

Example (2):

Sale contract by bartering between ABC company for the production of furniture and AL AMAL company for the production of potages, whereby the replacement of the number of (5) offices for staff with (4) potages. If you learn that: the price of the sale of one office is L.E. 4000 and the price of one potages of L.E. 5000 and these the commodities not included among commodities subjected to schedule tax.

Required: To determine the total invoice value issued by the ABC company and Al Amal company.

Solution

ABC Company Invoice

Invoice value = $4000 \times 5 =$	20000
+ Value Added Tax = $20000 \times 14\% =$	2800
Total Invoice	22800

AL Amal Company Invoice

Invoice value = $5000 \times 4 =$	20000
+ Value Added Tax = $20000 \times 14\% =$	2800
Total Invoice	22800

Example (3):

A company registered at tax authority bought a new commodity on first Nov., 2018 its value amounted to L.E. 25000. After (3) years from used the commodity locally. The company sold this commodity at L.E. 20000. If you learn that the commodity not included among commodities subject to schedule tax.

Required: To calculate Value Added Tax due for this commodity.

Solution: This commodity used locally after purchased for a period exceed (2) years, therefore, the tax due is calculated as follow:

$$20000 \times 30\% \times 14\% = \text{L.E. } 840$$

Example (4):

Installment sales by an industrial company registered at tax authority amounted to L.E. 60000 for Oct. 2019. If you learn that:

- Interests of installment is calculated at the rate of 12%.
- The credit and discount rate declared by the Central Bank on the selling date was 9%.

Required: To calculate Value Added Tax due.

Solution

The base is determined as follows:	L.E.
Installment sales	60000
+ Interests of installment sales which exceed the credit and discount rate declared by the central bank on the selling date = $60000 \times (12\% - 9\%) =$	1800
Tax Base	61800

Tax due = $61800 \times 14\% =$ L.E. 8652

Imported Commodities and Services

Imported Commodities:

Taxable value of such commodities is determined as follows:

At Customs Release:

Value of imported commodities shall be estimated upon the customs release based on the value adopted as a basis for customs tax assessment including services relevant to the imported commodity, in addition to customs taxes and any other taxes or duties levied imposed against the commodity.

In case of exempting the commodity from customs tax in full (according to laws), taxable value is determined at the value adopted as a basis for customs tax only plus other taxes and duties except the customs tax that this commodity is exempted from it. But, in case that partial exemption from customs tax or in case of reducing such tax, taxable value is determined at the value adopted as a basis adopted as a basis for customs tax assessment plus customs tax reduced and any other taxes or duties, without prejudice to the principle of reciprocity incorporated in international treaties.

In all cases, the customs authority must collect the tax imposed on taxable services, including freight, rendered on imported commodities, whether such commodities are taxable or exempted, at the same tax rate mandated by law on such services.

At Sale the Commodity in Local Market:

In this case, taxable value shall be determined by the amount actually paid for this sale listed in tax invoice, which the seller addresses to the buyer, provided that the value to be declared upon sale in the local market shall not be less than value deemed a basis for tax assessment upon customs release, unless there are no commercial reasons justifying such reduced value, such as: overstock, damaged or defective commodities, and a decline in the market value of the commodity or service, due to the introduction of alternatives with higher mechanisms or technologies, or due to the drop in the world prices of such commodity or service. In all cases, such commodities should not be previously used by the registered person.

Example (5):

An importer registered at Tax Authority imports 500 units of (Y) commodity its value \$ 8000 at the invoice

and also the broker commission was L.E. 10000, freight cost is \$ 1000, insurance expense was \$5 per unit, and 2% for discharge of commodities at the port in Egypt. if you learn:

- The commodity not included among schedule tax.
- Customs tax rate is 20%.
- Support duty was collected at a rate of 10% from the value.
- Foreign exchange is L.E. 16 per \$.

Required:

- To calculate value added tax due at customs release.
- Journal entry to record the import transaction.

Solution

Determination tax base:

	L.E.	L.E.
The value actually of commodity		
\$ 8000 × 16 =		128000
Broker commission	10000	
Freight cost = \$ 1000 × 16=	16000	
Insurance expense= 500 units × 5\$ × 16	<u>40000</u>	
		<u>66000</u>
Value till harbor arrival		194000
Discharge cost = 354000 × 2% =		<u>3880</u>

Taxable value of customs tax		190120
Customs tax = 190120 × 20%	38024	
Support duty = 190120 × 2%	<u>3802.4</u>	41826.4
Value Added Base		231946.4

Calculation Value Added Tax due:

$$\text{Value Added Tax Due} = 231946.4 \times 14\% = \text{L.E.}32472.5$$

Journal entry

Import cost (foreign purchases) a/c	231946.4	
Current tax authority a/c	32472.5	
Cash /account payable a/c		264418.9

Example (6):

A person imports a commodity for \$ 50000, the freight cost was L.E. 10000, insurance expenses was 1% and discharge expenses was L.E. 12400. If you learn that:

- The commodity not included among schedule tax.
- The value based for computation of customs tax was reduced by 20% according to the decision of the President of Republic.
- Customs tax rate is 30%, and Foreign exchange rate is L.E. 16 Per \$.

Required: To calculate value added tax due at customs release.

Solution

Determination tax base:

The value actually of commodity	L.E.	L.E.
\$ 50000 × 16 =		800000
Freight cost		<u>10000</u>
Total		810000
Insurance expense= 810000 × 1%	8100	
Discharge expenses	<u>12400</u>	
		<u>20500</u>
The value based for customs tax computation		830500
(-) Special discount = 830500 × 20%=		<u>166100</u>
Customs tax base		664400
+ Customs tax due = 664400× 30%		199320
Value Added Base		863720

Calculation Value Added Tax due:

Value Added Tax Due = 863720 × 14% = L.E.120920.8

Example (7):

On first, June, 2019, an importer registered at the tax authority, imported 300 units of a commodity, its price \$

100 per unit. The insurance expense amounted to \$ 500, the commission and the foreign brokerage L.E. 12000, the discharge expense L.E. 13000. He sold 200 units of them in cash during the month with a profit margin of 40% of the cost.

If you learn that the commodity is not subject to schedule tax, the rate of tax customs is 25%, and foreign exchange rate is L.E. 16 per \$.

Required: To calculate the value added tax due at customs release and at the sale in local market.

Solution

At customs release:

The value of commodity = 300 units × \$	
100 × 16 =	480000
Insurance expense= \$500× 16	8000
Commission & foreign brokerage	12000
Discharge expenses	<u>13000</u>
Total	513000
Customs tax due= 513000× 25%	128250
Value Added base at customs release	641250
Value add tax due = 641250× 14% =	
L.E. 89775	

At sale the commodity in local market:

Cost of importation = 641250 × (200/300) =	427500
Profit margin = 427500 × 40% =	<u>171000</u>
Selling price =	598500
Since, the sale price in the local market is more than the value deemed a basis for tax assessment upon release (427500), the tax due at sale the commodity in local market shall be calculated on the sale in the local market as follows: Value added tax due = 598500 × 14% = L.E.83790	

Imported Services:

The legislator distinguished between two cases as follows:

Perform Imported Services by a Resident in Egypt:

The service in this case is considered to be local service (not imported). Since, the service provider is resident in Egypt, it is necessary to register with the tax authority, collect and supply the tax due on that service and declare it.

The service shall be taxed upon rendering It in Egypt regardless of service rendering method, or payment of the service charge, whether wholly or partially.

Perform Imported Service by a Non-Resident in Egypt:

Every non-resident person and non-registered in Egyptian Tax Authority who provides taxable services to a non-registered person inside the country, and who does not practice activity through a permanent establishment in Egypt, shall appoint a representative or agent in Egypt to be responsible for all the obligations assigned to the taxable person stipulated in the law including registration, payment of tax and additional tax and any other due taxes according to the law.

Appointment of a representative or agent for a person who is non-resident and non-registered with the tax authority must be made by an official or common-law power of attorney, ratified by the Egyptian Embassy in the country in which the principle resides. The agent or representative must be a resident of Egypt and registered with the tax authority or have a tax card.

The resident person shall make that the non-resident appointed a representative or agent in Egypt in case, the resident who deals with such non-resident, shall pay the tax in addition to any other due taxes as per the provisions of the law without prejudice to the right of the

resident to reimburse the paid tax amount from the non-resident.

If a non-resident person and not registered in Egyptian Tax Authority provides a service in Egypt to a registered person which is not required for practicing his activity or supplies a service to a governmental body or a public of economic authority of any other authority, the service beneficiary shall calculate the tax due on that service and pay it to the tax authority within thirty days as of the service supply date, in case the non-resident and non-registered did not appoint a representative or an agent thereof in Egypt.

If the registrant imports a service that required for practicing his activity subject to tax, he shall be treated as an importer and service provider at the same time.

