



Tax Accounting (1)

Dr. Salwa Nasr Ali Mostafa
Faculty of Commerce
South Valley University
(Collections)

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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الْفَضْلِ الْعَظِيمِ

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Chapter One

Introduction to Tax accounting

-Income Taxes on Natural Persons-

Introduction:

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

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

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

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

Direct and indirect taxes:

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

Qualitative and unified taxes:

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

Personal and in-kind taxes:

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

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

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

Proportional and progressive taxes:

In terms of rates, taxes are divided into proportional taxes and progressive taxes. The proportional rate taxes are those imposed at a fixed rate on the taxable amount (tax bracket) regardless of its value. Example of proportional rate taxes is the tax on the profits of juridical persons. The tax is imposed at a fixed rate amounting to 22.5%. On the other hand, progressive taxes, are taxes, wherein the rate increases with the increase in the taxable amount. The rate decreases with the decrease in the taxable amount, an example of progressive taxes is the tax on the incomes of natural persons where it is imposed according to a progressive rate ranging between 2.5% and up to 27.5% of the taxable amount.

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

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

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

Income Taxes in Egypt and its Historical Development:

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

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

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

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

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

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

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

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

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

First: mitigate the family burden:

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

Second: the expansion of the tax base:

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

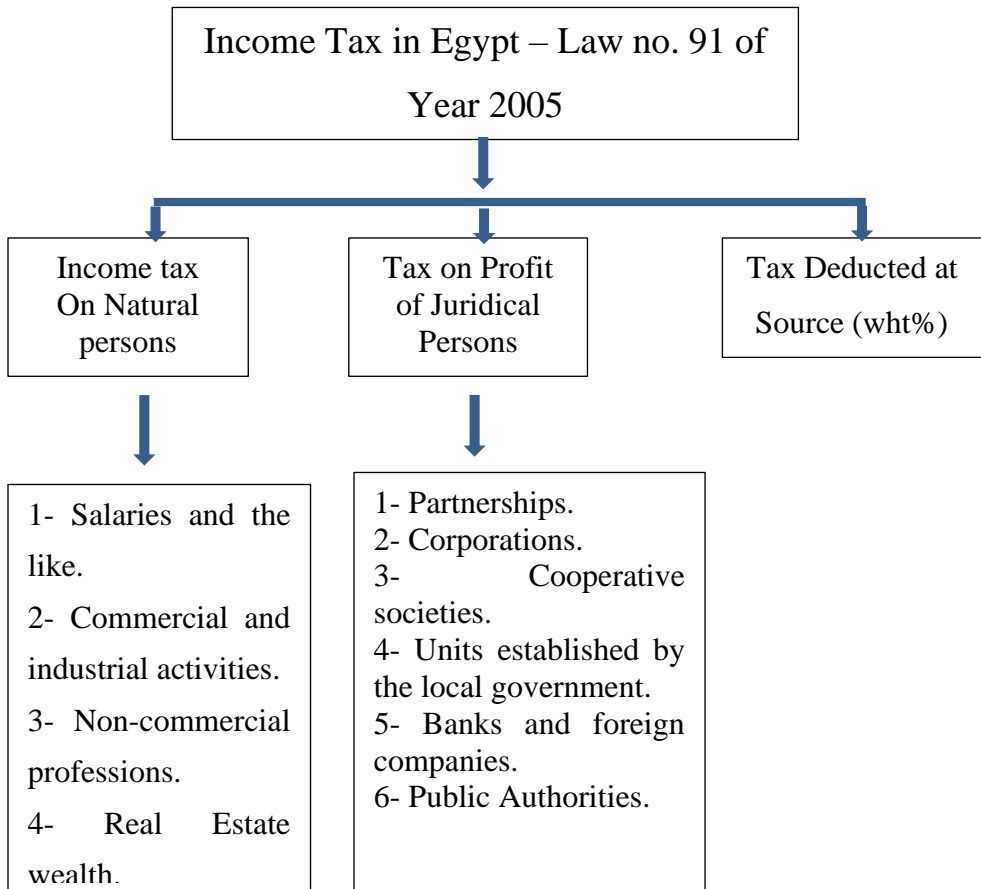
Third: simplifying the procedures:

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

Fourth: Confidence Support Cases:

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

Thus, the income tax system in Egypt takes the following form as of June 2005.



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

Part one

General provisions of the income taxes on natural persons

A. Scope of the income taxes on natural persons:

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

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

The total net income comprises from the following sources:

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

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

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

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

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

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

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

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

B. Tax rate on the income of natural persons:

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

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

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

law amendments for example law 26 for 2020 :

First: Tax exemptions

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

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

Second, stopping the tax deduction system

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

Third, the development of new slices:

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

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

The amendments of law 30 for 2023:

Article 8 states that the rate and tax brackets for natural persons are as follows: the exemption was 21000 L.E

New amendments law 7 for 2024:

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

The new exemption is 40000 L.E in addition to personal exemption of 20000 L.E annually, moreover, deleting the lowest income slice.

Tax rate	Net income not exceeding 600,000 L.E	Net income exceeding 600,000 L.E and not exceeding 700,000 L.E	Net income exceeding 700,000 L.E and not exceeding 800,000 L.E	Net income exceeding 800,000 L.E and not exceeding 900,000 L.E	Net income exceeding 900,000 L.E and not exceeding 1200000 L.E	Net income more than 1200000 L.E
0%	From 1 L.E to 40,000 L.E					
10%	More than 40,000 L.E to 55,000 L.E	From 1 L.E to 55,000 L.E				
15%	More than 55,000 L.E to 70,000 L.E	More than 55,000 L.E to 70,000 L.E	From 1 L.E to 70,000 L.E			
20%	More than 70,000 L.E to 200,000 L.E	More than 70,000 L.E to 200,000 L.E	More than 60,000 L.E to 200,000 L.E	From 1 L.E to 200,000 L.E		
22.5%	More than 200,000 L.E to 400,000 L.E	More than 200,000 L.E to 400,000 L.E	More than 200,000 L.E to 400,000 L.E	More than 200,000 L.E to 400,000 L.E	From 1 L.E to 400,000 L.E	
25%	More than 400,000 L.E	More than 400,000 L.E	More than 400,000 L.E	More than 400,000 L.E	More than 400,000 L.E	From 1 L.E to 1200,000 L.E
27.5%						More than 1200,000 L.E

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

Example (1): A natural person whose total taxable net income is 35000 L.E.

Required: Calculate the due income tax on natural persons.

The solution

The taxpayer is not entitled to tax because his net taxable income, do not exceed the exempted slice of 40000 L.E.

Example (2): A natural person whose total taxable net income is 120555 L.E.

Required: Calculate the due income tax on natural persons

The solution

The total net income is rounded to the nearest ten pounds lower, that is the taxable net income is 120550 L.E, then the tax is calculated as follows:

- the first 40000L.E.	exempted.
-The next 15000 ×10%=	1500
-The next 15000 ×15%=	2250
- The remaining 50550 ×20% =	<u>10110</u>
Total tax payable	13860 L.E

Example (3): A natural person's taxpayer whose total taxable net income is 600000 L.E.

Required: Calculate the due income tax on natural persons.

The solution

- the first 40000L.E.	exempted.
-The next 15000 ×10%=	1500
-The next 15000 ×15%=	2250
-The next 130000 ×20%=	26000
-The next 200000 ×22.5%=	45000
-The next 200000 ×25%=	<u>50000</u>
Total tax payable	124750 L.E

Example (4): A natural person's taxpayer whose total taxable net income is 850000 L.E.

- the first 200000×20%=	40000
-The next 200000 ×22.5%=	45000
-The remaining 450000 ×25%=	<u>112500</u>
Total tax payable	197500 L.E

C. Characteristics of Income taxes of Natural Persons:

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

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

The tax on income of natural persons is considered as being one of the direct taxes because the persons who bears its charges is one who pays it. This person cannot transfer this charge to another person. It is also characterized with its

applicability only to natural persons exclusive of corporate entities on which another tax is imposed. It is intended by the natural person, the individual taxpayer, i.e. the taxpayer who works by himself or through a proprietorship, or a private office.

2-It is an annual tax

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

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

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

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

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

First: persons usually resident in Egypt

The tax applies to the income of each natural person residing in Egypt, whether he is an Egyptian, or a foreigner. tax is imposed on his total income whether realized in Egypt or abroad in accordance with the principle of social appurtenance(attachment)

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

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

2-Egypt is the principal place of residence.

3-Egypt is the main center of his activity.

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

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

Second: non- resident persons:

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

4-It is a personal tax

The tax on the income of natural persons grants the taxpayer an exemption to face the minimum limit of the cost of living and family charges 40000 L.E. as for the taxpayer with incomes only from salary or wage the law grants him or her 20000 L.E.

5-It is progressive tax

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

6- Unified tax

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

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

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

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

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

First: Salaries and the like:

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

Egypt, Salaries and bonuses of the chairmen and members of the boards of directors.

Second: Commercial and Industrial Activity:

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

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

Third: Revenues of non-commercial professions:

The tax applies to the net income of the free professions and other non-commercial professions, which is exercised by the taxpayer independently and the main element of it, is the work. It is noted that what is subject to tax is the net income of free professions and is determined on a cash basis, as described below:

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

Fourth: Revenues of real estate wealth:

The revenues of real estate wealth are subject to income tax on natural persons, which is explained in Article (37) of the Law 91 of 2005 which amended by law196 of 2008, includes revenues from rental real estates under fixed duration rent system in accordance with the provisions of the Civil Code (new rent) and revenues of furnished units.

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

Tax declaration on total net income of natural persons

1-salaries and the like	XX
2-net profit(loss) from commercial and industrial activity	XX XX
3- net revenue(loss) non-commercial professions	<u>XX</u>
4-net revenues of real estate	XXX
Total net income	
Deduct the exempted bracket	<u>(40000)</u>
Total taxable income	<u>XXX</u>

And to illustrate how to determines the tax bracket of person's natural income and calculate of tax due in

accordance with Law No. (91) for the year 2005, The following simplified example is provided

Example(5): An Egyptian doctor, resident in Egypt, has the following data:

- 1- He works as director of medical management at a company for monthly salary of 30000 L.E and the amount of annual taxable income after exclusion of exemptions and non-taxable amounts: 290,000 L.E
- 2- He alone owns a hospital in Luxor the amount of its annual taxable revenues 500000 L.E and amount deductible expenses for the year is 320000 L.E.
- 3- Has a clinic with a professional revenue already collected 300000 L.E, as well as Its actual paid expenses amounted to LE 180,000 L.E.
- 4- Owns a three-floors building which houses one of them, and the rest is rented out under the fixed duration rent system (new rent), with a total annual taxable revenue of 160,000 L.E.

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

The solution

- 1- The income of the taxpayer from his work in a company is subject to income tax of natural persons, such as salaries and the like.
- 2- The net profit of the taxpayer from the hospital he owns is subject to income tax of natural persons as a commercial and industrial profit $500000 - 320000 = 180000$ L.E
- 3- The net income of the taxpayer from the clinic he owns is subject to income tax on natural persons as income of free professions $300000 - 180000 = 120000$ L.E
- 4- Net revenue of the taxpayer from the real estate wealth subject to income tax on natural persons, is determined on the basis of 50% of annual revenue i.e. the net taxable revenue 80000 L.E ($=160000 \times 50\%$).

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

Tax declaration on total net income of natural persons

1-salaries and the like	290000
2-net profit(loss) from commercial and industrial activity	180000
3- net revenue(loss) non-commercial professions	120000
4-net revenues of real estate	<u>80000</u>
Total income	670000

Calculating the due tax

- the first 55000 × 10% =	5500
-The next 15000 × 15% =	2250
-The next 130000 × 20% =	26000
-The next 200000 × 22.5% =	45000
- The remaining 270000 × 25% =	<u>67500</u>
Total tax payable	146250L.E

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

Example (6): Assuming that a natural person has an engineering consultancy office, During the year, he achieved a net income of 1000000L.E and has an individual activity exercise construction achieved a net loss of 900000L.E.so the net taxable income =1000000 – 900000=100000 L.E only.

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

Example (7): A taxpayer working as a professor at the Faculty of Medicine, Cairo University, his annual taxable income from the college 480000L.E, He has a private clinic with an annual net income of 1200,000L.E, in addition he own a private hospital achieved a loss of 1500,000L.E this year.

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

The solution

Tax declaration on total net income of natural persons

1-salaries and the like		480000
2-net loss from commercial and industrial activity(hospital)	(1500000)	
3- net revenue non-commercial professions (clinic)	<u>1200000</u>	
The result of forced addition (losses) is carried forward for the following year (Deducted from profits of commercial and industrial activity in the following year)	(300000)	
Total net income		<u>480000</u>
Deduct the exempted bracket		<u>(40000)</u>
Total taxable income		440000

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

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

First: The timing of submitting the tax declaration:

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

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

- 1-If his/her income is limited to salaries and the like.
- 2-If his/ her income is limited to the revenues of real estate wealth and his/ her net income does not exceed the amount specified in the first slice which is exempt by Article (8) of the Income Tax Law and its amendments (I.e. net income from real estate revenues did not exceed 40000 L.E).

Article (85) states that the period of submission of the declaration may be extended for sixty days following the end of the legal deadline for submission. Provided that the

taxpayer or his representative submits a request for extension of the declaration submission deadline before the end of the legal deadline for submission by at least fifteen days. On condition that the extension have no effect on tax payment date.

Second: Rules for submitting a tax declaration:

1-Article (83) of the law stipulates that the declaration shall be signed by the taxpayer or his legal representative, If the declaration is prepared by an independent accountant, he / she must sign the declaration with the taxpayer or his legal representative, Otherwise the declaration will consider as it was not. In all cases, the declaration must be signed by an accountant who is registered with the accountants and auditors table for joint stock companies, sole proprietorship companies and partnership companies if the number of works exceeds two million pounds annually.

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

The taxpayer whose stay in Egypt is interrupted shall submit the tax declaration before the interruption of his stay

by at least 60 days, unless such interruption is for a sudden reason beyond his control.

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

3- Article 48 of the Law requires the tax authority to accept the stipulated tax declaration at the taxpayer's liability.

4- Article 87 states that if the taxpayer discovers an omission or mistake in his tax declaration submitted to the competent tax office, he shall immediately submit an adjusted tax declaration after correcting the error or omission.

If the taxpayer submits the adjusted tax declaration within thirty days from the legal date for submitting the declaration, the adjusted declaration shall be regarded as the original declaration.

Questions

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

- 1- The tax shall be imposed on the income of natural persons, on the income of every natural person from commercial and industrial projects, whether in the form of an individual project or a partner in a joint venture or in a simple partnership.
- 2- A natural person shall be considered a resident of Egypt if he resided in Egypt for a period more than 183 days continuous during twelve months.
- 3- the natural person whose income is limited to salaries and the like, and exceeds the exempt salary of 40000L.E is obligated to submit the tax declaration.
- 4- The state uses the tax revenues to meet public expenditures of the state as a whole, as well as to use them as a tool or means to achieve prosperity.
- 5- taxes are considered as being unified if imposed on each kind of income (or expenditure) as an independent tax separately. either in terms of rate, provisions, or collection procedures.
- 6- the Law requires the tax authority not to accept the stipulated tax declaration at the taxpayer's liability.
- 7- In all cases, the declaration must be signed by an accountant who is registered with the accountants and auditors table for joint stock companies, sole proprietorship companies and partnership companies.
- 8- the taxpayer shall not be exempted from submitting the declaration, if his/her income is limited to salaries and the like.

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

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

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

A- A natural person whose total taxable net income is 35000L.E

B- A natural person whose total taxable net income is 202562L.E

(3) A taxpayer who works in one of the companies, his net annual income after excluding exempted bonuses and social insurance contributions is 240000L.E. He also has an office to practice the accounting profession in his non-official working hours in the company. The net revenues of the office for the year from its regular books 400000L.E.

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

(4) A doctor working as a university professor at the Faculty of Medicine, South Valley University. He owns a hospital in Luxor (an individual establishment). His net income from his work at the university before deducting the personal exemption and the tax-exempt slice was 400000L.E. in addition, his private hospital achieved a loss of LE 1500,000 this year.

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

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

	2020	2021
Salaries and the like	90000	120000
Commercial activity revenue	90000	30000
Professional activity revenue	(220000)	170000
Real estate wealth revenue	20000	40000

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

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

	2020	2021
Salaries and the like	100000	120000
Commercial activity revenue	(180000)	150000
Professional activity revenue	30000	(30000)
Real estate wealth revenue	20000	20000

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

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

	2020	2021
Salaries and the like	74000	74000
Commercial activity revenue	(120000)	50000
Professional activity revenue	(10000)	47690
Real estate wealth revenue	30000	66000

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

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

	2020	2021
Salaries and the like	75000	75000
Commercial activity revenue	(20000)	20000
Professional activity revenue	(120000)	(30000)
Real estate wealth revenue	30000	60000

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

(9) The following is the taxable revenue of an individual for the year 2021: 2200000 revenues from commercial activity - 1500000 revenues from professional activity - 500000 net

real estate wealth revenues - 2000000 salaries and the like. If you know the following:

- The value of the amounts withheld from the taxpayer under the account of tax during the year amounted to 150000.
- During the year, the taxpayer paid 59000 building taxes, including 5000 additional fees.

Required: Calculate the amount of tax payable?

Chapter Two

Salaries and the Like

Introduction:

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

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

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

Section 1: Taxable revenues

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

The tax on salaries and the like applies to:

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

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

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

First: General Provisions:

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

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

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

Second: Special Provisions

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

- performed in Egypt, as is the case for workers in representative offices and offices of international organizations registered in Egypt.
- 2- daily workers are those who receive the wages on daily basis. If the person was among daily workers, calculation of the tax on his wage shall not be different from other workers.
 - 3- remunerations and membership allowance of chairmen and members of the boards of directors in the public sector companies and the public business sector companies, who are shareholders, are not consider deductible and therefore are not subject to tax on salaries and the like.

Tax bracket determination:

Taxable revenues are divided into several categories namely:

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

1-Salaries wages and the like.

Salaries and wages represent receipts by employees and workers in return for performing work for others and under their supervision. Whatever the name of the amounts

received by employees and workers, it is considered as a return for work done and is subjected to tax as salaries whether the work is manual, mental, technical or others.

Article (9) of the law added the word "and the like" to the word salaries and wisdom of that is the desire of the legislator to make the text more comprehensive in order to prevent any confusion, and not to evade any income from taxation, or to drop any person from contributing his share in the general burdens of the State. Therefore, the text includes all revenues taking the form of salary.

In general, salaries & wages are subject to tax, regardless of their different names. Among the components of salaries & wages that are subject to tax are also what is decided for workers in terms of grants that are given to them on certain occasions, and periodic increment that are paid to them in addition to the original wage, with the exception of the social and additional increment and special increments prescribed for workers in the state and the public sector by Law 101 For the year 1987. The special increments granted to workers in the private sector are exempt from taxation since the first special increment granted on 1/7/1987 until the special increment granted on 1/7/2013. As for the special increment

that was granted on 1/7/2014, it is subject to tax, along with the increments that follow.

With the issuance of the new Civil Service Law No. 81 of 2016, which applies to workers in ministries and their departments, government agencies, local administration units and public authorities, with the exception of those to whom the special cadre system applies, such as judges, men of the armed forces and police, teachers and universities teaching staff, This law included everything that the taxpayer receives from his work within two types of wages: the first is the basic wage, which includes what the taxpayer used to receive from the basic wage before the implementation of this law, and the special increment that were not included in the basic wage, and the social and additional increments and Labor Day grant, in addition to 100 % of the basic wage on 30/6/2015, and thus all these amounts have been merged together, and represent the value of the basic wage for the taxpayer.

The second: It is the variable wage and includes everything that the employee receives other than the basic wage in terms of performance incentives, overtimes, allowances, and others.

And these wages became subject to tax from that time, so that all workers in the governmental agencies, public authorities and local administration, whether those who were on the labor force when the law was issued or who would be appointed after applying the provisions of the law, were equal in that.

We can summarize the above as follows:

Revenue type	tax treatment
Salaries, wages and benefits in general	subject to tax
Social ,additional and special increments, which have been collected within the basic wage for state employees to whom the Civil Service Law applies.	subject to tax
Social , additional and special increments granted since 1/7/1987 until the increment granted on 1/7/2013 for workers who are not subject to the Civil Service Law	Exempt from tax
The special increment granted on 1/7/2014 and thereafter for employees who are not subject to the Civil Service Law	subject to tax

2- Bonuses (remunerations)

The term "bonuses" means those amounts paid to workers and employees, in excess of salary or wage, in return for performing some additional work, which are considered as complementary to the original work. For example, the bonus

for overtime working hours. Employees and worker may also pay bonuses to encourage them to do more work and effort. For example, incentives which are usually paid at the end of the year or at intervals. These bonuses are subjected to tax, same as salaries, and wages as stipulated in article (9) of the law.

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

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

Although the quotas and shares are calculated by a percentage of net profit, they differ from the share of employees in the profits distributed by the company in accordance with the provisions of the law, they are exempt

from subject to the tax on the person's natural income as we will see.

The end of service bonus is not considered a part of the taxable revenues because it is not revenue for the receiver, it is considered as a capital for him, in addition to the fact that periodicity factor does not exist. Adding to this the tax will not be imposed on the amount received against the pensions. With regard to vacation paid balance/ vacation allowance, which is paid for vacation days legally prescribed for the employee or worker during his work period and he did not receive them, and he gets cash pay as compensation for them when leaving the service, It is exempted from being subject to the tax, according to what was mentioned in the periodic book No. (1) of 2005, but if the vacation allowance was paid to the workers during the period of service and did not leave the work yet, then it is subject to the tax because it is considered as a bonus paid for overtime.

Remunerations obtained by the taxpayer from a source other than the original work:

Article (11) of Law No. 91 of 2005 and its amendments stipulated a special tax rate for a resident taxpayer who obtains income as a result of his work in a place other than his original work, whereby Article (11) obtained an

exception from the provisions of Article (8) of this law, whereby the tax applies On all amounts that residents receive from other than their original work, at a rate of 10%, without any reduction to meet costs, and without making any other deduction. In all cases, the tax is withheld and remitted to the competent tax office within the first fifteen days of every month, in accordance with the rules and procedures specified by the executive regulations of this law.

And Article No. (15) of the executive regulations of the law made it clear that by the original work entity, the entity in which the worker is appointed and from which his original salary is paid. The entity from which the worker obtains more than 50% of his income during the tax period is considered as the original work, and this entity is obligated to deduct an amount on account of the tax from the amounts disbursed to the worker according to the provisions of Articles 8, 10 and 13 of the law, and in this case the provisions of Article 11 of the law apply on the salary that the worker receives from the entity in which he is appointed.

Based on the above, a distinction must be made between several cases:

first: If the worker is appointed in one entity, and on the other hand, he seconded to work in another one, and he receives

amounts that do not exceed 50% of his total income from the other entity: in this case, what he gets from the secondment is subject to fixed rate of 10% (without a reduction).

Second: If the worker is appointed in one entity, and receives more than 50% of his total income from another.

In this case, the income of the taxpayer from the other entity is subject to tax in accordance with the provisions of Articles 8, 10, and 13, and the progressive tax rates are applied to it, and he benefits from exemptions when calculating the tax for his income from that other entity, while the income from the entity he is appointed to is the one that is subject to the fixed rate of 10% without reduction.

Third: If there are many other entities from which he receives what does not exceed 50% of his total income in any of these entities, the entity to which the worker is appointed is his original work, and he is taxed on this basis.

3-Cash and in-kind benefit.

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

Article (11) of the executive regulations of the law stipulates that cash and in-kind benefits meant all that the worker receives in cash or in kind, without being in place of

expenses incurred in the performance of his work, and to be a personal benefit to him.

A-Cash benefits

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

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

LE 1000 overtime wages for working overtime hours.

LE500 travel and transportation allowance.

LE400 clothing allowance.

LE700 full time allowance.

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

Solution

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

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

B- In-kind benefits

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

Example (2): a company provides an employee a room to live in its monthly rental value amounts to LE600 against a monthly deduction of LE20 from his salary. It also provides him a car for transportation which costs the company LE500 monthly free of charge.

Required: indicate the in-kind benefits.

The room provided by the employer is not taxable, as this housing facility is not grant free of charge, but it is provided to the employee against deduction of part of his wage or salary, even if the deducted amount is less than the value the benefit provided. As for the LE 500, the cost of the car

provided by the company to the employee, they are subject to tax because that stands as in-kind benefit granted to him free of charge.

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

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

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

Example (3): The company placed at the disposal of one of its employees a car owned by the company and the value of fuel and insurance and periodic maintenance related to this car 2400 pounds per year paid by the company.

Required: determine the monthly taxable in-kind benefit.

Solution

$$\begin{aligned}\text{Monthly taxable in-kind benefit} &= 2400/12 \text{ month} = 200 \\ &= 200 \times 20\% = 40 \text{ LE}\end{aligned}$$

2- cell phones(mobiles):

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

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

Required: determine the taxable in-kind benefit.

solution

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

3- Loans and advances rendered by employer

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

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

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

A - Interest rate of 8% per annum.

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

c - without interest.

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

Solution

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

Assumption B: As long as the amount of the loan exceeded the total amounts received by the employee during the six months preceding the date of receipt of the loan, and the loan at an interest rate lower than the rate of 7%, there is a no taxable in-kind benefit calculated as follows:

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

Assumption C: As long as the amount of the loan exceeded the total amounts received by the employee during the six months preceding the date of obtaining the loan, and the loan

is interest free, there is a taxable in-kind benefit calculated as follows:

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

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

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

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

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

Example (6): If it is assumed that a company has granted its employees a set of the company shares, 20 shares per worker against LE 10 per share, knowing that the stock market price on the date of the grant of these shares amounted to LE 15. In this case, a taxable benefit for each worker is the amount of difference in the value of each share multiplied by the number of shares.

$$\begin{aligned} \text{Taxable value} &= 5\text{LE} \times 20 \text{ shares} \\ &= 100 \text{ LE} \end{aligned}$$

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

The revenue	Subjected to taxation	Not Subjected to taxation
First: cash benefit	- Granted to staff as benefit not necessary for the performance of their works.	- granted against actual expenses and also necessary for the performance of work.
Second: In-kind benefits	If provided to the employee free or granted as a special consideration.	Exempted. In-kind benefits according to article (13) of the law: 1- meals distributed to works. 2- collective transportation. 3- health care. 4- tools and uniforms necessary for the work. 5- tenements provided for performing the work.

Section 2: Tax rate on salary income and the like:

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

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

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

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

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

Section 3: Exempted and non-taxable income

There are many exemptions in relation to revenues that emanating from salaries and the like, in addition to non-taxable income and the exempted slice of the first 21000 LE. Articles (12) and (13) of the law specify those amounts which are not taxable or exempt, they are as follows:

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

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

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

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

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

Solution

- A) The amount of LE 20,000 of the bonus received by the taxpayer for his extraordinary efforts is regarded as a taxable income.
- B) The amount of LE 25,000 of the bonus received by the taxpayer, Which impose its disbursement to the employees, the workers regulations and labor regulations applicable to the end of service, are not subject to tax.

Second: exempt revenues from taxation by special laws

Article (13) of Law No. 91 of 2005 stipulates not to prejudice any tax exemptions stipulated in special laws, and the most important of these exemptions are the following:

- 1- Allowances exempted by special laws.
 - 2- The social increment and the additional increment
 - 3- Special increments added to the basic wage and not added.
- As for the exemption of these increments, their exemption applies up to the increment that was done on 1/7/2014, as this increment and what followed it was subject to tax, as the law of granting it did not provide for its exemption.

With the issuance of the Civil Service Law, which included the increments referred to in 2,3,4 within the wage, the basic wage for workers, and removed these increments from the elements of wages, and those to whom this law applies receive a single wage under the name of the basic wage, and this has led to the disappearance of the exemption for these increments.

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

1- Personal exemption

item (1) of Article (13), as amended by Law 7 of 2024, stipulates that Exempt: "The amount of LE 20000 EGP a personal exemption annually to the taxpayer"

2-Social insurance contributions and savings premiums:

According to Clause (2) of Article (13) of the Law, the following are exempted from tax:

“Social insurance contributions and other deductions according to the provisions of social insurance laws or any alternative systems thereof”.

This means that the share of the employee in the social security contributions and savings premiums or the contributions of any alternative systems is exempt from being subject to the tax, and therefore it must be excluded from the taxable revenue. Article (17) of the executive regulations of the law clarified that what is meant by alternative systems are those systems that are established in accordance with the provisions of Law No. (64) of 1980 or any of the Egyptian laws.

The share of the employee or worker in the social insurance subscription is determined according to Law 148 of 2019 and

as of 1/1/2020 at a rate of 11% of what the insured employee or worker receives, and there is no distinction between what is called a basic or variable wages. The maximum subscription is 7,000 L.E per month.

For example, the monthly salary of one of the employees was 3,000 L.E, and he received a monthly incentive equal to 50% of his monthly salary. Required: Calculate the employee's share in the social insurance contribution.

The total monthly revenue for an employee = 3000 + (3000*50%)= 4500 L.E

The employee's share in the social insurance subscription =4500* 11% = 495 L.E

Schedule for determining the minimum and maximum monthly limits for the subscription wage

Year	Minimum monthly wage	Maximum monthly wage
2020	1000	7000
2021	1200	8100
2022	1400	9400
2023	1700	10900
2024	2000	12600
2025	2300	14500
2026	2700	16700
2027	3200	19300

3- Employee's subscriptions in private insurance funds.

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

4- life insurance and health insurance premiums.

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

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

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

A- the insurance should cover the life of the employee in his own favor or in favor of his wife or minor children.

B- the life insurance policy premium or subscription to private insurance funds should not exceed 15% of the net revenue or LE 10000 whichever is less.

C-the premiums or subscriptions should not have been previously deducted from any other revenues apart from the salaries revenues or the like.

D- The insurance must be in a company registered with the Egyptian General Authority for Insurance Control.

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

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

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

Solution

Total paid amount = 3000 +5000 = LE 8000

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

The maximum limit for the exemption LE 10000

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

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

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

Solution

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

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

The maximum limit for the exemption LE 10000

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

5- collective in-kind benefit

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

-The meal given to the employees.

-collective transportation of workers or equivalent transportation cost, owned or rented.

- health or medical care.
- tools and uniforms necessary for performing the work.
- dwellings provided by the employer to the workers for performing their work.

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

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

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

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

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

considered as deductible cost from the taxable profits of such companies.

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

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

Tax calculation

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

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

- 3- In case there have been deductions from the salary of the employee as an administrative penalty, unpaid sick leave, or pension exchange, then deductions are excluded from the taxable revenues. Taking into consideration the calculation of the social security subscription and the saving contributions on the revenues of the employee in total prior to the exclusion of these deductions.
- 4- A settlement statement is to be prepared at the end of the year, in which all the amounts received by the employee are entered and the exclusion of the deductions and exemptions decreed by the law from these amounts, as well the calculation of the tax and the determination of its value for the whole year. By deducting the monthly taxes paid by the employee from the annual tax, the position of the employee is thus determined vis-à-vis the tax administration. If balance is debit, the tax administration shall then be obligated to refund him the excess.
- 5- Regarding the accumulated salaries and the like, as well as the wages and bonuses disbursed to the tax-payer in one lump sum in a certain year, with that accumulated amount being related to previous years, this accumulated amount shall then be distributed over the related years, and tax is calculated on this basis.

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

First: Calculate the monthly tax due.