Meaning that it complies with all the obligations imposed on the importer of the service, which is the declare of the value of the imported service in the date of its performance in Egypt (not within thirty days as in the case of the registered recipient of the service that not required for practicing his activity) and paying the tax due in accordance with the date specified by the law. On the other hand, the recipient of the service shall comply

with all the obligations imposed on the service provider and shall be entitled to deduct the tax related to his activity from the value of the tax collected for his activity.

Commodities that are Graduating from Free Zones and Cities:

- If these commodities imported from abroad for local consumption or trading inside the free zones and cities, the tax shall be due against the value of customs tax when these commodities exit from the free zones and cities to the local market inside the country. This takes into consideration that they had been already subjected to tax at their first admission to the free zones and cities on their importation cost.

- If these commodities manufactured inside the free zones and cities, the tax shall be due against the value of commodities in full (value of both imported parts as well as local parts) plus customs tax and other taxes and duties imposed on the commodities, when these commodities admitted inside the country.

Example

A manufacturing company set in the free zone at port said sold some of its commodities to a trading company at Qena for L.E. 60000. If you learn:

- The ratio of the foreign component at this commodities is 40% from the value.
- Customs tax rate is 20% and support duty is 2%.
- The commodities not included among schedule tax.

Required: To calculate value added tax due at customs release from Port Said.

Solution

Determination tax bas

The value of commodity (local and foreign parts)		60000
Customs tax = $60000 \times 20\%$	12000	
Support duty = $60000 \times 2\%$	<u>1200</u>	<u>13200</u>
Value added tax base		73200

Calculation value added tax due

$$\text{Value added tax due} = 73200 \times 14\% = \text{L.E.}10248$$

Example

An commercial company in Sohag purchased 400 units of imported commodity at a price of L.E 750 per

unit with a discount of 2% from one of the company operating in a free zone. If you learn that: the commodity is not included in schedule tax, the rate of customs tax is 30%.

Required: To calculate the value of value added tax payable upon the commodity removed from the customs port.

Solution

The value added tax due when the commodity is removed from customs port shall be calculated as follows:

- Determine the tax base:

It is the customs tax alone as follows:

$$400 \text{ units} \times 750 \times 98\% \times 30\% = \text{L.E. } 88200$$

- Calculate of tax due:

$$\text{Tax due} = 88200 \times 14\% = \text{L.E. } 12348$$

Selling between Related Persons:

In case of selling a local or imported commodity or service between related persons, the value of sale shall not be less than the price applied between non-related

persons as per market forces and the transaction conditions.

A person is considered as "related" if there is a relation between him and another person that can have an effect on the determination of the tax base, for examples:

- The husband, the wife, the ancestors and the descendants.
- A corporation and a person who directly or indirectly owns at least fifty percent of the number or value of its shares or of its voting rights.
- A partnership and the general and limited partners therein.
- Any two or more companies in which another person holds at least fifty percent of the number or amount of the shares or of the voting rights in each thereof.

Determination of Value Fixed Basis:

The Minister of Finance may, in agreement with the minister concerned, issue lists of the values of certain commodities or services or establish accounting standards taken as a basis for the tax assessment.

In all cases, the tax authority has the right to estimate the price of the taxable commodity or service, guided by

all objective criteria to determine the relevant value, according to the market forces and the transaction conditions, and in light of the justifications of appraisal available to tax authority.

Tax Deduction and Tax Refund

Tax Deduction:

The tax legislator allowed to the registrant within each tax period, to deduct from the total ax due on the value of his sales taxable commodities or services, the amount of tax previously levied against the following items:

- Tax on returned sales.
- Tax on inputs.
- Tax on purchases for trade.
- Tax previously levied on imports of commodities and services.
- The credit balance of the sales tax before applied Value Added Tax.
- Tax resulting of amendment in the value.

Tax on Returned Sales:

The tax on returned sales shall be deducted provided that:

- The tax had been already paid on the returned commodities, as deduction does not apply to returned commodities for which the registrant did not pay tax.
- The registrant has been recovered those commodities in the original condition they were sold in.
- The registrant has been recorded the particulars of those commodities in his regular books and records.
- The registrant has been refunded the value of those commodities, including the tax, to the buyer, or entered into registrant books under suspense account.
- The registrant issuance of a dated and serialized debit/credit note wherein containing details of seller and buyer.

Example:

A wholesaler registered at the tax authority sold a number of (10) units of a taxable commodity for L.E. 2500 in cash per unit during the month of May 2019. The buyer returned (2) units during the same month due a defect in them. The wholesaler pays its value in cash. If

you learn that: the commodity not included in schedule tax.

Required: Prepare the necessary journal entries and prepare Current Tax Authority account in the seller's books.

Solution

Journal entries:

Cash a/c	28500	
Sales a/c		25000
Current tax authority (Sales)		3500
Returned sales a/c	5000	
Current tax authority	700	
Cash a/c (returned sales)		5700

Current Tax Authority

Cash	700	Cash	3500
Balance	<u>2800</u>		
	3500		3500

Tax on Inputs:

Tax on inputs means tax charged to the taxable person upon purchasing or importing commodities (including machines, equipment and services) whether directly or

indirectly, related to selling a taxable commodity or rendering a taxable service.

Indirect inputs are indirect production and operating costs, sale and distribution costs and administrative and general expenses.

The tax on inputs shall be deducted provided that:

- Inputs were bought from a registered seller, as deduction does not apply to inputs bought from seller not registered.
- The registrant keeps the tax invoice (relative to local inputs) or the certificate of customs procedures (relative to imported inputs).
- Inputs were used in sale of a commodity or rendering of a service subject to tax, whether took place in the same tax period or in one or more of the following tax periods.

Meaning that deduction is not allowed if inputs were used in sale of a commodity or rendering of a service exempted of Value Added Tax.

But, if some of the sales of commodities and services by the registered person are taxable, and some others are tax exempt, during the tax period, then the tax which should be deducted shall be determined at the ratio of the

sales subject to the tax to the total sales. For example: if the tax on inputs bought at the local market from a registered seller was L.E. 12000, and these inputs were used in sale of commodities of a value amounting to L.E. 40000 (of which L.E. 24000 were for outputs subjected to tax and the rest for inputs exempted from this tax). In this case, the tax which should be deducted shall be determined at the ratio of taxable outputs to total outputs as follows:

$$12000 \times (24000/40000) = \text{L.E. } 7200$$

- The tax previously paid on inputs shall not be included in the cost, unless the necessary accounting and tax settlement has been made, and a proof to that effect has been provided to tax authority within a period not exceeding three years from the date of purchase or importation.
- The registrant submits a certificate at end of every fiscal year, signed by an accountant listed in the register of accountants and auditors, and certifying his entitlement to the deduction.

Example:

The following data related to a manufacturing company registered at tax authority for the month of October, 2019:

- Total cash sales from a taxable commodity, not included among schedule tax, amounted to L.E. 400000, and total sales return in cash of that commodity was L.E. 20000.
- The value of medium commodities that subject to tax and used in sale the commodity amounted to L.E. 40000 (of which L.E. 30000 from a registered seller and the rest from a seller not registered).

Required: To calculate value added tax payable for the month and Prepare Current account of tax authority.

Solution**Calculation Value added tax Payable**

Tax collected = $400000 \times 14\%$		56000
Deduct:		
- Tax inputs from a registered seller		
L.E. $30000 \times 14\%$	4200	
- Tax on sales return		
L.E. $20000 \times 14\%$	<u>2800</u>	<u>7000</u>
Tax Payable		49000

Current Tax Authority

Cash	2800	Cash	56000
Cash	4200		
Balance	<u>49000</u>		
	56000		56000

Example:

The following data related to a firm registered at tax authority for the month of December, 2019:

- Total cash sales during the month amounted to L.E. 1000000 from a commodities not included in schedule tax, (of which L.E. 600000 from a sales commodities subject to tax and the rest from a commodities exempted from the tax).
- The value commodities and services used in sale that commodities during the month and purchased from a registered firm amounted to L.E. 200000 in cash.

Required: To calculate value added tax payable for the month and Prepare Current account of tax authority.

Solution

Calculation Value added tax Payable

Tax collected = $600000 \times 14\%$		84000
Deduct:		
- Tax on inputs:		
$(200000 \times 14\%) \times (600000/1000000)$		<u>16000</u>
Tax Payable		68000

Current Tax Authority

Cash	16000	Cash	84000
Balance	<u>68000</u>		
	84000		84000

Tax on Purchases for Trade:

The registrant may, at calculating the tax, deduct the tax on purchases for sale from the tax due on his sales taxable commodities, at each stage of distribution.

In case that tax previously charged on purchases for sales exceeds tax charged on sales during account month, the excess shall be deducted from tax due on sales during the following months until exhausting such tax.

This deduction shall not be a proved unless the registered person submits a certificate at the end of every fiscal year, signed by an accountant listed in the register

of accountants and auditors and certifying his entitlement to the deduction.

Example:

A registered producer at tax authority sold commodity to wholesaler registered also for L.E. 2000 who sold it to a registered retailer with a profit margin equal to 20% from the cost, who sold it to the consumer for L.E. 2500. If you learn that the commodity not included in schedule tax.