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

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

First: the calculation of tax on the monthly salaries' revenue:

1- The monthly basic salary (plus the periodic bonus and any other bonuses granted, excluding any amounts included in it and exempt from tax)	××	
2- Other monthly and taxable wages (represented in the amounts of taxable allowances, incentives, overtime, and cash and in-kind benefits)	××	
3- To exclude the monthly deductions such as penalty, sick leave not permitted	(××)	

The total monthly taxable revenues	xxx
4- Less	
- the tax-payer's subscription insurance premiums.	(xx)
- personal exemption L.E. 20000 annually.	(xx)
Temporary net monthly revenue	xxx
5-less	
- private insurance funds premiums	(xx)
-Life insurance premiums for the benefit of his wife and minor children	(xx)
-Health insurance premiums	(xx)
Net monthly revenue	xxx
6-less stamp tax	<u>(xx)</u>
Net monthly taxable income	
7- Conversion of the monthly revenues into annual revenues by multiplying $\times 12$	<u>xxx</u>
The net taxable revenue (the bracket)	xxx

Note: (Tax bracket \times the tax Rate) $\div 12$ = the monthly tax.

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

Second: Preparation of the settlement statement at the end of year:

The tax legislator allowed the tax to be recalculated on the basis of the new or old revenue, whichever is less, provided that a settlement is made at the end of the year.

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

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

Example:

Ahmed is an employee, gets the following during 2020, L.E. 4650 per month as basic wage (of which L.E. 350 special increment exempted from tax), L.E. 550 special

increment exempted from tax and not added to the basic wage. He receives L.E. 350 per month as a work nature allowance, 400 over time, in addition to production incentives amounting to 100% of the monthly basic wage.

Noting that

- He pays insurance premium of L.E. 180 per month on his life in favor of his wife and his minor sons.
- Social security subscription L.E 770.

Required: Compute the due tax per month.

Solution:

1- The monthly basic salary (4650-350)	3400	
2- Other monthly and taxable wages		
-special increment not added to basic wage(exempted)	- - -	
-nature of work allowance	350	
-overtime	400	
- production incentives	<u>4650</u>	
The total monthly taxable revenues		9700
4- Less		
- the tax-payer's subscription insurance premiums.	(770)	
- personal exemption L.E. 20000 annually.	<u>(1666.67)</u>	<u>(2436.67)</u>

Temporary net monthly revenue		7263.33
5-less -Life insurance premiums for the benefit of his wife and minor children		<u>(180)</u>
Net monthly taxable income		7083.33
7- Conversion of the monthly revenues into annual revenues by multiplying $7083.33 \times 12 = 84999.96$		
The net taxable revenue (the bracket)		84990

Calculating the annual tax:

- 40000 exempted
-15000× 10% = 1500
-15000× 15% = 2250
- 14990 × 20% = 2998
The due annual tax 6748

Calculating the monthly tax:

= 6748 /12 = 562.33 L. E It is the same monthly tax due for any month if there is no change in revenue.

* It is noted that the taxpayer's life insurance premiums (180 L.E) were compared to 15% of net revenue (1152 L.E) and the maximum (833.3 L. E) and the least of them is deducted.

Calculating the tax on bonuses and incidental revenues:

Calculating the tax on the bonuses and incidental revenues the employee/worker receives from his employer:

In the event that the employee or worker receives a reward, grant, or any incidental revenue from his employer, the next steps should be followed:

- 1- Adding the bonus amount to the annual revenue (monthly revenue after converting to annual) for the period in which the bonus was obtained, to arrive at a new tax bracket that includes the annual revenue and the bonus amount.

It is noted that the added bonus amount is considered a variable wage for which the due social insurance contribution (11%) must be excluded before adding it to the annual income, in the event that the employee or worker's wages on which the social insurance contributions are calculated does not reach the maximum limit. However, if the employee or worker's wages have reached the maximum limit for calculating the social insurance contribution, then in this case tax is due on the full amount of the bonus.

- 2- Calculating the annual tax by applying the tax brackets specified in Article (8) of the law, amended in accordance with Law No. 30 of 2023. The calculated tax in this case is on the annual revenue tax and the added bonus.
- 3- By excluding the annual tax due on the revenue alone before adding the bonus from the annual tax on revenue after adding the bonus calculated in the previous step, the tax due on the bonus alone is obtained.

To illustrate how to apply the previous steps, we will provide the following example:

Example: Using the data of the previous example, and assuming that the aforementioned employee received an encouragement reward of 20,000 L.E in exchange for extraordinary efforts.

Required: Determine the tax due on the encouragement reward (assuming that the reward amount is after deducting the social insurance contribution).

The taxable revenue	84990
+ encouragement reward	<u>20000</u>
The net taxable annual revenue and incentive	104990

bonus

1- calculating the tax on revenue and encouragement reward

$$\begin{array}{r} -40000 \quad \text{exempted} \\ -15000 \times 10\% = \quad 1500 \\ -15000 \times 15\% = \quad 2250 \\ - 34990 \times 20\% = \quad \underline{6998} \end{array}$$

The due annual tax 10748

2-Encouragement reward tax calculation:

$$\begin{aligned} \text{encouragement reward tax} &= \text{annual tax on revenue and} \\ &\text{encouragement reward} - \text{annual tax on revenue only} \\ &= 10748 - 6748 = 4000 \text{ L.E} \end{aligned}$$

The tax on the encouragement reward can be arrived at in another short way, as follows:

The encouragement reward amount subject to tax is 20,000 L.E, and since the employee income reach to the 20% slice, adding the encouragement reward amount to his annual income will be subject to the same slice, and based on that, the encouragement reward tax is calculated as follows:

$$\text{Tax on the encouragement reward} = 20,000 \times 20\% = 4,000 \text{ L.E}$$

It is worth noting at the end of this part that the steps for calculating the tax on the encouragement reward that the taxpayer receives from his employer, which were previously explained, are followed when calculating the tax on any incidental revenues that the taxpayer receives from his employer and are subject to tax.

Amounts received by the taxpayer from entities other than his original employer:

Article (72) repeated stipulates that non-original entities must deduct 10% under the tax account of the value of what they pay to resident persons, and submit it to the competent tax office within the first fifteen days of each month, and they are obligated to notify the original entities and the tax authority of what the person receives and the deducted tax. Provided that the original employer calculates and settles the tax in accordance with Article (8) of this law. The executive regulations of this law determine the rules and procedures for deduction and settlement. It shall come into effect on the first of January following the date on which the provisions of this law enter into effect.

Preparing settlements at the end of the year:

Each employer prepares a settlement at the end of each fiscal year for each employee or worker. This settlement shall be made with the aim of achieving two purposes:

First: Calculating the tax that must be paid on the actual annual income of each employee or worker

Second: Arriving at the tax differences that are due from or to each employee, and these differences result from the following reasons or one of them:

- Rounding when calculating the monthly tax or determining its amount
- Calculating the monthly tax on the basis of the lowest revenue without taking into account the change or increase that occurred during the year.
- The monthly tax accounting method, which depends on converting monthly revenue to annual, differs from the tax accounting method upon settlement at the end of the year, which depends on the actual annual revenue.

The following example shows how to prepare a settlement for wages, salaries, and the like

Example: An employee in a private sector company, with a monthly salary of 3,000L. E, receives, in addition to this

salary, a monthly nature of work allowance of 750 L.E, and monthly incentives amounting to 75% of his basic salary. If you learn about him the following:

- He complained about his financial situation with the company, so the company decided, starting from the first of July, to adjust his basic salary to 4,000 L.E per month, and to raise the allowance for the nature of work paid to him to 1,000 L.E per month, with the incentive being paid at the same rate.
- The employee is married and had his first child in mid-June.
- He signed a life insurance policy for the benefit of his wife and child in exchange for paying a monthly insurance premium of 250 L.E, starting from the first of July.
- A monthly sum of 600 L.E is deducted from the employee's salary as a social insurance subscription, and as of the first of July, the subscription has been deducted monthly at the rate of 700 L.E.
- The company paid him a reward of 3,000 L.E for his extraordinary efforts in September of the same year, for which he was entitled to a social insurance contribution of 300 L.E (the employee's share).

Required

First, calculate the tax that is deducted from his monthly salary

Second, calculate the tax on the reward for his extraordinary efforts

Third: Preparing the settlement statement, determining the actual tax payable, and determining the tax differences, if any.

First, calculate the tax that is deducted from his monthly salary

1- Tax for the months of the first period from 1/1 to 30/6

1- The monthly basic salary	3000	
2- Other monthly and taxable wages -nature of work allowance - incentives 75% of basic wage	750 <u>2250</u>	
The total monthly taxable revenues		6000
4- Less - the tax-payer's subscription insurance premiums. - personal exemption L.E. 20000 annually.	(600) <u>(1666.67)</u>	<u>(2266.67)</u>
Temporary net monthly revenue		3733.33
5-less -Life insurance premiums for the benefit of his wife and minor children		<u>(- -)</u>
Net monthly taxable income		3733.33

7- Conversion of the monthly revenues into annual revenues by multiplying $3733.33 \times 12 = 44799.96$		
The net taxable revenue (the tax bracket)		44790

calculating the tax on revenue:

- 40000 exempted

- $4790 \times 10\% =$ 479

- The due annual tax 479

Monthly tax = $479/12 = 39.91$ L.E

This tax is due for the months of January, February, March, April, May, and June

2- Tax for the months of the first period from 1/7 to 31/12

1- The monthly basic salary	4000	
2- Other monthly and taxable wages	1000	
-nature of work allowance	<u>3000</u>	
- incentives 75% of basic wage		
The total monthly taxable revenues		8000
4- Less		
- the tax-payer's subscription insurance premiums.	(700)	
- personal exemption L.E.	<u>(1666.67)</u>	<u>(2366.67)</u>

20000 annually.		
Temporary net monthly revenue		5633.33
5-less -Life insurance premiums for the benefit of his wife and minor children 15% of the net revenue=907.5, fixed sum=833.3 Actually paid=250		<u>(250)</u>
Net monthly taxable income		5383.33
7- Conversion of the monthly revenues into annual revenues by multiplying $5383.33 \times 12 = 64599.96$		
The net taxable revenue (the tax bracket)		64590

calculating the tax on revenue:

- 40000 exempted
- $15000 \times 10\% = 1500$
- $9590 \times 15\% = \underline{1438.5}$
- The due annual tax 2938.5

Monthly tax= $2938.5 / 12 = 244.87$ L.E

This tax is due for the months of July, August, September, October, November, and December

Second: Calculating the tax on the reward

Since the taxpayer received the reward during the months of the second period then, the annual revenues for the months of this period are used to calculate the tax.

The taxable revenue	64590
+ reward (3000-300)	<u>2700</u>
The net taxable annual revenue and the reward	67290
calculating the tax on revenues and the reward:	
- 40000	exempted
-15000× 10% =	1500
-12290× 15% =	<u>1843.5</u>
- The due annual tax	3343.5

Calculating the reward tax:

=Annual tax on revenue and reward - annual tax on revenue only

=3343.5 -2938.5 = 405 L.E

Third: Preparing the settlement statement and determining tax differences

A- Settlement statement

1- The monthly basic salary (3000 × 6 + 4000 × 6)	42000	
2- Other monthly and taxable wages	10200	
-nature of work allowance (700 × 6 + 1000 × 6)	31500	
- incentives 75% of basic wage (2250+3000) × 6 months	<u>3000</u>	
-Reward		
The total annual taxable revenues		87000
4- Less		
- the tax-payer's subscription insurance premiums. (600 × 6 + 700 × 6+300)	(8100)	
- personal exemption L.E. 20000 annually.	<u>(20000)</u>	<u>(28100)</u>
Temporary net annual revenue		58900
5-less		
-Life insurance premiums for the benefit of his wife and minor children (250 × 6)		<u>(1500)</u>
15% of the net revenue=9585, fixed sum=10000 Actually paid=1500 Which is the less		
Net annual taxable income		57400

calculating annual tax:

- 40000 exempted
- 15000 × 10% = 1500
- 2400 × 15% = 360
- The due annual tax 1860

B- Determining the tax differences

Taxes actually paid during the year:

For the period from 1/1 to 30/6 = 39.91 × 6 months=	239.46
For the period from 1/7 to 31/12= 244.87 × 6 months=	1469.22
Reward tax	<u>405</u>
Taxes actually deducted during the year	2113.68 L. E

Tax differences:

$$\begin{aligned} &= \text{Actual tax payable} - \text{Taxes actually paid} \\ &= 1860 \text{ L.E} \quad - 2113.68 \text{ L. E} \quad = 253.68 \text{L.E} \\ &\quad \text{Differences due to the taxpayer} \end{aligned}$$

Lump tax:

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

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

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

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

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

Example(19):

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

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

Solution:

Tax due on this remuneration, shall be:

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

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

Tax shall apply to the sums paid to any person not-resident in Egypt (whether Egyptian or foreigner) regardless of the

enterprise or body which employs them to carry out the services under its supervision (meaning whether it was government, public sector, public business sector or private sector), without any reduction to meet costs.

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

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

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

Required:

Calculate the tax amount due.

Solution:

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

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

Example (21):

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

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

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

Required:

Calculate the tax due.

Solution:

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

	L.E.	L.E.
A - Determination of tax base:		
Sums paid in Egypt 10000×7	70000	
Sums transferred abroad \$ 2000×7 month \times L.E. 17	238000	
total		308000
Deduction from it:		
Personal exemption $= 20000 \times 7/12$		(11666.67)
Annual tax base		296333.33
B – calculation of tax due:		
40000	Exempted	
$15000 \times 10\%$	1500	
$15000 \times 15\%$	2250	
$130000 \times 20\%$	26000	
$96330 \times 22.5\%$	<u>21674.25</u>	
Tax due	<u>51424.25</u>	
Note:		
In kind benefit is exempted		

Example (22):

A private sector company concluded an agreement with a foreign expert to work in Egypt from first October 2021 until 15 July 2022, and the following are the conditions cited in the contract:

- a. He shall receive in Egypt \$ 200 per day.
- b. the company shall transfer \$ 300 per day, to his account abroad.

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

Required: calculate the tax due.

Solution:

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

A – for year 2018:

The period of foreign expert employment = 31+ 30+ 31 = 92 days, through year 2021.

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

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

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

Total = 312800 + 469200= L.E. 782000

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

B – as for year of 2022:

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

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

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

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

Total = 666400+ 999600 = L.E. 1666000

Deductions:

Personal exemption = 20000 × (196/365) = 10739.73

Annual tax base = 1666000- 10739.73 = L.E. 1655260.27

Thus, tax is calculated as follows:

1200000 × 25% =	300000
455260 × 27.5% =	<u>125196.5</u>
Tax due	425196.5

Obligation of the employer:

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

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

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

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

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

Procedures for Objections:

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

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

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

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

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

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

Questions:

(1) An employee works for a pharmaceutical company. The company rented a car and put it at his disposal to perform his duties, provided that the company should bear its rent and expenses. The expenses of this car during the year of fuel amounted to 9000 LE and maintenance 3000 LE, and the expenses of repairing the car as a result of the accident, which was exposed while standing in front of the company 18000 LE, the annual rent of this car 24000 LE.

Required : Determine the value of the taxable in-kind benefit.

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

Required : determine the tax bracket of salaries and the like and due tax.

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

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

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

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

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

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

Sixth: The company give one of its employee a mobile phone that it had purchased in the amount of LE 5000 for use

for purposes of work and his personal purposes, the cost of operating the phone during the month is LE 400.

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

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

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

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

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

- 1- The company grants the employee a car for use in work and his personal purposes. The company has to pay the cost of operating the car, which amounted to LE 6000 at the end of the year, and car depreciation for the year LE 9000.
- 2- The company give the employee a bonus for his extraordinary efforts in March of LE 1500.
- 3- The company decided to raise the salary of the employee from the first of July to become LE 1000 Per month and continue to pay the nature of the work allowance by same amount, and the company gave him in October incentives equivalent to three months' salary.
- 4- the company deducted from the employee's salary LE 284 for social security subscription until the month of June. As of the first month of July, it deducted LE 310 monthly.

Required: Calculation of the tax deducted from the employee per month.

(6) A public sector company concluded an agreement with a foreign expert to work in Egypt from first October 2017 until 25 July 2018. If you learn that:

A – He shall receive in Egypt an amount of L.E. 29800.

B – The company shall meet costs of his residence in one of the Egyptian hotels for an amount of L.E. 80 per day.

Required: Calculate the tax due.

(7) An employee received during the month of September the following amounts: 16000 basic salary (includes a special increments of 1000) – nature of work allowance 3500 - 4000 representation allowance - 100 social increments - 500 transportation allowance - 600 special increments not included. If you know that he paid a life insurance premium for his wife at the rate of 200 per month Required: Determine the taxable bracket?

(8) An employee works in a private sector company, and during the month of January of 2020, he obtained the following: 10000 basic salary (includes special increment 1500) - 4000 representation allowance - 3000 work nature allowance - 300 special increments not included for the basic salary -10 social increments. If you know the following: This month, he received incentive bonus of 1,500. He paid a life

insurance premium for his wife 450, Pay 50 subscriptions to a special fund established in accordance with the provisions of Law No. 54 Required: Calculate the tax due for this month, specifying the amount of tax due for the incentive bonus?

(9) An employee in the governmental sector assigned to work in university exams in return for a reward of 9000 L.E. Required: calculate the tax due on that bonus?

(10) A private sector company has contracted with a foreign expert to work in Egypt for a period of two months, starting from July 1, 2021, for 600,000 L.E (including an in-kind benefit related to housing estimated at 10,000 L.E). Required: calculate the amount of tax due on this expert?

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

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

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

(14) A foreign expert received from a private oil company during his stay in Egypt from 18/5/2022 the date he entered the country until 18/5/2022 the date he left the country an amount of 200,000 US dollars for services he rendered to the 93 company and under its supervision Required: calculate the tax due in the following cases: A-the expert bears the tax. B-the company bears the tax.

(15) A government employee received for the month of July 2022 the following amounts: 17000 basic salary (includes 415 special bonuses added) - 600 rewards - 500 transportation allowance for actual cost – 315 special increment - 100 work nature allowance - 300 overtime - 10

social increment. Required: calculate the tax due if you know that: - The employee paid 25 L.E per month for a special insurance fund subscription - 100 premiums for his life in favor of his wife and minor children, and he also paid 80 L.E per month as a life insurance premium for his wife for his favor.

(16) An employee of a foreign airline operating in Egypt, during the tax period 1/1/2022 to 31/12/2022, received the following amounts: 7000 monthly basic salary - 12000 annual bonus - 240 monthly overtime - 480 annual work nature allowance - 8400 annual representation allowance - 20,000 annual production incentives - 100 monthly transportation allowance against actual cost - 250 cash allowance for the meal. Note that: He got free plane tickets for himself and his wife, worth 7,000 L.E - A participant in one of the special funds at the rate of 600 annually - he paid a life insurance premium in the favor of his minor children at the rate of 2000 L.E annually. Required: Calculate the tax due if you know that the allowances received by the worker are not exempted by special laws?

(17) An employee in a private sector company has a monthly salary of 4,800 L.E, including 800 L.E special increment exempt from tax. In addition, he receives 800 L.E per month as additional pay for working overtime, 50% per month of his basic salary incentives, 800 L.E per month as a representation allowance, and 800 L.E per month as expenses of operating a mobile phone provided to him by the company for the benefit of his work.

- On 1/7, he received a periodic increment of 400 L.E per month, and on the same date, the over time was raised to 1,200 L.E per month, and representation allowance was raised to 1,200 L.E per month.

- The company provided him with a private residence for him and his family, starting from 1/7. The monthly rent is 2000 L.E, without a deduction from his salary (for free).

- The company provided him a car to be used for work purposes, and its operating costs amount to 1,200 L.E per month, noting that the annual depreciation of the car is 5,000L.E.

- The company deducts 400 L.E annually for a union subscription and 600 L.E annually for a sports club subscription.

- He pays 1,200 L.E monthly as a life insurance premium for the benefit of his wife and mother equally.
- 600 L.E deducted monthly from his salary for social insurance subscription, until the end of June, and as of the first of July, 700 L.E will be deducted from his salary for a social insurance subscription.
- At the end of the year, the company granted him an encouragement reward for his extraordinary efforts amounting to 12,000 L.E, of which 600 L.E were deducted for social security contribution. He also received his share of the profits distributed by the company in accordance with the law 15,000 L.E.

Required

Calculate the tax due on salaries monthly

Calculating the tax due on the encouragement reward

Chapter three

Tax on Revenues of free or non- Commercial Professions

Introduction:

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

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

Section1: Tax bracket determination

First: taxable professions

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

Tax applies to the net profits of free professions and other non-commercial professions, practiced by taxpayer independently. The basis and fundamental element of revenue is work that resulting from the practice of a profession or an activity in Egypt or abroad if Egypt is a center of activity

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

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

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

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

As for non- commercial professions, they stand out as being those professions in which capital does not solely prevail these professions are neither commercial, industrial,

agricultural or free-lance professions, those professions has no explicit context in the commercial law, and whose revenue resulting fundamentally from the work element, and which are practiced by taxpayer independently, whereas commercial professions are characterized by the capital being a basic and fundamental element in realizing profit.

The legislator used both phrases: free professions and non-commercial professions as synonyms, which indicates that the distinction between them has no importance in terms of tax treatment. The definition of each free or non-commercial profession will be based on the laws and regulations regulating it. However, it can be said in general that the free or non-commercial professions are the professions that taxpayer undertake independently and in which the basic element is work, and are based on the personal practice of some sciences and arts, and this does not prevent that the profit of free professions and non-commercial professions can be result from the use of capital and labor, as long as labor is the predominant source of revenue generation.

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

activities, salaries and the like, non-commercial professions, and the revenues of real estate wealth.

It could be said here that a profession is a work practiced by a person repeatedly, on a professional basis with the aim of realizing profit. The practice of a profession requires this person to prepare himself both academically and practically as for the activity, it means employing any effort which would not go up to professionalism until it becomes a craft or a profession, while not coming close to being a casual work and craftsmanship. An example of that is the employee who exploits his free time in trading in stock, goods or cars and whose revenue is resulting from his work is considered as being an activity which would be classified under the revenues of the non-commercial professions.

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

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

1-independence practice of the profession or the activity

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

In application of this term and condition, what the doctor earns out of performing operations in a certain hospital without his being attached to it as an employee is considered as revenues of non-commercial professions. But if he attached to the service of the hospital in which he performs operations, then his revenue is considered as salaries and the like. Another example in which a revenue is considered amongst revenues of non-commercial professions is what trainee lawyers earn as long as they are not connected with a lawyer in whose office they are being trained on an employer/employee relationship basis. Yet, if this relationship is realized, whatever remuneration they get therefrom is considered as salaries and the like.

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

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

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

The legislator preconditioned that for subjecting of revenues of non-commercial professions to taxation, they must result from the practice of the profession or the activity in Egypt. The practice of the profession in Egypt is not connected with the nationality of the performer whether he is Egyptian or foreigner. However, if a doctor is called over from abroad (whether he is an Egyptian or a foreigner) to perform surgical operations in Egypt, or to provide medical

consultations therein, then what he receives as a result of that must be subjected to tax.

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

4-professionalism of the profession or activity

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

A material cornerstone: based on the practice of the profession or the activity repeatedly and regularly, and a

moral cornerstone: represented in the intention of realizing profit. These two cornerstones of facts are closely connected, as the one usually evidence the presence and existence of the other.

This condition requires the necessity of actually practicing the profession for the purpose of profit or gain in order for its revenues to be subject to tax. In application of this condition:

A- The person must actually practice the profession in order to be subject to tax. The acquisition of academic qualifications and technical expertise by a person and the availability of the necessary conditions to practice them is not considered a sufficient reason for the person to be subject to the tax. for example, it is not sufficient, for a doctor, lawyer, or accountant to register his name in the register of practitioners in the relevant unions in order for him to be subject to the tax. Rather, he must also actually practice the profession.

On the other hand, if a person actually practices the profession without meeting the necessary legal conditions for that, such as the requirement of obtaining the necessary license to practice the profession from the competent authorities, then the income he generates resulting from

practicing the profession is subject to tax, although this does not exempt him from accountability. An example of this is the revenues that an accountant achieves from practicing the accounting and auditing profession without being registered in the register of accountants and auditors.

B- The intention to earn profit must exist when practicing the profession or activity in order for it to be subject to tax. Accordingly, the tax does not apply if the purpose of practicing the activity or profession is merely a hobby, providing free services, or disseminating education.

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

Tax bracket determination:

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

Revenues included in the tax bracket are to be determined annually on the basis of net profits throughout the previous year. It is worth noting in this area that the tax applies to

revenues, whether in cash or in kind, such as fees and cash and in-kind gifts related to practicing the profession.

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

- 1- Registration duties, annual subscriptions, professional practice duties.
- 2- Amounts paid by the taxpayer in accordance with its syndicate pension system.
- 3- Life insurance premiums and health insurance on the taxpayer for his favor and the favor of his wife and minors' children.
- 4- Direct taxes with the exception of the tax that is paid by the taxpayer in accordance with this law.

In applying the provisions of Clauses 2 and 3 of the third paragraph of this article, it is stipulated that the total amount exempted to the taxpayer does not exceed 15% of the net taxable income or the amount of (10,000) pounds annually,

whichever is less. The same deduction shall not be repeated from any other income provided for in Article 6 of the law.

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

This determination is done in light of the following:

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

The cash basis is used by Income tax law when determining the revenues of non-commercial professions, which is confirmed by the third paragraph of Article (78) of the amended Law No. 91 of 2005. while for expenses, the second paragraph of article (33) of the law states that when determining the net revenue, we should be deducted all Costs and expenses required to practice the profession including depreciation of assets, which is consistent with the accrual basis. While article (44) of the Executive Regulations stipulates that the deduction of costs shall be based on the receipts issued by the competent authorities, and this is in accordance with the cash basis.

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

Taxable revenues:

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

- 1-revenues of non –commercial profession (fees, commission, bonus or otherwise).
- 2- yields of disposing of any professional assets.
- 3- yields of transferring the know-how.
- 4-relinquishing the profession exercise offices wholly or partially.
- 5-any amounts collected as a result of closing down the office.

It is clear from the text of Article (6) and Article (33) of the amended Law 91 of 2005, and the text of Article (43) of the executive regulations of the said law, that All revenues earned by both the free and non-commercial professions at

home or abroad, whether revenues or capital, is included in net income subject to the income tax of natural persons.

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

First: Professional income earned abroad

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

- 1-The natural person shall have a professional activity centered in Egypt.
- 2-The income generated abroad resulting from practicing the taxpayer for his professional activity.

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

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

The following profits and revenues are not considered revenues subject to tax on non-commercial professions or free professions tax:

- 1- Financial rewards and prizes obtained by the taxpayer from scientific conferences.
- 2- The amounts that the taxpayer receives in exchange for giving lectures or giving talks on radio and television.
- 3- Cash or in-kind donations not related to the practice of the profession.
- 4- The expenses and fees that the taxpayer collects from his clients and their burden falls on them.
- 5- Real estate revenues resulted from the place of practicing the profession. An example of this is the revenues that the financier obtains from renting a part of the real estate in which he practices the profession, or renting an asset that he uses for the purpose of practicing the profession. These revenues are not subject to tax on the basis of the revenues of

non-commercial professions, but are subject to tax on the basis of real estate wealth revenues.

6- Compensation that is awarded to the taxpayer in return for relinquishing or canceling one of the contracts, such as the lease contract, or in a crime of insult against him, for example, even if it was due to practicing the profession, this compensation is not considered revenue.

Costs deductible from the total revenue:

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

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

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

Article (33) of the law stipulates that:

"the determination of the net profits on the basis of the result of different operations in accordance with the provision of this law will be after deduction of all costs necessary for the practice of the profession, such as registration duties, annual subscription, charges for practicing the profession, depreciation of assets and amounts

owed to syndicates for pension purposes and life insurance premiums of the taxpayer, and direct taxes with the exception of the tax that is paid by the taxpayer in accordance with this law"

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

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

Article 46 of the executive regulations stipulates that it is applicable in the matter of define what is meant by costs and expenses that are not normally proven by documents that referred to in article (35) of the law, the provision of Article (28) of the executive regulations, which pointed out that the costs and expenses that are not customarily documented, are the costs and expenses that are often impossible to be proved by external documents, because of their nature, and for which internal exchange orders or price data are available.

Such as:

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

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

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

1- Expenses for all professions

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

Accidental losses that arise from fire or theft in the places where the profession is practiced are also considered expenses, if they are related to the equipment and tools that are used in the exercise of the profession.

2- Specialized expenses for each profession.

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

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

1- Rent:

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

2- Wages, salaries and bonuses:

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

3- Travel and transportation expenses.

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

4- Sundry general expenses:

These are considered as deductible costs as long as they are necessary for the practice of the profession such as electricity, water, telephone, telegram, and professional fiscal

stamp expenses, in addition to subscriptions to scientific and professional societies, the cost of printed-matter, stationery, reference books, and scientific magazines and reviews.

Also, deductible from revenues are insurance premiums against professional risks, against fire, theft, risk of breach of trust and otherwise according to the nature of each profession.

5- Joint expenses:

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

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

"10% are to be deducted from the revenue of the taxpayer against the costs stipulated upon in article (35) of this law,

unless actual costs as based on regular books or documents which are presumed to reveal actual profits of taxpayer, costs of the practice of the profession, and net profit according to the nature of the profession, exceeds this rate. "

It is noted from the context of article (35) of the law that the deduction of costs stipulated upon in article 33 is conditional on the taxpayer keeping regular books. In case of non- existence thereof, costs are to be estimated at the equivalent of 10% of revenues.

Second kind: amounts deductible from net revenue:

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

1-Donations and Subventions

Article (34) of the amended Law No. 91 of 2005 stipulates that shall be deducted from the net revenues provided for in Article (32) of this Law the donations paid to government, local administration units, public authorities but

not exceeding the annual net income. Also, donation and contributions paid to charitable societies and the Egyptian social organizations duly registered according to the provisions of the laws regulating them, as well as to scientific institutes and hospitals under the control and supervision of the government within 10% of the annual net profit. The value of in-kind donations is also deducted after evaluating them and estimating their value.

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

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

The tax declaration form issued by the tax authority has been considered the two items as deductions subtracted from the net remaining income after deduction of donations. In accordance with article 33 of the law. The total exemption from net taxable income for these two items shall not exceed 15% of the net taxable income or the amount of (10,000) pounds annually, whichever is less.

3-deduction of previous years losses.

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

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

Tax exemptions:

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

1-exemption of authorship and translation profits:

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

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

According to the explanatory instructions of the Tax Authority, what any individual who is not a radio or television employee receives in exchange for commenting on public events or expressing opinions in the specialized economic, social, scientific and cultural fields without any mixing of artistic elements that rise to the level of directing,

also applies to this exemption. As for profits from simultaneous translation, they are subject to tax on the basis that it is direct interpretation and not the translation of books or articles.

2-exemption of the applied artists:

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

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

Therefore, this exemption is preconditioned to the following:

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

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

3- exemption of beginner free- professions:

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

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

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

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

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

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

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

Deduction and collection under tax account

The law includes specific procedures aimed at ensuring tax collection, provisions for identifying taxpayers, preventing tax evasion, providing liquidity to the public treasury throughout the year, and avoiding arbitrary estimates. These procedures are deduction and collection for the tax.

We discuss these procedures in detail as follows:

1- Deduction under the tax account

According to the text of Article No. (70) of the Income Tax Law, “The authorities stipulated in Article No. (59) of the law are obligated to deduct, under the tax account, 5% of every amount exceeding one hundred pounds paid by free and non-commercial professions, which shall be determined by a decision of the Minister.”

Free or non-commercial professions subject to deduction: -

Minister of Finance Resolution No. (531) of 2005 specified the non-commercial professions subject to deduction, in application of the provisions of Article No. (70) of the Income Tax Law as follows:

- The legal profession -The medical profession
- The engineering profession, including agricultural engineering

- The profession of writing scientific and literary works, including giving artistic, scientific and literary talks
- Accounting and auditing profession -Translation profession
- Professional experience, including expert appraiser
- The profession of religious readings and recitations
- Profession of drawing, sculpture and calligraphy
- The profession of singing, playing, composing, dancing, acting, directing, cinematography, writing artistic works, and other cinematic, television, radio and theatrical professions.
- Fashion modeling profession, -Customs clearance profession -The profession of undertaker
- The profession of copying on computer, etc.