Required: To determine the gross value of the invoice that issued by the producer, wholesaler and retailer, and determine tax payable that must be turn to tax authority by each of them.

Solution

Taxable person	Gross value of invoice	Tax payable to tax authority
Producer	Selling price to wholesaler = 2000 + value added tax (14%) = <u>280</u> Gross value = 2280	280
Wholesaler	Purchases cost= 2000 + profit margin (20%) = <u>400</u> Selling price 2400	336-280 = 56

	+ value added tax (14%) <u>336</u>	
	Gross value = 2736	
Retailer	Selling price = 2500	350-336 =
	+ value added tax (14%) <u>350</u>	14
	Gross value = 2850	

Example:

A registered wholesaler sold 100 washers during the month April, 2019 to a registered retailer for L.E. 4000 cash. If you learn that:

- The retailer returned back 5 washers during the same month because there was some defects.
- The retailer sold 50 washes at a profit margin 15%.
- The balance of tax authority a/c at the end of March in books of wholesaler and retailer was L.E.30000, 10000 respectively (debit).

Required: Show current account of tax authority, for the month April, 2019 in books of wholesaler and retailer.

Solution

Current Tax Authority in wholesaler books

Balance 4/1	30000	Cash a/c	56000
Cash a/c (4000×5×14%)	2800	(4000×100×14%)	
Balance	<u>23200</u>		
	56000		56000

Current Tax Authority in retailer books

Balance 4/1	1000	Cash a/c	2800
Cash a/c	56000	Cash a/c (4000×50×115%×14%)	32200
		Balance	<u>22000</u>
	57000		57000

Example:

A registered producer at tax authority sold a commodity to a wholesaler not registered for L.E. 3000, who sold it to consumer at a profit margin 15% from the cost.

Required: To determine the gross value of the invoice that issued by the producer and wholesaler.

Solution

- Producer invoice:

Selling price 3000

Value added tax (14%) 420

Gross value = 3420

- Wholesaler invoice:

Purchase cost 3420

15% Profit margin 513

Gross value = 3933

Example:

A service facility registered at tax authority purchased operating materials for its services subject to tax for L.E. 10390 (including value added tax). If you learn that: the revenues from their customers during the period amounted to L.E. 25000, and its services are not included in schedule tax.

Required:

- To determine the total value of the invoice issued by the firm.
- To determine the value of tax provided to the tax authority.

Solution

- Total value of the invoice:

Firm fee	25000
Value added tax (14%)	<u>3500</u>
Total invoice	28500

- Tax provided to the tax authority:

Total collected	3500
(-) Tax paid on inputs:	
10390 × (14/114)	<u>1276</u>
Tax payable =	2224

Tax previously levied on imports of commodities and services:

The tax legislator allowed to the importer to deduct the amount of tax already paid on imports of commodities and services, as evidenced by the customs procedures certificate and customs payment receipt.

Note:

The provisions of deduction shall apply to the following:

- Sales of commodities and services financed by grants exempted by law. The deduction shall be within of the due tax. The non-deductable amount shall be carried over to the consequent tax period until the full deduction is made.
- Supplies of commodities and services to non-honorary embassies commissions and consulates which are tax exempt according to, and within the limits of, the principle of reciprocity, except foodstuffs, alcoholic beverages and tobacco.
- Supplies of commodities and services intended for personal use by members of foreign diplomatic and consular corps who are duly recorded in the rolls issued by the Ministry of Foreign Affairs, as well as the personal use of their spouses, and minor children, according to, and within the limits of, the principle of reciprocity.
- Supplies of commodities and services intended for personal use, such as personal effects, furniture, household utensils and a single used car for every foreign employee of diplomatic or consular missions, not indicated in the previous item, according to, and within the limits of, the principle of reciprocity.

The credit balance of the sales tax before applied Value Added Tax:

The tax legislator allowed to deduct any credit balance of the deductible general sales tax prior to low enforcement as well as any sales tax amounts paid on machines, equipment as well as parts and spare parts thereof, with the following conditions:

- Keeping regular accounting books and records.
- Holding original copies of tax invoices or customs procedures certificate and the receipt evidencing the payment of the general sales tax at the customs house.
- Inputs should be previously declared in tax returns filed by the registered person for the periods in which purchases were made. For tax paid on machinery, equipment, parts and spare parts, the books and records must reflect the tax paid at purchase and the remaining balance after excluding the amounts deducted in monthly returns.
- The amount of the general sales tax should not have been included in the cost.

This treatment, not apply to credit balance which lasted for more than six successive tax periods.

Example:

The following data related to a registered wholesaler during the month of May, 2019:

- Total cash sales from local commodities subject to tax (not included in schedule tax) amounted to L.E. 100000. These commodities purchases from a manufacturing company at L.E. 33900 (including the tax).

- Total cash sales from imported commodities subject to tax (not included in schedule tax) amounted to L.E. 60000. The value actually of these commodities were \$4000, insurance expense was \$1500, discharge expense was L.E.2000 and delivery cost after exit from the custom area was L.E.2500.

- The credit balance of the sales tax before applied Value added tax amounted to L.E.2000, and sales tax amounts paid on machines and equipment and not refund until applied value added tax amounted to L.E.1000.

If you learn that the custom tax rate is 20% and foreign exchange is L.E. 16 per \$.

Required: To calculate value added tax payable for the month.

Solution

Value added tax payable is calculated as follows:

Tax collected:		
For local commodities= $100000 \times 14\%$	14000	
For imported commodities= $108000 \times 14\% =$	<u>15120</u>	
Total		29120
Deduct:		
- Tax on purchases= $33900 \times (14/114)$	4163	
- Tax credit balance of sales tax (2000+ 1000)	3000	
- Tax paid at customs release	<u>15120</u>	<u>22283</u>
Value added tax payable		6837

Note:

Tax on imported commodities is calculated as follows:		
- At customs release:		
The value actually = $\$ 4000 \times \text{L.E. } 16 =$		64000
Insurance expense = $\$ 1500 \times \text{L.E. } 16 =$		24000
Discharge expense =		<u>2000</u>
The value based for customs tax =		90000
+ Customs tax = $90000 \times 20\% =$		<u>18000</u>
Value added tax base		108000
Value added due at custom release= $108000 \times 14\% = 15120$		
- At sale in locale market:		
The actually sale value (60000) is less than the value		

deemed a basis for tax assessment upon customs release (108000), therefore, the due tax at sale in local market shall be calculated on the basis for tax assessment upon customs release as follows:

$$\text{Value added tax due} = 108000 \times 14\% = 15120$$

Tax resulting of amendment in the value:

In case that transactions made between registrant and another registrant resulted in adjustment in the value of transaction which is previously taxed by increasing or decreasing after submitting return, both the two registrant (seller and buyer) should following month, as follow:

- If transaction value is adjusted by increasing, the seller adds the increase in tax (with a credit note) to tax due to tax authority in his tax return. The buyer may deduct such increasing (with a debit note) from tax due on his sales as of input tax, or purchases previously charged.
- If transaction value is adjusted by decreasing, the seller deducts the decreases in tax (with a debit note) from the tax due on his sales in his tax return. The buyer adds such decreasing of tax (with a credit note) to tax due to tax authority in his tax return.

Seller address, registration number, name and address of buyer, number and date of original tax invoice and all

details required and related to increasing and decreasing price, deducted or added value, and separate statement for tax deducted or added shall be clearly specified in credit or debit notices. Debit or credit notices shall be dated and bear serial number.

Example:

A registered firm at tax authority, sold 20 refrigerators to another registered firm for L.E.500 each. After receiving the refrigerators and issuing the tax invoice showed that the price of refrigerators is L.E. 5100 each and that the person who issue the invoice computed it at the old price in the firm.

Required:

- Journal entries necessary to record the above mentioned in books of the seller and buyer.
- Show current account of tax authority in books of the seller and buyer.

Solution

1-Seller books

Cash a/c	114000	
Sales a/c		100000
Current account tax authority a/c		14000

Cash sales at price of L.E.5000 per unit		
Cash a/c	2280	
Sales a/c		2000
Current account tax authority a/c		280
The increase of sale price		

Current Tax Authority

		Cash a/c	14000
		Cash a/c	280
Balance	<u>14280</u>		
	14280		14280

2- Buyer books:

Purchases a/c	100000	
Current account tax authority a/c	140000	
Cash a/c		114000
Cash purchases at price of L.E.5100 per unit		
Purchases a/c	2000	
Current account tax authority a/c	280	
Cash a/c		2280
The increase of purchases price		

Current Tax Authority

Cash a/c	14000		
Cash a/c	280		
		Balance	<u>14280</u>
	14280		14280

Tax Refund:

The legislator allowed to tax authority, to refund the tax within 45 days from the date of submitting the application supported by documents, in the following cases:

- Tax on export.
- Tax collected by mistake.
- Credit balance which lasted for more than 6 successive tax periods.
- Tax previously paid on machines and equipment used in the production of a taxable commodities or providing a taxable service.
- Tax paid by leaving the country.