2- Collection under the tax account

In accordance with the provisions of the Income Tax Law relating to the revenues of non-commercial professions, the legislator obligated the following entities to collect amounts from free and non-commercial professions who deal with them under the income tax account:

A- Registries of Courts and Real Estate Registration Offices:

In accordance with the text of Article No. (71) of the applicable income tax law

In accordance with the text of Article No. (71) of the Income Tax Law, the legislator obliges the court clerks, when

submitting documents of claim or appeals to them for registration, and the registration offices, when marking the papers as valid for the registration, collect an amount under the account of the tax due on the lawyer who signed the documents.

B-Hospitals

According to the text of Article No. (71) of the Income Tax Law, the legislator obliges every hospital to collect from the doctor or specialist who performs work on his own account an amount under the tax account.

C-Customs Authority

In accordance with the text of Article No. (71) of the Income Tax Law, the legislator obligated the Customs Authority to collect from those practicing the customs clearance profession an amount for each customs declaration submitted to the Authority, on account of the tax due on him.

Example (1):

The following information of revenue and expenses for the year ending on 31/12/2022, were related to a professional accountant office:

First: receipt during the year:

L.E. 500000 fees for designing cost system for a company in Dubai.

LE. 300000 received in advance for designing a cost system to an Egyptian private company.

L.E. 200000 fees for auditing the accounts of some Egyptian companies in 2021.

LE. 60000 capital gain from selling air condition.

L.E. 250000 fees for a feasibility study which was accomplished in 2021.

L.E. 500000 net compensation for notifying about a tax evasion crime.

L.E. 450000 award for his research on the disclosure of environmental information.

Second: payments during the year:

L.E. 150000 salaries paid to assistants, salaries for November and December have not been paid yet.

L.E. 50000 traveling expenses to Dubai for delivering the cost system.

L.E. 60000 stationary (the value of reminder is L.E. 10000)

L.E. 200000 the cost of new air condition (the taxable depreciation rate 10%)

L.E. 2000 syndicate subscription.

L.E. 12000 insurance premium on his life for the favor of his minor children

L.E. 18500 donation paid were L.E. 3500 to poor house hold, and the rest to an Egyptian charity approved by the state.

L.E. 6000 subscriptions in Yought Club.

L.E. 15000 telephone and telegraph charges, And L.E. 12000 car expenses which used partly in private activities.

L.E. 60000 expenses without documents (7% from salaries expenses)

L.E. 20000 rent expenses (the monthly rent L.E. 2000)

Required:

Determine the tax due.

Solution :

Ex. 1

Revenue & expense A/C for 31/12/2022

Ex		Re	
Assistants salaries	150000	Revenue in advance	300000
Traveling expenses	50000	Fees for auditing in 2021	200000
Stationary	60000	Capital gain	60000
Air condition deprecation	20000	Fees for feasibility study in 2021	250000
200000× 10%		Fees for designing cost system Dubai	500000
Syndicate subscription	2000	compensation	500000
2/3 telephone charges 15000× 2/3	10000		
2/3 of car expenses 12000×2/3	8000		
Expenses without documents 150000×7%	10500		
Rent expense	20000		
Net profit	1479500		
	1810000		1810000

Net Profit

1479500

Donation to an Egyptian charity approved

$$15000 \quad \text{---} \quad 1479500 \times 10\% = 147950$$

(15000)

1464500

(-)insurance policy

- 1464500 × 15% = 219675

- fixed sum = 10000

- actually paid = 12000

(10000)

Tax bracket

1454500

Tax

= 1200000 × 25% = 300000

= 254500 × 27.5% = 69987.5

Total tax due = 369987.5

Remarks:

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

Example(2):

Aly Hassan is an engineer. Owns a private office, at the end of 2022, he presented the following information to the tax administration (Amount in L.E):

- **Receipts:** 137000 fees for engineering works- 90000 fees for building designs- 50000 remunerations for publishing a paper in the engineering bulletin- 40000 proceed of some sold equipment and tools which their book value was 25000.

Payments: 15000 office rent for 10 month- 44000 salaries paid to employees for 11 months only- 2000 subscriptions to engineering syndicate- 3600 for life insurance policy in favor of his wife- 3000 contributions (out of which 1000 to non-governmental institutions registered and reminder to Qena university)- 4000 utilities expenses- 24000 car expenses (joint expense)- 12000 depreciation expense.

Other information:

- Aly keeps regular books.
- Aly paid during the year taxes amount 14000 (out of which 2000 as stamp tax and the rest as a free profession's tax for 2020).

Required:

Determine the taxable net income for 2022 and calculate the tax due.

Solution:

Revenue & expense A/C for 31/12/2022

Ex		Re	
Office rent	15000	Fees for engineering works	137000
Salaries to employees	44000	Fees for building designs	90000
Syndicate subscription	2000	Proceeds of some sold equipments and tools (40000-25000)	15000
Utilities expense	4000		
2/3 of car expenses 24000×2/3	16000		
Depreciation expense	12000		
Taxes	2000		
Net profit	147000		
	242000		242000

Net Profit

147000

(-)Donation to Qena University

(2000)

145000

(-)Non-governmental institutions

(1000)

$$1000 \quad \left(\begin{array}{c} \text{---} \\ \text{---} \end{array} \right) \quad 145000 \times 10\% = 14500$$

Which is less

144000

(-)insurance policy

- $144000 \times 15\% = 21600$

- fixed sum = 10000

- actually paid = 3600

(3600)

Tax bracket

140400

Exemption

(40000)

100400

Tax

= $15000 \times 10\% = 1500$

= $15000 \times 15\% = 2250$

= $70400 \times 20\% = \underline{14080}$

Total tax due = 17830L.E

Remarks:

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

Example (3):

The following information related to Dr. Mahmoud clinic for the year ended on Dec. 31/2022 (amounts in L.E.):

Revenues:

32000 fees received from medical examination in clinic-
15000 fee from medical examination for the workers of private company in the clinic- 60000 his salary from health insurance for working three hours per week- 150000 an fees from surgical operation had been made since 3 years- 150000 an amount received from selling of medical devices in 1/4/2022 the book value of the devices is 100000- 100000 fees from surgical operation made in Saudi Arabia- 50000 fees from medical consultations- 20000 award for his research in a scientific conference hold in Alex- 50000 received from renting his clinic during his annul vacation.

Expenses:

45000 paid salaries (the monthly salaries 5000)- 5000 stamp tax for the previous year- 3000 subscriptions in medical syndicate - 3000 subscription to Al-Ahly Club- 4000 cost of books, journals and periodical (half of them belong to his minor son)- 50000 traveling expenses to Saudi Arabia for training the doctors of the Fakeeh hospital- 2000000 the value of new medical device was bought on 1/10/ 2022 (the balance of medical devices in 1/1/2022 was 3000000), the tax depreciation rate is 25%- 2000 paid for duties for practicing the profession- 5000 insurance premium on

taxpayer's life for the benefit of his mother - 50000 contribution paid to the faculty of medicine, Qena university.

Required: Determine the tax due for 2022.

Solution:

Revenue & expense A/C for 31/12/2022

Ex		Re	
Salaries	45000	Fees from medical examination in clinic	32000
Stamp tax	5000		
Subscription in medical syndicate	3000	Fees from examination in the clinic	150000
Book and periodicals	2000	Fees from surgical operation since 3 years	150000
4000× 1/2			
Traveling expense	50000	Capital gain	50000
Depreciation expense		100000- 150000	
New= 2000000×			
25/100× 3/12	125000	Fees from surgical operation SA	100000
Old= 3000000×			
25%×1=	750000	Medical consultation	50000
Duties for practicing	2000	Net loss	450000
	982000		982000

Net loss

(450000)

(-) donations
not deducted

nil
(450000)

No tax due

Remarks:

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

Example(4):

The following are revenues and expenses of an accountant, who practice his profession in his private office for year 2022:

A- Revenue (in L.E.):

600000 fees of accounting and auditing (of which 120000 belong to 2021, and 100000 fees from A Syrian company)-
80000 profit of preparing tax form for his clients- 50000 dividends received from corporation operating in Egypt-
6000 capital gain from selling an old air condition.

B- Expenses:

90000 salaries paid to assistants (the salaries are 10000 per month) – 65000 office rent (the rent is 5000 per month)- 4000 telephone charges- 3000 electricity- 1000 subscription in the accountant syndicate pension fund- 12000 insurance premium on the payer life to his favor- 9000 donations (of which 3000 to a poor family and the rest to an Egyptian society approved by the government)- 9000 car expenses (which used in work and in private affairs of the tax payer).

The taxpayer keeps regular books, depreciation of fixed assets of his office for 2022 of 13000.

Required:

Determine the tax bracket for accounting office during 2022.

Solution:

Revenue & expense A/C for 31/12/2022

Ex		Re	
Assistant Salaries	90000	Accounting and auditing fees	600000
Office rent	65000		
telephone charge	4000		
Electricity	3000	From preparing tax forms for his clients	80000
2/3 car expense	6000		
9000× 2/3			
Depreciation expense	13000	Capital gain	6000
Net profit	505000		
	686000		686000

Net Profit	505000
(-)Donations	
$\begin{array}{c} \text{6000} \qquad \qquad \qquad \text{505000} \times 10\% = 50500 \\ \text{Which is less} \end{array}$	
	<u>(6000)</u>
	499000

- (-)insurance policy
- 499000 × 15% = 74850
- fixed sum = 10000
- actually paid = 13000

Which is less	<u>(10000)</u>
Tax bracket	489000
Exemption	(40000)
	<hr/>
	449000

Tax

15000 × 10% = 1500

15000 × 15% = 2250

130000 × 20% = 26000

200000 × 22.5% = 45000

89000 × 25% = 22250

Total tax due = 97000

Questions:

(1) A natural person owned an office to practice his profession as doctor, The revenues of the office for the year 2022 amounted to 100000 LE, The expenses of the office from his books that proved to be irregular 40000 LE, of which 10,000 LE was donated to a recognized Egyptian charity.

Required: Determine the net taxable income of the office.

(2)A taxpayer started his career as a freelance accountant through his own office in 2019. He graduated from the Faculty of Commerce, South Valley University in 2000. The net revenues of his office at the end of 2019 amounted to 70000 LE.

Required:

a-Determine the net taxable income.

b-assume that he graduated from the Faculty of Commerce in 2014, Does the previous answer will change?

(3) Mohammed Aly, a lawyer, provided the following particulars of revenues and expenses for the year 2022:

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

- 200000 retaining fees.
- 40000 fees received which belong to 2021.
- 120000 consultation fees for Egyptian companies.

- 90000 fees received for taxpayer's pleading in a case in Kuwait.

- 5000 capital gain from selling an old air condition.

- 30000 prize for his research on the fighting methods of terrorism.

Second: the following amounts were paid during the year:

- 44000 salaries paid to assistants (the salaries are 5000 per month).

- 3000 telephone and telegraph charges.

- 12000 travelling expenses to Kuwait for pleading the lawsuit instituted therein.

- 10000 stationery (the value of the remained stationery is 2500).

- 4000 internal moving, newspaper & magazine expenses and union stamps.

- 5000 subscription in lawyer's syndicate pension- fund.

- 16000 contributions as follows: 12000 to the Alexandria Governorate and 4000 to an Egyptian charity approved by the State.

- 15000 insurance premium on the taxpayer's life.

- 30000 installment for a new air condition (the air condition was bought on 1/1/2012 at L.E. 150000, the taxable depreciation rate is 10%.

Required: Determine the net taxable income.

(4) Adam Mohamed is an engineer, own a private office. The receipts and payments account of the office for the year ended in 31/12/2022 was as follows:

Receipts & Payments A/C for 31/12/2022

Balance b/d	35400	Salaries to:	
		Staff	200000
Fees from engineering designs	800000	Adam	180000
		Telephone, telegraph, And telex charges	30000
Fees from engineering consultations	600000	Paper & Geometric tools	70000
		Office expenses	46400
Prizes	140000	Subscriptions to the engineer's syndicate	20000
Accrual fees	40000	Car expenses	30000
		Contributions	55000
		Purchase of typewriter & calculators	240000
		Furniture	40000
		Building tax	4000
		Balance c/d	700000
	1615400		1615400

Tax examination revealed the following information:

A- fees from engineering designs include the following amounts (in L.E.):

- 80000 fees in advance for unfinished designs.
- 70000 fees for designs finished in 2021.
- 130000 fees received from a Jordanian company for designs carried on in Egypt.
- 200000 fees received from a Greek company for designs carried on in Cyprus to be executed in Egyptian projects.

B- fees from engineering consultations are as follows:

- 40000 received from Syrian companies operated abroad.
- 340000 received from Egyptian corporations.
- 120000 received from training.
- 100000 received in advance from an Egyptian client for giving an opinion related to an engineering design, but the report has not yet been rendered.

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

D- the value of the typewriters and calculators on 31/12/2022 was 420000. The new typewriters and calculators were bought on 1/4/ 2022.

E- the value of the furniture on 1/1/ 2022 was 400000. The new furniture was bought on 1/10/2022. The tax depreciation rate is 6%.

F- contributions paid were as follows:

- 15000 for meals rendered to poor persons on the mid of Shaban.
- 40000 the Egyptian Helal Ahmer Society.

Required:

Determine tax bracket and the due tax.

(5) Hazam Hassan, the chartered accountant has submitted to you the details concerning his office for 2022 (in L.E)

Revenues:

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

amount for the month of January 2023 had been collected in advance, which amounts to 5000.

Expenses:

28000 assistant's bonuses at the office, 3700 subscriptions to the syndicate of commercialists and accountants including 1500 being a sports club subscription, 13200 being the value of fixed assets depreciation, 19800 being sundry general expenses, 5000 being donations to authorized charitable societies.

Additional information:

- 1-the accounting and auditing fees include an amount of LE 10000 which concerns work which will be performed in 2023 collected in advance.
- 2-subscription to the sports club amount to LE 2000 per annum.
- 3-he has contracted a life insurance policy in favour of his wife and minor son at a monthly of LE 1500.

Required: determine the revenues of the non-commercial profession subjected to taxation for 2022. Noting that the taxpayer maintained regular books.

- (6) The following are some data about an accountant who practices the profession in his private office for the year 2022: A- He received an amount of 120000 L.E represent

auditing fees for the year 2022, and 50000 L.E was owed to him from last year. B- He traveled to Saudi Arabia to design an accounting system for one of the companies there, and in return he received an amount of 80000. C- He received an amount of 150000 fees in return for ending tax disputes for some of his clients. D- He sold some devices in the office for a profit of 120000 E- Paid the following during the year: 90000 salaries for office assistants - 12000 office rent - 4000 expenses for a car used in the office's work and for its own purposes, and the amount of private use is 20% of it - 1200 registration fees in the Accountants Syndicate - 2500 books and subscriptions to the Accountant magazine - 2000 for the Accountants Syndicate in exchange for the pension - 35000 premiums for life insurance in favor of the children of minors - 60000 donations (of which 500 to the government and the rest to a hospital under government supervision). 140 If you know that the depreciation of the furniture, tools and equipment in the office has reached 40000, and that the taxpayer keeps regular books. Required: Calculate the due tax?

(7)The following are the revenues and expenses of a lawyer's office for a year2022: Revenues:620000 lawsuits fees

received during the year - 200000 fees for one of the lawsuits for which he was contracted but no action was taken - 30000 remuneration for reporting on a crime of tax evasion - 250000 remuneration for cases for the previous year - 300000 fees for one of the lawsuits he pleading in Syria - 100000 Training revenues for some graduates of the Faculty of Law. Expenses:100000 salaries for office assistants- 60000 office rent- 24000 electricity and water- 40000 office phone expenses- 30000 car expenses- 5000 books and publications-5000 subscriptions to the lawyer's syndicate- 100000 donations (of which 10000 are for the poor in the neighborhood, 5,000 are for the government and the rest are for Egyptian charities). Required: determine the taxable bracket if you know that the taxpayer does not keep regular books

- (8) The following are the revenues and expenses of a physician for the year 2022: 141 Revenues: 30,000 fees from medical examination in the clinic - 2,000 fees from medical examination in home - 40,000 surgical fees for a Saudi in Cairo - 8000 salary for working in a government hospital - 500 as a deposit to perform surgery outside Egypt - 3,000 surgical fees due from the previous year - 5,000 net income from disposal of a medical device.

Expenses: 10,000 nurses' salaries – 3,500 electricity, gas and water expenses – 1,000 medical supplies – 300 subscriptions to the syndicate's pension – 30,000 the purchase price of new medical equipment – 10,000 donations to the government – 7,000 donations to Egyptian charitable organizations – 3,600 life insurance premiums in favor of his young children – 1,000 purchases of books and Scientific references - 3,000 car expenses - 2,000 phone expenses - 1,000 publications - 1,200 buffet expenses - 400 cleaning supplies - 5,000 airfare to abroad - 1,000 gratuities. Required: determine the taxable base (the taxpayer keeps regular books) If you know that: Medical devices were purchased on 1/1/2020 and depreciated at a 25% annually, The car is used for personal purposes in addition to work.

(9) Dr. A is an employee of one of the companies affiliated to the private sector, with a monthly salary of 9,000 and 4,000 monthly representation allowance , 2,000 monthly transportation allowance related to work performance, and 3,500 monthly special increments (of which 1,500 are included in the basic salary). At the same time, he owns an office, whose receipts and payments were during 2022 is as follows: Receipts: 16,500 fees of engineering designs, 90,000 fees for participation with some engineers in

providing engineering consultation, 75000 fees for engineering designs fees in Saudi Arabia, 5000 rewards for publishing research in the Journal of Engineers, 50000 the price of selling some of the office's equipment and devices, knowing that their book value is 1500. Payments: 15000 office rent, 24000 salaries for office employees, 1800 syndicate memberships (including 1200 for pension), 36000 life insurance premiums in favor of his wife. 3000 donations (of which 1200 to the government and the rest to a charitable organization), 4000 electricity and telephone. If you know the following: -The taxpayer keeps regular books. -The depreciation expense of fixed assets in the office for the year 2022 is 12400. -The taxes deducted under the account during the year 2022 amount to 9000 for professional activity and for the salaries and the like. Required: Determine the tax base and calculate tax payable for the year 2022

(10) Ashraf is a professional accountant has earned profit equal to 133000 for the year ended on 31/12/2020, the tax examination revealed the following information: Revenues include the following amounts: -15000 auditing fees received from a Kuwait industrial company-8000 profit from his in training center-9000 dividends received from

German corporation operating outside Egypt-12000 accrual fees. Expenses include the following amounts: -800 subscriptions in the accountant's syndicate pension fund-2000 insurance premium on the taxpayer's life. -5000 tax loss for taxable year 2019. Required: determine the due tax.

(11) A professional accountant has the following particulars of revenues and expenses for the year ended on 31/12/2021: -155000 revenues-50000 cash expenses-20000 non-cash expenses. The tax examination revealed the following amount: Revenues include the following amounts: -7000 related to auditing fees-3000 prize. Cash expenses include the following amounts:-520 building tax for a building owned and occupied by the taxpayer for the purpose of carrying on the profession.-12000 the taxpayer's wife salary, the equivalent salary is 800 per month. -600 subscriptions in the accountant's syndicate pension fund.-1500 insurance premium on the taxpayer's life in favor of his mother-5000 contributions include 2000 paid to bank of Alex. To help insolvent bank's client and the rest was paid to the Egyptian Helal Ahmer society. Noncash expenses include the following: -2000 provision for the client's account-9000 depreciation includes 5000

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

Chapter Four

Tax on Real Estate Wealth Revenues

Introduction:

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

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

Second: revenues of agricultural exploitation of horticulture.

Third: revenues and disposals of constructed real estate properties.

Fourth: revenues of leasing furnished housing units.

The legislator has made several amendments to the legal articles related to the provisions of the tax on real estate wealth, these amendments were made pursuant to the articles of issuing the Real Estate Tax Law No. (196) for the year 2008 As well as under the budget law No. (73) for the year 2010, and Law No. (11) for the year 2013, which resulted in the following:

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

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

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

- (A) Income from taxable constructed real estate properties includes the following (Article 37)
 - Revenues of constructed real estate properties leased in accordance with the provisions of the Civil Code.
 - Revenues of furnished units.
- (B) Revenue subject to the income tax of natural persons shall be determined on the basis of the actual rental value achieved by the taxpayer of these real estate properties after excluding 50% for all costs and

expenses, whether the property is leased in accordance with the provisions of the Civil Code or furnished lease.

(C) The taxpayer shall deduct the real estate taxes due on him in accordance with the provisions of (Part Five of the Second Book, and not exceeding this tax).

(D) The provision of article (39) of the Income Tax Law shall not apply to real estate (built within the assets of the establishment or the company).

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

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

First: Revenues of constructed real estate properties:

By the revenues of the constructed real estate is meant those revenues of real estate properties fully owned by the taxpayer, meaning an absolute right or a usufruct right, as well as the revenues of the real estate properties over which

the tax payer has only a usufruct right exclusive of the title of property.

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

The following example will illustrate that tax treatment:

Example1: a taxpayer owns a property consisting of 15 flats. The annual rental value of this property, which is subject to the property tax, is 6000 L.E, It was found that the taxpayer lives with his family in one flat, and leases two flats with the new rental system at 2,000 L.E per month for each flats. The remaining units are rented by the old rent system at 50 L.E per month.

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

Solution

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

Actual income of flats leased under the new rent system=

(2 flats × 3000LE × 12 month) 72000 L.E

Deducted: 50% for all costs

(48000 × 50%) (36000)

Net taxable income 36000 L.E

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

This is not required to undergo real estate wealth tax revenues that these properties are subject to property/real estate taxes. here the revenues of real estate wealth are subject to tax on the income of natural persons regardless of whether these properties are subject to property tax or not.

Example 2: A taxpayer owns a real estate in 6th of October City consisting of five housing units and is not subject to a property tax. It was found that the taxpayer and his family live in a housing unit. In addition, His mother, who supports

her, lives in another unit, and leases two units with the new rental system at 5000 L.E per month per unit. The last unit he does not exploit it.

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

Solution

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

Then the taxable revenue of constructed real estate =
 $2 \text{ units} \times 5000 \text{ L.E} \times 12 \text{ month} \times 50\% = 60000 \text{ L.E}$

It is noted that the unit inhabited by the taxpayer and the unit inhabited by his mother were excluded from tax calculation as well as the unused unit, this is because these units do not bring the taxpayer actual revenue.

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

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

Second: Revenues of furnished units

Article (41) stipulates that the tax shall apply to the revenues derived from the leasing of any furnished unit or part thereof whether it is intended for housing, commercial or industrial activity, any non-commercial activity or profession or for any other purpose. The taxable income shall be determined on the basis of the actual rental value less than fifty percent of the cost for all costs and expenses.

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

Example 4: A taxpayer who owns a property in Qena consisting of 10 housing units with equal area, exploits the entire area of two units of the property in his own residence with his family, he leases two units of rent furnished system for varying periods during the year totaled until the end of the year 9 months at a rate of 3500 L.E per month per unit.

The rest of the property is leased by the fixed-term rent system (new law) at a monthly rent of 1800 L.E per unit throughout the year. The property tax on the property is 2,000 L.E and it was found that the taxpayer paid it before the end of the year.

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

Solution

Actual income of units leased under the new rent system=

(6 units × 1800 L.E × 12 month)	129600 L.E
---------------------------------	------------

Actual income of units leased by furnished

rent=2 units × 3500 L.E × 9months	63000 L.E
-----------------------------------	-----------

Total	192600 L.E
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Deducted: 50% for all costs

(192600 × 50%)	(96300)
----------------	---------

Deducted: property tax paid on leased units

according to new or furnished	(1600)
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rent=2000÷10units × 8units

Net taxable income	94700 L.E
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The previous tax laws and the executive regulations required each owner, whether property-owner or renter, to notify the competent tax office within the next fifteen days

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

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

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

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

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

Excluded from the activities subject to this tax is the provision of real estate as in-kind shares in return for the contribution to the capital of joint stock companies, provided that the shares representing the value of such reality shall not be disposed of for a period of five years.

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

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

Real estate registration offices, electricity and water companies, local administration units, and other entities refrain registering the real estate or providing service to the real estate subject to disposal, unless the owner of the

property submits a proof of payment of the tax on this real estate.

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

Tax bracket on real estate disposals and its price:

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

As for the following, the tax rate is specified in Article (42) at 2.5% of the total value of the real estate disposal without taking into account any actual expenses that the taxpayer has incurred in order to obtain the value of the

property. Accordingly, Article (42) which decided that tax is an exception to the provision of Article (8) of the same Tax Law No. 91 of 2005. Related to determining the tax rate in general, which is ascending as we have already explained. Hence, the rules for taxing real estate transactions represent a special exception to the rules of taxing the income of natural persons.

Cases excluded from the tax on real estate disposals:

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

- 1- Provision of the real estate as an in-kind share in exchange for as a share in the joint stock company, provided that the corresponding shares are not disposed of for a period of five years. The aim of the legislator is to encourage investment and form joint stock companies.
- 2- Compulsory sales, whether administrative or judicial.
- 3- Expropriation or appropriation for public benefit or improvement.
- 4- Disposals by the way of donation or gift to the government, the local government units, the public juridical persons or the public interest projects.

5-. Disposing by will, donation, or gift for ascendants, spouses, and descendants (son, daughter, and grandchildren)

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

According to the provisions of Article (42) of the law, all real estate transactions, which are mentioned in the text of this tax article, shall be subject to 2.5% of the value of the disposition. If it is proved that accidental conduct by the taxpayer of these real estate transactions without the intention of trading for the purpose of making a profit, he shall be subject to tax on this basis, as long as the profits he makes are not subject to tax within revenues. As long as, its profits are not taxed within the revenues of commercial and industrial activity mentioned in Article 19.

However, if the taxpayer is subject to tax in accordance with the provisions of Article 19 item (7), i.e., practicing the activity of constructing or buying real estate for the purpose of selling it. Its profits from the sale of real estate in which it

is traded shall be taxed on the income of natural persons as profits of a commercial and industrial activity in accordance with the tax rates specified in Article (8) as amended from the Income Tax Law. in this case, the last paragraph of the amended Article (42) stipulates that the taxpayer shall deduct the real estate tax paid in accordance with the provisions of Article (42) from the taxes due on him. The following example illustrates the tax treatment in such cases.

Example 5:

A taxpayer sold a flat 3000000 L.E which was bought with an amount of 1200000 L.E. Required: compute the due tax assuming that:

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

Solution

Assumption one:

The tax due = $3000000 \times 2.5\% = 75000$ L.E

Assumption two:

a- this transaction shall be taxed as follows:

$3000000 \times 2.5\% = 75000$ L.E

The disposal shall be subject to the tax provided for in Article (42) at 2.5% of the total sale price amounting to 75000 L.E.

Then, when the taxpayer submits his declaration of his activity at the end of the year, the profit of such disposition will be subject to the tax on the income of natural persons as revenues of commercial and industrial activity, while allowing the deduction of the previous payment of real estate tax, the tax treatment shall be as follows:

B- the profit gained from this transaction shall be included within the tax base of this taxpayer

$$3000000 - 1200000 = 1800000 \text{ L.E}$$

Then the tax bracket will be 1800000 L.E:

The tax due:

$$1200000 \times 25\% = 300000$$

$$600000 \times 27.5\% = \underline{165000}$$

$$\text{Total tax due} \quad 465000 \text{ L.E}$$

Note: because of paying the real estate disposal tax, it must be deducted from the income tax above

$$\text{The due income tax} = 465000 - 75000 = 390000 \text{ L.E}$$

Example 6:

A natural person owns a property that he leases under the new fixed-term lease system. The net income of this

property, which is subject to the tax on the income of natural persons for the tax period, was 150000 L.E. The taxpayer has paid a real estate tax of 10000 L.E for this property, The taxpayer has a commercial activity whose net profit is taxable according to his tax declaration for the same tax period of 420000 L.E.

Required: Determine the tax on the income of natural persons' payable on this taxpayer when submitting his tax return.

Solution

The tax payable in this case is determined on the basis of the tax payable on the income of the taxpayer after deducting the real estate tax paid as follow:

Net real estate wealth income	
(150000-10000) =	140000 L. E
Net profit of the commercial activity	<u>420000</u>
Total net income	560000
Deduct the non-taxable slice	<u>(40000)</u>
Tax bracket	520000
Tax due	
15000 × 10%=1500	
15000 × 15%=2250	
130000× 20%=26000	
200000× 22.5%=45000	
120000× 25%= <u>30000</u>	104750 L.E

Example 7:

Taxpayer owns a building consisting of 10 flats. The rental value of this building, which is mainly taken for the assessment of the real estate tax, is 5000 L.E, While the monthly rent for each flat is 75 L.E, it turns out that he constructed two new floors with two flats each, They have not yet used in the assessment of a real estate tax, and he exploit them by renting the two flats according to the new rental system of 2,000 L.E per month per flat.

Required : determine the tax bracket.

Solution

Actual income of flats leased under the new rent system=

(4 flats × 2000 L.E x12 month) 96000 L.E

Deducted: 50% for all costs

(48000 × 50%) (48000)

Actual net income of flats leased under the

new 48000

Deduct the non-taxable income (40000)

The tax bracket of natural person income 8000 L.E

Example 8:

Adam has an apartment located in Hurghada city, he rented it by the fixed term rent system (new rent) for 5000 L.E per month since last year 2022. With the end of the lease

at the end of June of the year, the taxpayer did not rent it after that, and sold it at the end of this year for 15000000 L.E. Note that this property is not subject to a real estate tax.

Required: determine the net taxable income.

Solution

First: the tax on the income of natural persons:

The income generated by the taxpayer from the rental of the apartment is subject to the tax on the income of natural persons.

Actual income = 5000×6 months	30000
Deduct 50% for all costs = $30000 \times 50\%$	<u>(15000)</u>
Net taxable income	15000

Second: Tax on real estate transactions:

In accordance with the provisions of Article (42) of Law No. 91 of 2005, a tax shall be levied at a rate of 2.5% of the total revenue resulting from the disposal the apartment. The tax shall be determined as follows:

The due tax = $15000000 \times 2.5\% = 375000$ LE

This income is not included in the tax base on the income of natural persons.

Example 9:

The taxpayer owns an apartment located in the new Qena; the taxpayer does not exploit it because it is still under

construction. However, he gave it to his son on December 2022, and wrote the contract of without value.

Required: determine taxable income.

Solution

This apartment does not generate income subject to tax on the income of natural persons. As for the disposition of the taxpayer by relinquishing it to his son, the provision of article (42) of the law concerning the imposition of a tax on real estate transactions shall not apply to this case.

Questions

(1) Ahmed owns a building composed of 8 flats of equal rental value, he lives in one of them, he leases 5 flats according to new rent system at 3000 L.E per month for each flat the building tax is 400 L.E and other duties amounts to 250 L.E.

Required: determine the taxable revenues

(2) A natural person owns a building consisting of 5 apartments, 3 of which are rented with fixed term rent (new rent) for 2000 L.E per month for the apartment and the rest rented furnished with a monthly rent of 4500 L.E for an apartment. Also, the real estate tax paid on the building is 1380 L.E.

Required: determine the tax bracket.

(3) Taxpayer owns a building consisting of 10 flats. The rental value of this building, which is mainly taken for the assessment of the real estate tax, is 5000 L.E, While the monthly rent for each flat is 75 L.E, it turns out that he constructed a new floor with four flats, they have not yet used in the assessment of a real estate tax, and he exploit them by renting the flats according to the new rental system of 4,000 L.E per month per flat.

Required: determine the tax bracket.

(4) Engineer H, who owns agricultural land in Aswan governorate and inherited it from his deceased father, the area of agricultural land inherited to the taxpayer 16 acres located within the city of Aswan, it turned out that 6 acres were sold during the year to a tourist company to set up a tourism project by 500 thousand pounds per acre. The taxpayer divided the rest of the land, 10 other acres, into 28 pieces prepared for building. During the year, they sold 10 pieces for 250 thousand pounds per piece.