Tax on export:

In this cases, we distinguished between the following cases:

For exported commodities:

Tax previously paid of charged on exported commodities in same condition or included in other commodities, shall be refunded, with the following conditions:

- The commodities or inputs should have been bought from a registered person by virtue of a tax invoice.
- The commodities should not have been used by the exporter.
- The commodities should be exported by the customs authority.
- The value of exports should be remitted to a bank subject by the Central Bank of Egypt. If the bank transfer proves to be impracticable, any of the means of payments or settlements set out shall be acceptable, such as:
 - (a) Settlements resulting from barter sale. In the case, the registered person has to provide evidence that the value of the commodity exported through barter trade is a payment for the value of the commodities imported. Such evidence should be endorsed by the customs authority.
 - (b) Settlements between holding or parent companies and their subsidiaries.
- The tax should not be included among the cost, and it should only be refunded within the limits of the credit balance.

- The tax authority should verify that the tax was previously remitted.
- The value of exports should not be lower than that their inputs.

The registered person must attach with his application the supporting documents evidencing the completion of the export process (from No. 13-customs, or any equivalent official certificate from the customs), the original copy of the tax invoice or customs procedures certificate and payment receipt, and a certificate signed by an accountant listed in the register of accountants and auditors certifying his entitlement to such refund. He shall also be required to maintain a record wherein the data of exported commodities, and the serial number of the export certificate and date of exportation shall be recorded.

In the cases agreed on with the tax authority, the customs authority may refund the tax paid on exported commodities or imported commodities that are re-exported abroad, whether they are exported in their original condition or involved in the manufacturing of local products exported abroad, according to the customs

procedures applicable in regard of exported commodities.

For services performed on exported commodities:

Tax on services performed on exported commodities shall be refunded with the following conditions:

- Supporting documents evidencing the completion of the export process (from No. 13- customs) for the commodities that have been exported should be provided, or any equivalent official certificate from the customs.
- The original copy of the tax invoice issued by the service provider to the owner of the commodities (exporter) should be provided, evidencing that the service has been performed on the same commodities exported abroad.
- A copy of the service contract, signed by the parties of the contract should be provided.
- The tax authority should verify the tax was previously remitted.
- A certificate signed by an accountant listed in the register of accountants and auditors certifying his entitlement to such refund should be provided.

For exported services:

The tax shall be refunded on the inputs of exported services with the following conditions:

- The dealing between the service provider in Egypt and the recipient abroad should be proven by the service contract, or by any other evidence compatible with the nature of the service.
- Submission of a carbon or electronic copy of the tax invoice or certificate of payment, including detailed data on the service rendered, particularly, its type and value, and the name and place of residence of the service provider and recipient.
- Submission of a copy of the document evidencing the payment of the price of the service by the recipient abroad, via a bank transfer to a bank subject to the Central Bank of Egypt. if the bank transfer proves to be impracticable, any of the means of payments of settlements set out shall be acceptable.
- Submission of the original copy of the tax invoice of the inputs of the service.
- The tax authority should verify that the tax was previously remitted.

- The value of exports should not be lower than their inputs.
- The tax should not be included among the cost, and it should only be refunded within limits of the credit balance.
- A certificate signed by an accountant listed on the register of accountants and auditors certifying his entitlement to such refund should be provided.

Tax collected by mistake:

Tax collected by mistake shall be refunded provided that:

- The competent person submits a written request indicating the amount of tax collected by mistake and reason of such mistake and noting tax period in which mistake is made.
- Encloses with his request the relevant supporting documents.
- A certificate signed by an accountant listed on the register of accountants and auditors certifying his entitlement to such refund should be provided.

Credit balance which lasted for more than six successive tax periods:

Credit balance which lasted for more than six successive tax periods shall be refunded provided that:

- The registered person shall submit a written request indicating the amount of the credit balance.
- Encloses with his request the relevant supporting documents.
- The tax authority should check the correctness of the balance before refunding.
- A certificate signed by an accountant listed on the register of accountants and auditors certifying his entitlement to such refund should be provided.

Tax previously paid on machines and equipment used in the production of a taxable commodity or providing a taxable service:

Tax previously paid on machines and equipment used in the production of a taxable commodity or providing a taxable service, except buses or passenger vehicles, unless the usage of such is the licensed activity of the establishment, shall be refunded with the following conditions:

- The machinery and equipment should be used in the production a taxable commodity or providing a taxable service.
- The registrant shall submits a written request for refunding the tax, when filing the first tax return, encloses with his request the relevant supporting documents.
- The items imported thereof should have been given final customs release, and the tax should have been paid in full on both the local and imported items.
- The tax to be refunded should not included among the cost.
- A certificate signed by an accountant listed on the register of accountants and auditors certifying his entitlement to such refund should be provided.

In case of disposal of the machinery or equipment whose tax has been refunded, or if same have been used in production a tax exempt commodity or providing a tax exempt service, before a lapse of the five years following the refund date, the registrant shall be required before making such disposal, to notify the competent tax

inspectorate and pay the tax previously refunded as its value and the tax rate in force at the date of disposition.

In all cases, the tax shall only be refunded within the limits of the credit balance.

Tax paid by leaving the country:

A foreigner leaving the country, shall be entitled to refund the tax previously paid to on his purchases of taxable commodities provided that:

- The foreigner shall be residing in Egypt for a period not exceed three months.
- The amount of the relevant invoice should not be less than L.E. 5000.
- The purchases are to be taken with him when leaving the country.
- Administrative expenses shall be deducted at 5% of the total value of the amount to be refunded.

The tax shall be refunded either through the bank at the customs house, or by cheque drawn up by the tax refund department at the tax authority, to be sent to the address of a foreigner.

Tax Exemption:

Exemption from value added tax differs from the refund of tax. For the refund of tax means that tax has fallen due on a certain commodity then has been refunded, due to its having been re-exported or due to a mistake in collection. Exemption from value added tax, means not collecting the tax on a certain commodity or service despite its being subjected to tax. That is due to economic or social reasons, or in order to avoid tax duplication. The tax legislator has dealt with the cases of exemption from the value added tax, as follows:

1- Exemptions granted on reciprocal basis or international comity: the Law stipulates exempting some commodities for the members of diplomatic and consular corps on condition of reciprocity. These commodities are:

- Local or imported commodities purchased by the members of diplomatic and consular corps for their personal use and for the use of their husbands wives and their minor children.
- Purchases of Embassies and Consulates for official use in terms of local or imported commodities, apart from the foodstuffs, liquors and tobaccos. In relation to cars,

exemption shall be within the limits of one car for personal use for the diplomat, and five cars for the official use of consulates. It is permissible to increase this number by agreement of the Ministry of Foreign affairs.

- What is imported for personal use by employees of diplomatic and consular delegations and missions in terms of personal luggage, furniture and household items, and one second-hand car, provided it is imported during six months from the arrival of the beneficiary of such exemption. This term may be extended by agreement of the Minister of Foreign Affairs.

According to the law, it is prohibited to dispose of the items which were exempted according to the previous Article during the five years following the exemption before informing the Tax Administration and paying the tax due, according to the condition of these items and their value and the rate of the tax prevailing on payment date.

According the law, it is permissible to exempt what is imported for the personal use of some prestigious foreigners with the aim of international comity by decree

from the Minister of Finance in agreement with the Minister of Foreign Affairs.

2- Exemption of samples and personal belongings and luggage:

According to the law, the following shall be exempted from added value tax:

- Samples which are used up for analyses in governmental laboratories.
 - Personal belonging not-for-trade such as modals, decorations, and sport prizes.
 - Personal belongings and luggage related to passengers arriving from abroad.
 - Imported substitutes for damaged or lost items which were previously imported and on which the tax was paid, in mil.
 - Re-imported items from, previously exported quantities on. Which tax had been paid in full at the time of export, provided that the Tax Administration ascertains that.
- 3- The endowments, grants, donations and presents to a State administrative body, and what is imported by the scientific and educational institutes.

Also according to the law, the Minister of Finance may, in agreement with the related Minister, exempt some commodities from tax in the two following cases:

- Grants, donations and presents for the State's administrative body or units of local administration.
- Imports for scientific educational or cultural purposes by the scientific and educational institutes and by the scientific research institutes.

4- Exemption of commodities and equipment that are necessary for armament and national security purposes:

The law stipulates the exemption of all the commodities, equipment, instruments, and services which serve purposes of national defense and security, as well as raw materials, production requisites and parts entering in their manufacture.

In addition to the previous exemptions, medicines are exempted from the value added tax, and which were previously covered by a decree from Minister of Hygiene exempting them from the consumption tax. Moreover, the legislator allowed in the law to the president of the Republic to issue a decree exempting some commodities from the tax, to be submitted to the People's Assembly

during fifteen days from date of its promulgation, for ratification.

To this effect, the president decree No. 180 of 1991 was promulgated exempting the following commodities from the tax:

- Dairy products.
- Vegetable oils.
- Flour mill products with the exception of luxurious flour or fermented imported flour.
- Processed and preserved meats.
- Processed and preserved fish.
- Vegetables, Fruits, cereals, seeds, salt and spices, with the exception of the imported.
- Sesame oil sweets.
- Foodstuffs which are sold by the non-tourist restaurants directly to end-consumers.
- Fixed-price bread of all kinds.
- Natural and butane gas.
- Popular cloth.
- Paper pulp.

- Paper for newspapers printing and writing paper.
- Books and bulletins.
- Newspapers and magazines.
- Banknote paper.
- Macaronis manufactured of ordinary flour.

Schedule Tax

1- Taxable Commodities and Services and Tax Rates

Schedule tax shall be imposed on selling, providing or importing commodities and services prescribed in the attached schedule to the law No.67 of the year 2016.

Some of these commodities and services subjected to schedule tax only. Other commodities and services subjected to schedule tax and Value Added Taxes.

Schedule tax rate shall be according to the rates or values indicated opposite the commodities and services prescribed in the attached schedules as follows:

1-Commodities and services that are subject to the schedule tax only.

2-Commodities and services that are subject to the schedule tax and Value Added Tax.

The rate of the schedule tax shall be zero on the commodities and services to be exported, according to the following terms and conditions:

- **For exported commodities**, the exporter must follow the established customs procedures, and should maintain for a period of Five years the relevant documents and the documents evidencing the completion for the export, including the export certificate issued by the competent customs house, or any equivalent official certificate from the customs.

- **For exported services**, the dealing between the service provider in Egypt and the recipient abroad should be proven by the service contract, or by any other evidence compatible with the nature of the service contract, or by any other evidence compatible with the nature of the service, additional, the following documents should be provided:

- A carbon or electronic copy of the tax invoice.

- A copy of the document proving the payment of the service via a bank transfer from abroad to a bank subject to the Central Bank of Egypt.

2- Tax Chargeability

The schedule tax on the commodities and services indicated in the attached schedule by the law, shall be chargeable only for once in any of the following events take place:

For Local Commodities, and Services:

The schedule tax becomes chargeable at the point of sale of commodities or provision of services by their producer in the local market.

For Imported Commodities:

The schedule tax becomes chargeable at the point of occurrence of the event that gives rise to the customs tax.

For Imported Services:

The schedule tax becomes chargeable at the point of receiving the service in Egypt.

The schedule tax shall not be recharged unless a change occurs to the commodity status. Packaging, repackaging, refining, purification and grinding is not deemed a change in the commodity status.

The schedule tax shall apply to commodities and services stated in the attached schedule upon disposal of such in the form of free-of-charge and services or promotion. The value of commodities and services shall, in this case, be determined as per the market forces and transaction conditions.

Sale promotions shall mean promotions that are made according to companies' sale policies for stimulating customer preference for their commodity or service, or for enhancing customer loyalty to their trademark, in a way consistent with the nature of every activity.

The following shall not be deemed sale promotions:

- Sale, including seasonal sale for which a decree is to be issued by the competent Minister.
- Trade discounts.

Taxable Value:

The value that should be declared taken as a basis of schedule tax computation in relation to the commodities and services listed in the schedule attached to the law, shall be as follows:

Commodities and Services Subjected to Schedule Tax only:

For local commodities and services:

The basis shall be the value actually paid or payable in any form of payment, according to the normal course of matters.

For imported commodities:

The basis shall be the value taken as a basis for customs tax plus customs tax and any other imposed taxes and duties.

For imported services:

The basis shall be the value actually paid or payable in any form of payment, according to the normal course of matters.

Special Cases:

- For Cigarettes, the final consumer sale prices declared on the date of applying the law shall be deemed the minimum base of calculating the schedule levied on such item. The schedule tax on the total final consumer sale price shall be collected (inclusive of all taxes and duties) from the producer or the importer upon the customs release.

- Contracting services, building and constructions works, such as: building works- foundation works- steel structure works- complementary (specialized) works- road bridge, railway, airport and tunnel works- water and sanitation plants and networks and gas& fuel network public works and water and thermal power plants- maritime and river works and construction of wells- electromechanical and electronic works and communication networks- works of new and renewable energy and solar power plants.

These contracting services, building and construction works subject to tax on the basis of the value of the invoice approved by the consultant, provided that the following considerations:

- The schedule tax shall be applied at the rate of (5%) of the value of the certificate for payment for all works involved in contracting services and construction and building works (supply and installation). If it is a contract of supply without installation or only installation, shall be subject to the rates and categories stipulated by law.
- The taxable value shall mean the value of the certificate for payment approved by the consultant. The point when

the schedule tax become due shall be approving of the certificate for payment.

- Tax base must include all local and imported supplies of commodities and services involved in the contracting works, whether such commodities and services have been provided by the awarding body, or have been supplied by the prime contractor or subcontractors.

- All commodities manufactured and all services rendered by the contractor and involved in the contracting works shall be taxable at the rates and categories stipulated by law, as being deemed personal use. The value taken as a basis for calculation of the tax shall be the total cost, minus the tax paid on the inputs of such commodities and services.

- A subcontractor shall be deemed to have paid the schedule tax if the prime contractor has paid it on the same works, provided that the following conditions should be met:

- (a) A certificate should be provided by the prime contractor and handed over to the subcontractor under the responsibility of the latter, indicating the name and reference number of the project the serial number of the cheque and details of the contract signed between the a

warding body and the prime contractor through which the subcontractor works. Such certificate should be issued for each subcontracting.

(b) The contract signed between the prime contractor and a warding body should be for both supply and installation works.

(c) The value of the subcontractor's works should not exceed the value of the operation outsourced there to by the prime contractor.

(d) The subcontractor should be registered in the tax authority, and the tax returns filed by that subcontractor should indicate the value of works performed thereby and the tax paid thereon by the prime contractor.

- The schedule tax previously paid by the subcontractor shall be settled from the schedule tax paid by the prime contractor on the same works.

Commodities and Services subjected to Schedule Tax and Value Added Tax:

In this case, first: schedule tax is calculated according to percentages and values of these commodities and services stated in the schedule. Second: we calculated the

Value Added Tax on the value subjected to schedule tax plus schedule tax.

The tax previously charged on inputs shall be deducted only from the Value Added Tax, without the schedule tax, pursuant to the same conditions for deduction tax.

Example:

For purpose of schedule tax and value added tax indicate the tax treatment and calculate tax due of the following items:

- 1- The value of invoice to an individual for communications services through the cellular phone networks amounted to L.E.2000 for the month of March, 2019.
- 2- A person practice profession of accounting and auditing in his a private office. His fees for the months of January 2019 amounted to L.E. 1500 (of which L.E. 2000 not received during this month).
- 3- Services which one of the tourist hotels provided free of charge to its employees amounted to L.E.20000.
- 4- Revenues of a company for tourist travel among governorates amounted to L.E. 150000 during the Feb. 2019.

5- Passenger car with capacity to 2000 cc sold at L.E. 500000.

6- Air conditioning company imported air conditioning machines, value for customs purposes L.E. 50000, noting that the rate of customs tax is 20%.

7- A producer of cars contracted with a brokerage office to sell a number of passenger cars with a capacity of 1600 cc at a price of L.E. 250000 per car for a commission of 10%, noting that the office sold only (2) cars during March 2018

Solution

1- The invoice of Mobile networks:

The value of these invoice subject to schedule tax at the rate of 8%, and value added tax at the rate of 14% as follows:

$$\text{- Schedule tax} = 2000 \times 8\% = \text{L.E. } 160$$

$$\text{- Value added tax} = (2000 + 160) \times 14\% = \text{L.E. } \underline{302.4}$$

$$\text{Total tax due} = \text{L.E. } 462.4$$

2- Professional and consultancy services:

The value actually received by a person for these services subject to value added tax only at the rate of 10% as follows:

$$\text{Value added tax due} = \text{L.E. } 13000 \times 10\% = \text{L.E. } 1300$$

3- Services free of charge:

The value of these services subject to Value added tax at the rate of 14%, as using, benefiting from, disposing of a commodity or a service by taxable person for personal consumption or private use in any legal manner shall be deemed as a sale.

$$\text{Value added tax} = \text{L.E. } 20000 \times 14\% = \text{L.E. } 2800$$

4- Air-conditioned transportation among governorates:

The value for air-conditioned transportation among governorates subject to schedule tax only at the rate of 5% as follows:

$$\text{Schedule tax} = \text{L.E. } 150000 \times 5\% = \text{L.E. } 7500$$

5- Passenger car with capacity to 2000 cc:

The price of sale of this car is subject to schedule tax at the rate of 15% and value added tax at the rate of 14% as follows:

- Schedule tax = $500000 \times 15\% =$ L.E. 75000

- Value added tax = $(500000 + 75000) \times 14\% =$ L.E.77000

Total tax due = L.E.152000

6- Air conditioning machines:

The value of these machines subject to schedule tax at the rate of 8% and value added tax at the rate of 14% as follows:

Air conditioning value = 50000

+ Customs tax (20%) = 10000

Schedule tax base 60000

+ Schedule tax (8%) = 4800 (1)

Value added base 64800

+ value added tax (14%) = 9072 (2)

Tax due (1+2) = 13872

7- Producer of cars and brokerage office:

The tax which the producer and the office are obligated to supply the tax to the tax authority as follows:

- The producer:

The price of selling cars subject to schedule tax at the rate of 10% and value added tax at the rate of 14%, with deduct the schedule tax from value added tax as follows:

$$\text{Schedule tax} = 2 \text{ cars} \times 250000 \times 10\% = \text{L.E.} 50000$$

$$\text{Value added tax} = (500000 + 50000) \times 14\% = \text{L.E.} 77000$$

$$\text{Tax payable} = 77000 - 50000 = \text{L.E.} 22000$$

- Office's Mediations:

The commission of office subject to value added tax at the rate of 14%, as follows:

$$\text{Tax due} = (500000 \times 10\%) \times 14\% = \text{L.E.} 7000$$

Schedule Tax Settlement:

The provisions of deduction system does not apply to the schedule tax on commodities and services whether taxable as they are or as inputs of taxable commodities and services, unless otherwise provided by a special provision herein.

But, the tax legislator allowed to the registrant to settled the schedule tax in the following cases:

Tax on Sales Returns:

The schedule tax on sale returns of commodities listed in the schedule attached to the law shall be settled with the following condition:

- Only the amount of the schedule tax already paid on the returned commodities shall be deducted.
- Commodities returned must have been actually received in the original condition they were sold in, and must not be damaged or expired.
- The registrant shall issue a dated and serially numbered debit/credit note, containing the particulars of the seller and buyer.

Tax on machinery and equipment:

The tax previously paid on parts and spare of machinery and equipment used in the production of commodities and services subject to the schedule tax only, shall be settled from the value of the schedule tax within the limit of the amount due thereon till it is exhausted.

Tax collected on unmanufactured tobacco:

The schedule tax collected on unmanufactured tobacco, in case this item is a component of a local product, shall be settled from the schedule tax due on that local product.

Tax collected on manufactured tobacco and tobacco extracts:

The schedule tax collected on manufactured tobacco and tobacco extracts and essences, in case this item is a component of a local product, shall be settled from the schedule tax due on that local product.

Tax collected on vegetable oils and edible:

the schedule tax collected on vegetable oils and edible, fixed, liquid solid, filtrated or refined, in case this item is hydrogenated, shall be settled with the products of animal or vegetable oil and tallow, partially or wholly hydrogenated.

Tax paid by the subcontractor:

The schedule tax previously paid by the subcontractor, shall be settled from the schedule tax paid by the prime contractor on the same works performed.

Tax on the passenger cars:

The schedule tax due on the passenger cars in possession the registrant at the date of applying the law of Value Added Tax from the sales tax previously paid on the same cars, with the following conditions:

- Keeping regular accounting books and records.
- Holding original copies of tax invoices or customs procedures certificates, and the receipt evidencing the payment of the general sales tax at the customs house.
- Inputs should be previously declared in tax returns filed by the taxable person for the periods in which purchases were made.
- The value of the general sales tax should not have been included in the cost.

Example:

A factory for perfume registered at tax authority purchased 20 pure liter at price of L.E. 8 per liter from alcohol to be used manufacturing it to cologne and packaged in bottles. If you learn that:

- The price purchase of bottles was L.E.1000, and its selling price was L.E. 2000.

- The schedule tax was L.E. 15 per pure liter for the alcohol and 8% for the soda flavored.

Required: To calculate tax payable.

Solution

1- Determination of the invoice of purchase:

Purchase price of alcohol	= 20 liter × 8 =	160
+ Schedule tax (20 liter × 15)	=	<u>300</u>
Tax base of value added tax		460
+ Value added tax (460 × 14%)	=	<u>64.8</u>
Total invoice	=	524.8

2- Determination of the invoice of sale of cologne:

Selling price	=	2000
+ schedule tax (2000 × 8%)	=	<u>160</u>
Tax base of value added tax	=	2160
+ value added tax = 2160 × 4%	=	<u>302.4</u>
Total invoice	=	2462.4

3- Calculation of tax payable:

Schedule tax collected at selling (not deductible) = 160

Value added tax collected 302.4

Value added tax paid on alcohol	(64.8)	
Value added tax paid on bottled	$1000 \times 14\% =$	<u>(140)</u>
		<u>97.6</u>
Tax payable	=	257.6

Example:

A company registered at tax authority purchased passenger cars with a capacity of more than 1600 cc for L.E. 500000 before applying the law of value added tax. If you learn that the company sold these cars after applying the value added tax for L.E.550000 (without the tax), and schedule tax rate on this item was 15% from the value of its price sale, value added tax rate was 14%, and sales tax was 30%, and development duty is 5%.

Required: To calculate the tax payable.

Solution

1- determination of the invoice of purchase:

Purchase price of car	500000	
+ Sales tax ($500000 \times 30\%$)		<u>150000</u>
Total	=	650000
+ Development duty ($650000 \times 5\%$)	=	<u>32500</u>
Total invoice	=	682500

2- Schedule tax settlement:

Sales tax = 150000

(-) Schedule tax =

Purchase price without sales tax \times 15%

$(500000+32500) \times 15\% = \underline{79875}$

Balance of sales tax (credit) 70125

3- Calculation of tax payable:

Value added tax on selling price = $550000 \times 14\% = 77000$

(-) Balance of sales tax (credit) 70125

Tax payable = 6875

Example:

An commercial firm registered at tax authority sold sod water for L.E. 6840 (including schedule tax). If you learn that the schedule tax rate was 8%, and value added tax rate was 14%.

Required: To calculate the tax payable.

Solution

Tax payable is calculated as follows:

1- Value added tax base:

Selling price $\times (100/114) = 6840 \times 100/114 = 6000$

2- Value added tax due: (1)

$$6840 - 6000 = 840$$

3- Schedule tax base:

Selling price after deduct value added tax $\times 100/108$

$$6000 \times 100/108 = 5556$$

4- Schedule tax: (2)

$$5556 \times 8\% = \underline{444}$$

$$\text{Tax payable (1+2)} = 1284$$

Example:

Certificate for payment submitted by a contractor to his client approved by the consultant engineer (an extract) amounted to L.E. 20000. If you learn that the tax previously paid by the subcontractor amounted to L.E. 250.

Required: To calculate tax payable.

Solution

Tax payable is calculate as follows:

$$\text{Tax due for general contractor} = 20000 \times 5\% = 1000$$

$$(-) \text{ Tax previously paid by the subcontractor} = \underline{250}$$

$$\text{Tax payable} \quad 750$$

Subjecting Commodities or Services to Schedule Tax or Increase the Category Imposed on It:

In case, a commodity or service is taxable according to the schedule tax or if the tax rate of such tax is increased, the importers, wholesalers, traders, retailers and distributes shall submit to tax authority a list of inventory of such commodities and services on the day preceding the date of applying schedule tax or increased tax.

Such inventory list shall be submitted to the tax authority within 15 days as of this date.

The new schedule tax or increased tax shall be charged on the date submitting the inventory list. The schedule tax on such commodities and services shall be paid within the period specified by the commissioner, provided that such period does not exceed 6 months as of the date of charging the tax.

The Cessation of the work:

Any plant or laboratory for producing any commodity or rendering any services stipulated in the schedule attached by the law, may only be established or operated

after obtaining a license from the administrative body concerned.

Every manufacturer of such commodities or provider of such services shall, in case whole or partial cessation of business of the plant or laboratory for any reason, notify tax authority promptly upon the discontinuance of cessation period as prescribed the commissioner.

Examples:

1- Assuming that one of the clients of the tourist hotel made an international call, valued at 50 L.E according to Telecom Egypt company' prices , and that the hotel will pay for it a sales tax of 14% , In addition, the hotel will add a profit margin 20% for itself.

Required: what is the amount the customer will pay ?

The value of calls according to Telecom Egypt prices	50L.E
Sales tax is added at a rate of 14% =50×14%=	7
The amount paid by the hotel to Telecom Egypt	57
Added: Hotel profit margin of 20 % =57×20%=	11.4
Sales tax is added to the hotel service itself 14% =11.4 × 14%=	1.596
The total bill paid by the customer	69.996L.E

2-The Miami Tourism Company in Cairo leased a tourist bus to the Amon Tourism Company in Cairo for a sum of 9000 L.E for the purpose of making a trip to Sharm El Sheikh. The Amon company released the bus to the Al-Rida Company for an amount of 10,000 L.E.

Required: Calculate the value-added tax to that should be collected from both companies.