Required: net taxable income.

(5) A person owns a property in Qena consisting of four floors, each floor has two identical apartments, exploited as follows: -The taxpayer and his family live on the second floor. - The taxpayer allocates the ground floor for guests and

visitors. - The taxpayer rents the third and fourth floors furnished for university students at 4000 L.E per apartment. If you know that the building tax imposed on one apartment is 300 and the tax rate is 10%.

Required: determine the tax bracket.

(6) One of the individuals rented a furnished flat inside the city cordon with a monthly rent of 4000 for a period of 9 months during 2022, so if you knew that the annual rental value for real estate tax is 700 L.E Required: determine the tax bracket.

(7) An individual owns a building in 6th of October City. The original building tax on it is 3600 at a rate of 10%. So if you knew that he had rented it furnished to University to accommodate its students, with a monthly rent of 60000 L.E during 2022. And that he did not pay the building tax for this year. Required: determine the due tax

(8) A taxpayer owns a one-floor villa in which he and his family live. The building tax on it is 2000 L.E annually, and the tax rate is 10%. In addition, he owns a building consisting of five floors, rented it by 9000 per floor, His son with his wife and children and the building tax on the floor is 1000 L.E, knowing that the tax price is 10%. He did not pay the building tax for this year.

Required: determine the due tax

(9) The following are the data that one of the taxpayers submitted to the Tax Authority for the fiscal year ending on 31/12/2022: -He owns a property consisting of 5 floors of equal rental value, one of which is inhabited by him and his family, and he uses the ground floor as his own commercial shop, and the rest is rented to others for a monthly rent of 2000 per floor, and the annual rental value of the building is 5000 L.E, knowing that the building tax is 10% annually. The annual real estate expenses amounted to 3500 L.E. -The net accounting profit of the commercial shop for the year 2022 amounted to 25000 L.E. Required: determine the due tax.

Chapter Five

Tax on revenues of commercial and industrial activities

Introduction

Commercial and industrial activities are one of the most important activities within the framework of income tax on natural persons in particular, and in the framework of direct taxes in general. Therefore, the legislator is always trying to expand the scope of the imposition of tax on such activities.

In this section we shall deal with commercial and industrial activities that are subject to tax on the income of natural persons, the conditions of their subjection to taxation, and how to determine the taxable profit as well as the exemptions associated with commercial and industrial activity in the following sections:

Section 1: Conditions for subjecting commercial and industrial activities to tax.

Section 2: Types of taxable commercial and industrial activities.

Section 3: Determination of taxable profit on the income tax of natural persons from the revenues of commercial and industrial activity.

Section 4: Exemptions related to commercial and industrial activity

Section 1: Conditions for subjecting commercial and industrial activities to tax:

The legislator specifies general conditions for the subjection of a commercial or industrial activity for a tax. These conditions are:

First: The taxpayer shall exercise his commercial and industrial activity independently and for his own account. Any dependent status of a taxpayer must be avoided or the resulting revenue should be considered salary or wages subject to the tax on salaries and the like.

The legislator has emphasized this requirement in more than one place in the law. In Article (19) the legislator decides that the tax shall be applied on profits of commercial and industrial establishments in item (1), And on the profits of craftsmen and small businesses item (2), And on profits realized as a result of transaction or transactions carried out by brokers or commission agents in item (4), and those who engage in the construction or purchase of properties for purposes of sale (item 7). The texts of the preceding items confirm that the taxpayer must act for his own account and not for the account of others.

Second: That the person engaged in the profession or activity habitually: Where the taxpayer must practice the activity frequently and habitually, In the sense of professionalism in the exercise of his activity, this recurrence or familiarity is not required during the same tax period, it depends on the nature of the activity, for example in the activity of construction, the execution of one contract requires more than one tax period. Although, casual transactions are outside the scope of the taxation, the legislator has subjected the profits of a single transaction to tax, but on condition that the transaction being made with the intention of earning or making profit.

Third: The activity must be exercised for profit: Legislator always keen on the text that the goal of the activity is to make a profit. In the subjection of profits of a single transaction to tax, although the legislator disregarded the requirement of professionalism, he stressed the availability of the intention of making profit. As, article (25) of the executive regulations of Law No. 91 of 2005 stipulates that the purchase shall be for the purpose of sale, and therefore in the case of non-profit activities such as social, cultural or religious activities, they are not taxable.

Fourth: the taxpayer shall exercise his activity through an individual firm, Where the legislator subjected to tax on the income of natural persons the profits of commercial and industrial activities exercised through an individual firm, while in the event that such activities are carried out by a company (partnership or corporation), the profits of such companies shall be taxed on the profits of juridical persons imposed in the third book of Law 91 of 2005.

Fifth: Realization of revenue within or outside Egypt (the principle of tax universality). For taxable commercial and industrial activities, the legislator adopts the principle of tax universality in the sense that the income was realized in Egypt or abroad. article (6) of Law 91 of 2005) stipulates that "an annual tax shall be imposed on the total net income of resident natural persons in respect of their income realized in Egypt or abroad if Egypt is a center of its commercial or Industrial or vocational activity ".

It is clear from the text of Article (6) that applying the principle of tax universality expands the scope of the tax on income earned abroad, when Egypt is the center of the taxpayer activity. the practical problems of taxation according to the global scope of the resident natural person, are the following problems:

A - The need to be the center of the taxpayer's activity in Egypt, which results in the following:

1- If a natural person does not have a commercial or industrial activity in Egypt and if he realized income from a commercial or industrial activity abroad, the tax on the income of the Egyptian natural persons does not apply to this income.

Example: An Egyptian natural person who lives in Egypt, and during his stay in the United Arab Emirates he completed a commercial deal to import a group of goods from India and sell them in Dubai, which resulted in a net income of 50,000 Dirhams. In this example, the income tax on natural persons cannot be levied, because the taxpayer has no commercial activity in Egypt.

2- If the natural person has a commercial or industrial activity in Egypt, and he realized income from a commercial or industrial activity abroad independent of its activity in Egypt. Then, the tax on the income of Egyptian natural persons does not apply to this income.

For example, a natural person residing in Egypt owns an individual firm that works in the field of division of construction land. He and a Saudi partner established a company in the Kingdom of Saudi Arabia that works in the

field of dividing, smoothing and preparing land for construction. And the taxpayer in this company, a partner with experience due to his experience in this area. His share in the profits of this company amounted to 1000000 Saudi riyals. In this example there is no room to impose a tax on the income of natural persons on the profits of the taxpayer from the company in Saudi Arabia, because these profits were realized from an activity independent of the activity of the individual firm owned by the taxpayer in Egypt, since this individual firm is not a center of its activity abroad.

3- If the natural person has a commercial or industrial activity in Egypt, and achieved from this activity income realized outside Egypt. In this case the realized income shall subject to the income tax of the Egyptian natural persons.

Example: A natural person who lives in Egypt and owns an individual firm working in the field ceramic tile industry, and has a branch of its business in a foreign country, achieved a profit for the tax period amounted to 50000 US dollars. In this example, the profits of this branch shall be taxed on the income of natural persons in accordance with the amendment of Law (53) for the year 2014, because the

profits of the branch have been realized to the taxpayer abroad for activity its' center in Egypt.

B) The profits of the taxpayer realized abroad shall be

taxed: As, article (17) stipulates that the profits of commercial and industrial activity shall be taxed. Net income is determined on the basis of revenue earned internally or abroad, after deduction of allowable costs.

Article (22) of Law 91 of 2005 specifies the special conditions for the costs to be deducted, namely:

- 1- Be associated with the commercial or industrial activity of the firm and is required to practice the activity.
- 2- Be actual and supported by documents, except costs and expenses which was not traditionally proven by documents.

Taken into account when calculating the tax payable the tax paid abroad, within the limits of the tax calculated on the revenues earned in abroad, that the tax paid abroad is compared with the tax calculated on these revenues and deducted whichever is lower.

Example: A natural person residing in Egypt who carries out a commercial activity, His revenues from his commercial activity amounted to LE 1.5 million, including of LE 150,000-income earned from his business in a foreign

country, for which he paid income tax for the foreign state amounted to LE 30,000 And his net profit from his business in this year LE 450000. Required: Calculate the due tax.

Solution

First: Calculate the tax payable on the taxpayer's profits at the legally determined prices as follows:

40000	Exempted
The next 15000 x 10%	1500 LE
The next 15000 x 15%	2250 LE
The next 130000 x 20%	26000 LE
The next 200000 x 22.5%	45000 LE
The next 50000 x 25%	<u>12500</u>
The tax payable	87250 LE

Second: Determine the proportion of revenues generated abroad of the total revenues of the activity: Article (52) of the executive regulations of Law No. 91 of 2005 specify how to calculate the calculated tax as follows:

Percentage of revenue earned abroad

$$= (150000/1500000) \times 100 = 10\%$$

Third: Calculation of the Egyptian tax: It is determined as follows:

Egyptian calculated tax =

Tax payable \times Ratio of external revenue

$$= 87250 \times 10\% = 8725 \text{ LE}$$

Fourth: Determining the tax on the income of the natural persons to be paid by the taxpayer

Tax payable on the taxpayer's profits	87250LE
Deduct: The tax paid abroad is LE 30,000 or the Egyptian calculated tax on the profits LE 8725 whichever is less	(8725)
The due tax	78525LE

Another example: Assuming in the above example that the tax paid abroad has reached 7000 LE. Required: Calculate the due tax.

Solution

The tax due in this case shall be determined as follows:

Tax payable on the taxpayer's profits	87250 LE
Deduct: The tax paid abroad is LE 7000 or the Egyptian calculated tax on the profits LE 8725 whichever is less	(7000)
The due tax	80250 LE

Section 2: Types of taxable commercial and industrial activities:

In article 19 of Law 91 of 2005 and its amendments, the legislator dealt with the commercial and industrial activities that are included in the tax on the income of natural persons and exercised by the taxpayer through an individual firm, they are as follows:

- 1- Profits of commercial or industrial firms, mining, quarries and petroleum firms.
- 2- Profits of craftsmen and small activities.

- 3- Profits realized from any commercial or industrial activity even if limited to one transaction, the executive regulations of this law set forth the special rules for what is considered a single transaction in the application of the provisions of this item.
- 4- Profits realized as a result of the transaction or operations carried out by brokers or commission agents, in general, any profit made by any person engaged in brokerage business to buy, sell or rent real estate or any kind of goods, services or movable values.
- 5- profits from leasing a commercial or industrial shop whether the rent includes all or some of its material or moral elements, as well as profits from the rental of mechanical and electrical machines, except agricultural tractors and irrigation machines and accessories and machinery and equipment used in agriculture.
- 6- Profits of various types of transport activity.
- 7- Profits generated by those engaged in the construction or purchase of real estate for their own purposes with the intention of selling them (professionally), Whether the profit resulted from the sale of the whole property or divided into apartments, rooms, administrative or commercial units or otherwise.

- 8- Profits resulting from land division operations for disposal or construction.
- 9- Profits of land reclamation or cultivation firms, and projects for the exploitation of poultry farms or automatic hatchery, animal breeding, cattle breeding and fattening, in excess of twenty heads and fish farms and fisheries projects.
- 10- Profits of investment in securities abroad or their disposal.
- 11- Long-term contracts, where the legislator added to the commercial and industrial activities that fall within the tax bracket on the income of natural persons in Article (21) of Law 91 of 2005, long-term contracts in proportion to what was implemented from each contract during the tax period.

The following are the detailed conditions relating to the taxation of these activities and operations:

1- commercial and industrial firms and mines, quarries, petroleum firms.

There are three basic conditions for the inclusion of profits from commercial or industrial activity within the taxable income of the natural persons as follow:

- 1- There shall be firm.
- 2- The firm shall be working at Egypt.
- 3- The firm shall be in the form of an individual firm.

The first condition: is that there should be a firm: for interpretation of the " firm" statement contained in the law there are two directions:

First direction:

It is the old one in jurisprudence and sees the need for a firm with a physical existence to carry out activity in Egypt, for example the existence of a shop, office, warehouse or other fixed places designated for the conduct of commercial and industrial activities, this direction has been based on several considerations, most notably:

- 1- This direction was followed by the models of the tax agreement issued by the League of Nations to deal with the problem of international tax duplication. Where these models provided that the profits made by a person of a country from engaging in commercial or industrial activities in another country, the other country can impose taxes on these profits only if he practices his activity through a permanent firm.
- 2-The issuance of many of the provisions of the Egyptian courts support that the profits of foreign investors

resulting from commercial and industrial activities in Egypt shall not be subject to Egyptian tax unless they have permanent firm.

The second direction:

It is a relatively recent direction; it is opposed to the physical existence of the firm as a condition to subject profit to tax. Where it is enough to just practice the activity as usual, I.e. the practice of activity in Egypt permanently on the basis of professionalism, as the existence or absence of physical place is not important in the possibility of imposing a tax. Although its existence has its evidentiary value on the usual practice of activity. Supporters of this direction believe that there will be a firm operating in Egypt only in the following two cases:

- 1-The existence of a spatial firm in Egypt through which activity is carried out, such as the existence of a factory, shop, store, sales office or branch of firm located outside Egypt.
- 2- just to engage in commercial or industrial activity in Egypt frequently, even in the absence of a spatial firm.

Law 91 of 2005 in Article (1) adopted the second direction

Third conditions: The establishment shall take the form of an individual firm (sole owned):

Income from commercial and industrial activities is included in taxable income on the income of natural persons if realized by an individual firm. If such income is realized by a partnership or corporations, it shall be taxable on the profits of juridical persons, which are included in the third book of the Law (91) of 2005.

2- Profits of craftsmen and small activities:

Craftsmen are persons who carry out independent business or activities in which they rely primarily on their own skill and for themselves without relying heavily on capital. Their work is often manual, although they rely on some simple machines. Examples of such craftsmen are carpenter, tailor, plumber, watch repairmen, opticians, mechanics.... etc.

It can be argued that the main source of income earned by the craftsman is labor and that reliance on capital as a source of income is small and almost non-existent, and therefore that their profits should have been taxed within the revenues of the free and non-commercial professions. However, the legislator subjected them to taxation within the revenues of commercial and industrial activity due to the conditions prevailing in the seventies and led to the exaggeration of these craftsmen in the prices of the services they provide.

3-profits from any commercial or industrial activity, even if limited to single transaction:

Article (25) of the Executive Regulation of Law No. (91) of 2005 stipulates the special rules for what is considered a single transaction or isolated transaction as follow: isolated transaction is every purchasing occurred by taxpayer resident in Egypt for a movable asset not for personal use conditioned that this transaction would be commercial or industrial and that the sale is made within Twelve months from purchasing date of such assets.

This article is not consistent with professionalism, which was a tax subjection term in the law. However, it was realized that many people made great wealth from what they named one transaction. This wealth was not subject to tax because of the non-continuity, and non-existence of a firm the new tax law aimed to impose tax on these profits.

It is clear from this that three conditions must be met for the profit of single transaction to be subject to income tax on natural persons.

- A) To be for resale of movable assets not purchased for personal use and it was done by a resident in Egypt.
- B) The transaction should result from a commercial or an industrial act.

c) The sale shall be made within twelve months from the date of purchase.

4- the Profits from brokers and commission agents:

It is any profit made by any person engaged in brokerage business to purchase, sale, lease of a real estate or any kind of commodities, services, or movables.

From the above we understood the following:

A- The tax on profits from brokerage business shall apply to the purchase, selling and leasing without any other type of contract.

B- Include sale, lease or purchase of any type of goods, services or movable values.

The concept of mediation under this provision is to bring the seller and the buyer closer or the lessor and the tenant. The broker does not conclude the contract in his name, but the commission agent may replace one of them or conclude the contract in his name for a commission. And it is one of the agency's works also insurance agents and trade representatives who work for some companies and act on their behalf in concluding transactions and running the business without being associated with a contract of work and have full freedom to perform the work.