Solution

For Miami Tourism

-the rent collected from Amon Tours, plus a value added tax, as follows:

$$\begin{aligned} \text{Amount collected from Amoun} &= 9000 + (9000 \times 14\%) \\ &= 9000 + 1260 = 10260 \text{ L.E} \end{aligned}$$

$$\begin{aligned} \text{value added tax to be paid to the Tax Authority} \\ &= 1260 \text{ L.E} \end{aligned}$$

For Amon Tourism Company

-The rent collected from Al-Rida Company plus a value-added tax.

- and then Amon pay the difference between the value-added tax that collected from Al-Rida and the value-added tax that the company paid Miami to the Tax Authority as follows:

Rent collected from Al-Rida Company = 10,000 +
(10,000 x 14%) = 10000+ 1400=11400L.E

Value added tax payable to the Tax Authority = 1400-
1260 =140L.E

3- One of the registered bought a commodity for 2000 per unit, so if you know that he adds a 30% profit margin and that the added value category is 10%, and that he sold the commodity in installments on a quarter of the value paid in advance and the rest in equal monthly installments for a year.

Required: calculate the value added tax .

Solution

The purchase price of the unit is	2000L.E
VAT paid at purchase	<u>200</u>
The cost	2000

Note :that the tax paid on purchase will be deducted upon sale.

Profit margin 30%	<u>600</u>
The sale price before tax	2600
VAT collected on sale (2600×10%)	<u>260</u>
The sale price after tax	2860

VAT due on the registrant and must be paid
= Tax collected on sale - tax paid on purchase
=260- 200 60L.E

It is noted here that the tax payable on the seller of 60 L.E will be collected in full from the consumer through the advance price paid ((2860 x 25%) x 10% = 71.5L.E

4- The following is a hotel's revenues from the invoices issued in January 2020

service type	Monthly revenue	Service charge	Allowed discount
the rooms	45000	4500	3000
The restaurant	30000	3000	-
Drinks	15000	1500	-
Other services	7500	750	-

If you know that the owner of the hotel and the staff were using some rooms, and they were eating some food and drinks on the account of the hotel, The value of these services is 6,000, 4,500 and 3,000, respectively.

Required: calculate the tax bracket and the due tax.

Solution

1- Determining the value subject to the value added tax

A- For rooms

$$= 45,000 + 4500(\text{service charge}) - 3000(\text{allowed discount}) = 46500\text{L.E}$$

B- In relation to the restaurant

$$= 30000 + 3000 (\text{service charge}) = 33,000\text{L.E}$$

A- For drinks

$$= 15,000 + 1500(\text{service charge}) = 16,500\text{L.E}$$

D- Other services

$$= 7500 + 750(\text{service charge}) = 8250\text{L.E}$$

E- The value of hotel services used by the hotel owner and the employees is not included in the tax base.

5- Determining the tax bracket and the amount of tax due

service type	Tax bracket	Tax rate	The due tax
the rooms	46500	14%	6510
The restaurant	33000	14%	4620
Drinks	16500	14%	2310
Other services	8250	14%	1155
total	104250		12516L.E

6- A registered industrial product that produces several types of goods subject to the general sales tax. The following is a description of these items, their sales, and the tax rates due on them.

product	Total sales	Tax rate
A	12000	5%
B	33000	10%
C	105000	25%
D	30000	Exempted

If you know that:

1- All sales of these items were made during December 2019.

2- Withdrawal by the taxpayer from product A at a value of 4000 for his personal use.

3-product B sales include 3,000 transportation expenses and the allowable commercial discount for these sales is 5%.

4- product C sales include 30,000 represent the value of the goods exported abroad.

Required:

Determining the value-added tax bracket and the amount of the tax due that the taxpayer is obligated to collect and supply to the Tax Authority.

Solution

1-Determining the net taxable sales on the various items:

- product A = 12,000 + 4,000 withdrawals for personal use = 16,000 L.E

- product B = 33,000-3000 transportation expenses = 30,000 L.E

The commercial discount is deducted from it = 30000 - (30,000 x 5%) = 2800

- product C = 105,000 - 30000 (export abroad) = 75,000L.E

2-Determining the tax bracket and the amount of the due tax:

product	Tax bracket	Tax rate	The due tax
A	16000	5%	800
B	28500	10%	2850
C Local sales	75000	25%	18750
C Exported abroad	30000	zero	--
D	30000	exempted	--
Total	179500		22400

6- One of the registered persons imported a commodity from abroad, the value of which was according to customs procedures amounted to 75,000L.E represent the CIF value. so if I know that:

- The customs tax on this type of commodity is 40%.
- Value Added Tax 14%.

Required:

Determining the tax bracket and the due tax.

Solution

$$\text{Customs tax} = 75,000 \times 40\% = 300,000$$

The value of the commodity that subject to the value-

$$\text{added tax} = 75,000 + 30000 = 105,000$$

$$\text{value added tax} = 105,000 \times 14\% = 14700\text{L.E}$$

6- A person has imported a commodity from abroad, the value of which is based on the bill of the foreign

supplier, \$ 100,000. In customs, the commodity has been evaluated at an amount of 600,000 L.E. Customs imposed the following fees and taxes:

- 12,000L.E discharge cost represent 2% of the value.
- 20% customs tax.
- 5% support duty for the Chamber of Commerce.

If you know that:

- The importer sold this commodity in the local market for 900,000 pounds value added tax rate is 14%.

Required:

Determining the tax bracket and the due tax.

Solution

- The value of the commodity that subject to customs tax = $600000+12000(\text{discharging costs})=612000\text{L.E}$
- The value of customs tax = $612000\times 20\% =122400\text{ L.E}$
- The Chamber of Industry support duty= $(612000+122400)\times 5\% =36720\text{L.E}$
- value added tax bracket upon customs release = $612000+ 122400 + 36720 =771120\text{L.E}$

- The value of the value-added tax value upon customs release = $771120 \times 14\% = 107957 \text{L.E}$

- The value added tax value at the first sale in the local market

= $900,000 \times 14\% = 126000 \text{L.E}$

- value added tax payable at first sale = $126000 - 107957 = 18043 \text{L.E}$

7- One of the companies produces a commodity that costs 2000 pounds and the profit margin that company determined is 20% from the sale price, so if you know that the value added tax rate is 25%.

required :

determine the price paid by the buyer.

Solution

The sale price of the commodity = $2000 \times 100/80 = 2500 \text{L.E}$

Accrued value added tax = $2500 \times 25\% = 625 \text{L.E}$

The price paid by the buyer is $2500 + 625 = 3125 \text{L.E}$

8- The following are the data extracted from the books of an industrial company in Qena, registered with the Tax Authority during the month of January 2020.

- The company sold 1,500 units of product X at a price of 100 L.E per unit, noting that the sale price includes 10 L.E of transportation cost per unit. The terms of sale were to give customers a 10% quantity discount and a 4% cash discount if payment was made within two weeks (the company received its dues within the specified time limit).
- 3000 units of product y were sold through the company's sales outlets at 60 L.E per unit, knowing that the company sells this item to wholesalers at a price of 45 L.E per unit.
- units with a selling value of 2360 L.E from product x was withdraw for personal use.
- The value of raw materials purchases from the local market that were used in the production of quantities sold from the two products X, Y amounted to 60,000 L.E and they were all from a registered seller, and the value of 5,000 L.E of it was refunded due to lack of meeting with specifications.
- The value of purchases of raw materials imported from abroad, in accordance with the customs procedures, amounted to 75,000 L.E (CIF), other than the 40% customs tax imposed on it, And, in order to convert these

raw materials into finished products (product A), the company has spent on them additional amounts of 30,000 L.E, knowing that the company sells product A with a profit margin of 20%.

- The company imported machinery and equipment from abroad for use in the production of exempted product with a value of 45,000 L.E and the customs tax at 30 % of its value.

- A notification for the company was received from one of the suppliers to amend the value of some of the materials supplied to the company as a result of mathematical errors of the increase in the amount of 6000 L.E.

Required:

Preparing a summary of the value added tax for the month of January 2020, note that:
-value added tax on all goods the company deals in through buying or selling 14%.

- The company's balance with the Tax Authority on 1/1/2020 according to the previous tax declaration 7000L.E (debit balance).

Solution

Calculations

-sales of product x

The value of the value added tax is determined on the basis of the selling price, excluding transportation and maintenance expenses, as well as quantity and cash discount, as follows:

Sales value of product x =1500 units x 100L.E	150,000
=	
Excluding transportation expenses =1500 units x 10 L.E =	<u>15000</u>
The value of sales after excluding transportation expenses	135000
Deduct the quantity discount =135,000 x 10%	<u>13500</u>
=	
	121500L.E
Deduct cash discount 121500 x 4 %=	<u>4860</u>
Net value subject to VAT	116640
value added tax = 116,640 x 14%=	16330L.E

-Withdrawal from product x for personal use

The goods that were withdraw for a personal use for which a value added tax is calculated are as follows:
value added tax payable 2360 x 14% = 330L.E

-Sales of product y

The value added tax is determined on the basis of the selling price, calculated at the wholesale price, as follows:

Sales value = unit 3000 x 60 L.E =	180000
The value of taxable sales is calculated at the wholesale price = 3000 units x 45L.E =	135000
value added tax payable = 135,000 x 14% =	18900

-Raw material purchases from the local market

value added tax must be deducted from the inputs purchased from the local market as long as it is purchased from a registered seller, and the deductible sales tax is calculated as follows:

Value-added tax on purchases = 60000 x 14% = 8400L.E

value added tax paid on returns for purchases = 5,000 x 14% = 700L.E

This is deducted to reduce the tax paid on the purchased inputs.

- sales of product A

The value of the sales tax is determined on the basis of the CIF value plus the customs tax, and any other fees, as well as the costs of modification or processing on these raw materials, other than the profit margin that the industrial producer calculates for himself, as follows:

CIF value	75000
Add Customs tax $75,000 \times 40\% =$	<u>30000</u>
	105000L.E
Add Manufacturing costs	<u>30000</u>
	135000
Add profit margin $= 135,000 \times 20\% =$	<u>27000</u>
	162000
value added tax payable $= 162000 \times 14\% =$	22680L.E

-Purchases of raw materials imported from abroad and included in the manufacture of the product A:

Where it is allowed to deduct the value-added tax paid on the inputs purchased from abroad, which are calculated on the basis of the value of imported materials at the customs release stage (i.e. supplier bill + customs tax and any other fees).

The value of value added tax that should be deduct=
 $105000 \times 14\% = 14700\text{L.E}$

-Machinery and equipment imported from abroad:

machinery and equipment imported from abroad are subject to value-added tax at the customs release stage, but the tax paid in this case isn't deductible.

-If the value of the transaction is modified by increasing, then both the seller and the buyer must show this amendment with the declaration submitted by each of them, as follows:

+ As for the seller, he must add the increase in the tax to the tax due to the Tax Authority.

+ With regard to the buyer, he has to deduct it from the tax due on his sales as a tax on inputs or purchases, and accordingly, the value-added tax due to be adjusted as a result of adjusting the value of the purchases in excess = $6000 \times 14\% = 840$ L.E

Value added tax summary for January 2020

Item	Transaction value without tax		Value added tax	
	subtotal	total	subtotal	total
First: Sales				
Product X sales	116640		16330	
Product Y sales	135000		18900	
Product A sales	162000		22680	
Withdrawal from X	2360		330	
		416000		58240
Second : purchases				
-Tax on purchases are not deductible (imported Machinery and equipment)	585000			
- Tax on purchases are deductible				
+local purchases	60000		8400	
+imported purchases	105000		14700	
		750000		23100
Third : Tax adjustments for purchases				
Local purchases return	(5000)		(700)	
Adjusting purchases value	6000		840	
		1000		140
Net purchases/ deductible tax		751000		23240
Tax due for the month of January				35000
Deduct: the company's balance at				(7000)

the tax authority				
Value added tax payable				28000

Questions:

1- A taxpayer has drawn up an invoice for the amount of 7000 L.E for the value of the commodity plus 500L.E installation and transportation expenses and 600 L.E for maintenance expenses undertaken by the seller .

Required: calculate the value added tax.

2-A taxpayer sold 4000units of product (X) throughout the sale outlets attached to his company at the price of 50 L.E per unit. The sale price of the unit to the wholesalers is 25 L.E.

Required: calculate the value added tax.

3- A commodity has been sold by a registered sellers for the amount of 8000 L.E, with a commercial discount of 20% and a cash discount 5% for immediate payment.

Required: calculate the value added tax.

4- the value of a commodity imported from abroad according to the custom procedures certificate 100000L.E(CIF value) the custom duties in this kind of commodities amounts to 30%.

Required: calculate the value added tax.

5-the value of service rendered by one of the hotels amount to 50000 L.E, noting that the service charge is 12%.

Required: calculate the value added tax.

6- A company of Egyptian private sector concluded an agreement with a foreign company abroad to installation imported machinery and equipment used in his activity for 80000L.E noting that the products of the Egyptian company are exempted from the VAT and foreign exchange rate is 15L.E per dollar.

Required: calculate the value added tax.

7- Al Nor for touristic transport company leased some of its cars to AL Goudy for touristic transport company for 20000L.E. AL Goudy company leased these cars to others for 25000L.E.

Required: calculate the value added tax.

8- A person imports a commodity for \$60000, the freight cost was 10000L.E, insurance expense is 6000L.E , and discharge cost was 1500L.E. customs tax 20%, foreign exchange rate is 18L.E per dollar.

Required: calculate the value added tax.

9-the following data related to a manufacturing company registered at tax authority for the month of january 2020:

-total cash sales amounted to 50000L.E from taxable commodities.

-total cash purchases during the month amounted to 15000L.E of which 5000L.E from a registered seller and the rest from an unregistered seller.

-the actual value of machines that was imported for the usage in the production from the supplier invoice was \$6000, insurance expenses \$600 and discharge expenses was 1200L.E.

- customs tax 20%, foreign exchange rate is 20L.E per dollar.

Required: calculate the value added tax.

10-The following data related to a registered producer at tax authority who deals with the commodities subject to value added tax, for the month of March,2019:

-total sales subject to schedule tax at the rate of 5%, and value added tax at the rate of 14%, amounted to 90000L.E(noting that the return during the month amounted to 5000L.E).

-the value of exported commodities amounted to 30000L.E.

-the value of inputs amounted to 40000L.E(of which 10000 L.E commodities purchased from the local market and the rest from abroad), noting that the return during the month from the local commodities amounted to 4000L.E.

-the value of the purchase of parts and spare parts of imported machines and equipment used in the production

of commodities subject to the schedule tax only, amounted to 4500L.E.

-the value of purchase local machine and equipment used in the production of commodities subject to value added tax amounted to 20000L.E.

- the previously debit balance due to the registrant was 1000L.E.

Required:

Prepare a summary of tax.

11- An industrial producer keeps regular books, and is registered with the tax administration. The following details about the producer were made available for the month of May 2020:

A- total sales during May amounted to 950000L.E as follows:

-200000 L.E of commodity X taxable at the rate of 14%.

-550000L.E of commodity Y taxable at the rate of 10%.

-200000 L.E of commodity Z tax-free.

B- trade discount on sales of commodity X amounted to 20% . transportation expenses of commodity Y amounted to 10000 L.E not included in the value of the commodity.

C- sales returns during the month amounted to 200000 L.E as follows:

60000 L.E from the sales of commodity X.

100000 L.E from the sales of commodity Y.

40000L.E from the sales of commodity Z.

D- the purchases during the month amounted to 300000L.E as follows:

-100000 L.E purchases subjected to tax were used in producing commodity X of which 60000 from an unregistered seller with the administration.

-150000 L.E purchases subjected to tax were used in the production of commodity Y.

-50000L.E purchases exempted from tax were used in producing commodity Z.

Required: prepare a summary of value added tax.

12-A registrar bought the machines to be used in his activity for the amount of 220 thousand pounds, and after the end of their useful life, which amounted to five years, he decided to dispense with them and sell them in the local market as scrap machines, and then sold them amounted to 20 thousand pounds, **what** is the value-added tax due in this case?

13-Here is the data for May of one of the companies registered with the Egyptian Tax Authority, which manufactures goods that use imported and local raw materials in their production and then sells them in the local and foreign market.

-Raw materials were imported at an amount of 300,000 L.E, for which customs taxes amounted to 60,000 L.E

were paid. They were used in the manufacture of 5,000 units, of which 2,000 were sold in the local market at a selling price of 100 pounds per unit, and the rest was exported abroad at 150 L.E per unit.

-Raw materials were purchased from the local market at an amount of 500,000 L.E, of which 100,000 L.E were from an unregistered seller. They were used in the manufacture of 8000 units that were sold at 80 L.E per unit with a commercial discount of 5%.

Required:

Prepare a summary of the value-added tax, noting that the tax rate is 14%.

14-El Reda Company for Import and Export imported a group of modern cars, the cost of importing was 3.5 million pounds, and the estimated value of these cars subject to customs tax was 4 million pounds, and various additional amounts of 100 thousand pounds were spent on them and they were sold with a profit margin of 15%, this Knowing that the customs tax rate is 20% and the value-added tax is 14%

Required

- Determining the value of the added tax upon customs release and upon sale.
- Preparing a value-added tax summary to determine the payable tax.

15-The following are data about VIEW Hotels Company :

(A) The value of services provided to hotel guests during the month of August 2021, amounting to 119000 L.E. of which 4,000 L.E are fast food, and the rest is in exchange for holding parties and other services.

(B) The value of the services provided in the different sections for the guests who left the hotel during the month 125000L.E.

(C) Hotel revenue during the month from renting shops to others (bazaar, bank branch, etc.) 75000L.E.

(D) The fee for the service that the hotel adds to the service prices 12%

(E)The value-added tax rate for the services provided by the hotel is 14%

Required: Calculate the value added tax due on the hotel at the end

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