The conditions for such persons to be taxed are:

- A) The tax is applicable in the event that the work is performed individually.
- (B) The tax shall be applicable to net profits, i.e., revenues after being excluded all costs incurred by the agent or broker.

5- Profits from leasing premises and machinery:

It is the profit resulting from leasing commercial or industrial premises, whether the lease includes all or part of its material or immaterial elements. The tax also applies to profits resulting from the lease of mechanical, and electrical machines, except for agricultural tractors, irrigation machines and accessories, and machinery and equipment used in agriculture.

The legislator has taxed these profits within the commercial and industrial as facilities prepared by their owners and leased for commercial or industrial purposes, Such as the case of renting shops or spaces within the commercial centers that so-called (mall).

6- Profits of various types of transport activity:

It shall be deemed to be a business in accordance with the provisions of Article 2 of the Commercial Law Every contract and in-depth work in manufactures, trade,

commission and land transport or maritime transport. Accordingly, profits from land and maritime transport activity are considered whether it is transporting passengers or goods, profits are the result of business activity, according to the general principle these profits shall be taxable on the income of natural persons whatever means are used.

From above, all transport activities, whether land, air, sea or river, their profits are subject to tax on the income of natural persons, whenever the taxpayer carried out this activity individually.

7- Profits for the purchase and construction of real estate with the intention of selling:

The profit realized by those who acquire or purchase real estate for their own account with the aim of sale, with a view to selling them professionally, whether the profit results from the sale of the whole property or divided into apartments, rooms, administrative or commercial units, etc.

The conditions for taxation of these profits are summarized in following:

- 1-The person purchases or constructs real estate for his own account.
- 2- purchase or construction would be for the object of sale.

3-The taxpayer used to purchase or construct for the purpose of sale (professionalism), whether the whole or part of the property was sold.

8-Profits arising from land division and disposal of construction lands.

The conditions for taxation of profits resulting from the division of land and its disposal are as follows:

- 1- the division of land before being sold, but if the person sells the land in one piece without dividing it, the profit from the sale is not subject to tax.
- 2-The owner of the land shall carry out the necessary works to divide the land, such as the preparation of the land and the provision of utilities, etc., which makes it suitable for construction.
- 3-The disposal of the land in any form of disposal, whether by sale, gift or will.

9- Profits of land reclamation and cultivation and livestock and fisheries projects:

Article (9) of Article (19) states that the tax shall apply to:

- A-Profits of land reclamation and cultivation activities.
- B-profits from the exploitation of poultry farms or hatchery.

The second paragraph of Article (9) of Article (19) of the law stipulates that "the tax shall be applied to profits resulting from the projects of exploiting poultry farms or automatic hatchery."

It is clear from this text that it is required for the tax to apply to projects of exploiting poultry farms or hatchery to be automatic. Therefore, if there are projects to exploit or hatch poultry farms, but not automatically, it does not apply to the tax, despite the recent spread of projects in the countryside significantly, and these projects may make significant profits

C-Profits of the activities of cattle breeding and fattening.

This tax does not apply to what a farmer uses out of these cattle and livestock for his own benefit. It does not also apply to whatever cattle or livestock he might breed or fatten for his own benefit, all of which should not exceed twenty heads.

In the application of this provision must:

- 1- The 20 heads, which are raised or fattened, should be viewed as a general and complete exemption limit for the practitioners of such activities, so that the tax shall apply

only to the profits that they may make from livestock in excess of this number.

2-That the exemption is not granted for any number of cattle or livestock over twenty heads even if this excess number is used for private benefit.

This should point out that this exemption is limited to cattle breeding and fattening without animal breeding.

The legislator has decided to temporarily exempt the profits of the projects of exploiting and fattening cattle breeding fattening - whose activities are already subject to tax - according to the second clause of article (31) of the law. For ten years from the date of practicing the activity.

D-Profits of fish farms and fisheries projects.

10- Profits of investment in or disposal of securities abroad:

Law 53 for the year 2014 added a second paragraph to Article (19) of Law 91 for the year 2005 stating that "The tax shall also apply to profits resulting from investment in or disposal of securities abroad.

It follows from this provision, subjection of the profits realized by the natural person from investing in securities abroad, including dividends or interest bonds, as well as the profits realized from the disposal of those securities. It is not

condition for subjection of such profits that the natural person has a tax file or practice a commercial or industrial activity in Egypt, as this provision considers that investment in abroad is an activity in itself that requires taxation. Regardless of whether the natural person is engaged in this activity frequently and professionally or) is an accidental work for him, However, in light of the provisions of Article (6) of the amended Law 91 of 2005, which came in the second book of amended Law 91 of 2005 which clarifies the scope of taxation on the income of natural persons, The profits of investment in securities abroad or their disposal thereof are not always taxable, but they are subject to taxation in the event that this profits is realized by a taxpayer who has commercial or industrial activity its center in Egypt.

11-profits of long-term contracts:

Long-term contracts are the contracts of manufacturing, processing, construction or performance of the related services executed by the enterprise on behalf of third parties on a specified value and the implementation takes more than one tax period.

Article (21) provides for determining the net taxable profit of the establishment for all associated long-term contracts, on the basis of the percentage of each contract executed (what

has been implemented from each contract) during the tax period, according to the following steps:

A- Determine the percentage of what has been implemented from each contract based on the actual cost of the works performed at the end of the tax period relative to the total estimated costs of the contract, which according to the following equation:

$$\text{Percentage of contract executed during tax period} = \frac{\text{Actual cost of work performed}}{\text{Total estimated costs for the entire contract}} \times 100$$

B- Determination of the estimated profit of the contract, by the difference between the contractual value of the contract and the estimated costs of the contract, which according to the following:

$$\text{Estimated profit for the whole contract} = \text{Contractual value of the entire contract} - \text{estimated costs of the entire contract}$$

C- Determine the estimated profit of the contract during each tax period in proportion to what has been implemented by multiplying the output of step (2) in the output step (1) is as follows:

$$\text{Estimated profit of the contract during the tax period} = \text{estimated profit for the whole contract} \times \text{percentage of contract executed during tax period}$$

Example:

Assuming that a contractor has contracted to establish a bridge for a local administration unit with a contractual value of LE 25 million, the contracting work will be completed within 24 months. The cost of this contract is estimated at LE 20 million. During the first year of the contract, the first part of the contract was executed. It includes concrete works and works in the depths of the river water below the bridge. The actual cost amounted to 12 million pounds.

Required: determine the taxable net profit for the first year.

Solution

1- Percentage of contract executed during tax period=

$$12000000 \div 20000000 \times 100 = 60\%$$

2- Estimated profit for the whole contract =

$$25000000 - 20000000 = 5000000 \text{ LE}$$

3- Estimated profit of the contract during the tax period=

$$5000000 \times 60\% = 3000000 \text{ LE}$$

This profit is subject to tax and is included in the tax bracket on the income of natural persons of this contractor.

The profit of the contract shall be settled at the end of the tax period in which the execution ends on the basis of actual revenue minus actual costs after deducting the previously estimated profits.

Assuming in the previous example that the contractor completed all the works of the construction of the bridge and was delivered and the actual approved costs spent in the second year 9 million pounds.

Required: determine the taxable net profit for the second year.

Solution

1 - The actual costs of contracting in the first and second years = $12000000 + 9000000 = 21000000$ LE

2 - Actual net profit for the whole contract = $25000000 - 21000000 = 4000000$ LE

Since the taxpayer was charged in the first year for 3 million pounds. Therefore, the taxpayer is accounted in the second year for actual profits after deducting the profits previously taxed.

3 - Net taxable profit in the second year = $4000000 - 3000000 = 1000000$ LE

If the calculation of the tax period during which the contract is completed, result in a loss. This loss is deducted from the profits of the previous tax period or periods, that contract shall be executed during them and not exceed the profits of the contract during that period. The tax is recalculated on this basis and the taxpayer recovers the

amount he paid in excess (carried backwards). If the loss exceeds the profit, the remainder of the loss is carried forward to the following years up to a maximum of 5 consecutive years.

Example:

An establishment operating in the construction activity, was awarded during 2021 the implementation of a building contract for 9 million pounds at an estimated cost of 8 million pounds. The implementation process takes 30 months starting from mid-2021 and ending at the end of 2023. The actual costs of implementing the contract during 2021 amounted to 2.8 million pounds and in 2014 amounted to 3.6 million pounds.

Required:

First: the determination of taxable profits in tax periods 2021, 2022.

Second: Determine the tax treatment of the profits of the establishment upon completion of the contract at the end of 2023 by assuming the following:

- A- The actual costs for 2023 amounted to LE 1.5 million.
- B- The actual costs for 2023 amounted to LE 2 million.
- C- The actual costs for 2023 amounted to LE 3 million.

Solution

First: Determination of taxable profits in 2022 and 2022

(estimated):

1- Determination of estimated profit of the contract = total contract value - Estimated costs of the contract = 9 million - 8 million = 1 million pounds

2 - Determining the estimated profit for the contract in 2021

A- completion rate = $2.8 \div 8 \times 100 = 35\%$

B- Estimated profit in 2021 = $1000000 \times 35\% = 350000$ LE

3 - Determining the estimated profit for the contract in 2022

A- completion rate = $3.6 \div 8 \times 100 = 45\%$

B- Estimated profit in 2021 = $1000000 \times 45\% = 450000$ LE

Second: Determination of the tax treatment of the profits of the establishment in 2023 end of the contract (actual profit)

A- Assuming that the actual costs for 2023 amounted to LE 1.5 million

Total actual contract revenues	9000000
(-) Actual contract costs(2.8+3.6+1.5)	(7900000)
Actual net profit of the contract	1100000
Estimated profit in previous years (350000+450000)	(800000)
Net taxable profit in the tax period 2023	300000

B- Assuming that the actual costs for 2023 amounted to LE 2 million

Total actual contract revenues	9000000
(-) Actual contract costs(2.8+3.6+2)	(8400000)

Actual net profit of the contract	600000
Estimated profit in previous years (350000+450000)	(800000)
Net tax loss in tax period 2023	(200000)

In this case, the loss of LE 200 thousand is carried backward to 2022, The tax is deducted from the 2022 earnings and the tax is recalculated on that basis And refund the overpaid tax.

C- Assuming that the actual costs for 2023 amounted to LE 3 million

Total actual contract revenues	9000000
(-) Actual contract costs(2.8+3.6+3)	(9400000)
Actual net loss of the contract	(400000)
Estimated profit in previous years (350000+450000)	(800000)
Net tax loss in tax period 2023	(1200000)

In this case, the loss is carried backward, i.e. the loss (800000LE) is deducted from estimated tax in years 2021, 2022. And refund the tax paid on them, the remainder of the 400,000 LE loss balance is carried forward to subsequent years up to a maximum of 5 consecutive years.

Section 3: Determination of taxable profit on the income taxes of natural persons from the revenues of commercial and industrial activity.

According to Article No. (17) of the tax law, it is stipulated that taxation is imposed on the “ net profit...”

Article No. (22) has also stipulated that tax is to determined annually on the basis of net profit during the preceding year, or the period of the twelve months result of which was considered as basis for preparing the last balance sheet as the case may be; and it stipulates that the taxable net profit is determined on the basis of the result or outcome of transaction, or the operations of different kinds and sorts, in accordance with the provisions of this law.

But the accounting profit figure may not always be the same as the tax bracket for several reasons therefore, it is necessary to perform an adjustment of the accounting profit figure which is effected in the tax bracket of the taxpayer.

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. Accordingly, revenue measurement is based on the accounting principles. It must be, in this context realized that: tax law do not consider legitimacy of revenues or the extent

of its legality. Any revenue is subjected to taxation without giving any consideration to the extent of its legality or legitimacy.

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. Sales revenue is exposed to several factors which may show it contrary to its nature on a plus or minus basis. Consequently, it may affect the accounting on the net profit so that it would be realistic.

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 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 firm 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 made 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 owner withdraws 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>
less:		174100
sales commission of the agent on goods sold: 20000× 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 firm, its income statement showed:

A net profit amounting to L.E. 40,000. Upon examining the sales figure, it was revealed that there were sales for the value of L.E. 3,000 which were made at beginning of the new period and were delivered on same date. Yet they were entered in the sales of the current year although they were included as part of inventory at cost. Goods sent to commission-agent, amounting to L.E.7,000 were also entered as being actual sales, without entering them in inventory,

noting that their cost amount to L.E. 5,500 and some goods costing L.E. 1,200 sold for the amount of L.E. 1400 were actually returned during the year, without being recorded as sales returns and were not entered as part of the inventory.

Required: Determine the taxable net profit.

Solution:

	L.E.	L.E.
Net profit		40000
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

Sales of Remnants:

Revenue resulting from the firm's sale of its leftovers may represent a relatively important amount for the firm itself. Also, the firm's sale of its residues or remnants may be occasional and unrepeated if the nature of the firm's production does not result in remnants of some value, as a result which the revenue, in this case, is considered a transversal revenue. The firm's sale of its remnants may be considered a non-transversal revenue if the nature of production of the firm yields residues or remnants in a

repeated way with demand being available for the purchase of these remnants. Whatever is the nature of this revenue, it is considered as a part of revenues which are considered in the assessment equation of the periodical profits of the firm. If the firm enter this revenue as a part of its revenues, then this would be an irreproachable attitude. But if the firm adopted accounting methods resulting in not showing the revenue yielded by the sale of the residues or remnants, that would mean that the proper and correct profit figure which is taken as a basis for the determination of the tax bracket on commercial and industrial profits will not be arrived at amongst the accounting methods to which the firm, may resort to, would be carrying forward the revenue realized of the sale of remnants to reserve account directly, which would mean not including this profit amongst the elements of taxable revenues. This necessarily, requires adding this profit again to the profit figure in order to arrive at the proper and correct tax bracket.

Some firms may record sales of some fixed assets as being sales of remnants. This approach is unsound. The sale of a fix asset requires clothing all its related accounts. In addition, if the sale in question realizes a gain, then this gain may be tax-exempted in case of fulfilling of certain special

condition contrary to the profits from remnants' sales which are not exempted from tax. Also, this approach may not show the loss on sale, if that was the case. it could be said in general that this approach is dealing with the sale of fixed assets, contrary to the nature thereof, means that tax is imposed on amounts which do not stand as real profits.

To clarify this idea, assume that a firm sold a part of its building assets for amount of L.E. 7,000 the book value of which was L.E. 15,000 with the balance of their accumulated depreciation being L.E. 4,500. The firm recorded that as remnants' sales without closing the accounts of these assets. The sound handling of this transaction is to close the accumulated depreciation account in the account of the assets together with the sale value the asset, then find out the result of the sale transaction whether a profit or a loss. This treatment can be shown in the account of the assets sold as follows:

Amounts in Pound

Dr.		Cr.	
Balance (value of the asset)	15,000	Depreciation	4,500
		Cash (the sale price)	7,000
		Loss on sale	3,500
	15,000		15,000

It is to be noted in this case that the firm's approach has resulted in recording profits as the value of the proceeds of the remnants sale, whereas it was necessary to reduce its profit with the losses on this sale, if for instance, we assume that the operational results of this firm had shown, as a result of the erroneous treatment of the sale of the assets, a profit of L.E. 30,000 then, when preparing the tax bracket the following should be done:

Net profit	L.E.	L.E. 30000
Less:		
Sales value of fixed assets treated as remnant sales	7000	
Loss on sale of fixed assets	3500	<u>10500</u>
Taxable Net Profit (TNP)		19500

Capital Gains:

Capital gains are resulted from one of the following sources:

- Profits resulting from liquidation of assets, whether by sale or compensation.
- Profits resulting from revaluation of assets at a value exceeding their book value.

Each of these sources differs as to the extent to which it may be subjected to taxation. We are going to discuss each source separately as follows:

(A) Profit on Liquidation of Capital Assets:

The tax law determined the fixed assets which their capital gains are subjected to tax as follows:

- 1- Buildings, constructions, outfits, ships, and aircrafts.
- 2- Intangible assets which are not have physical existence and are kept for use in production, supplying goods and services or for renting them out to third parties such as; licenses, intellectual property rights, trade names, copyrights, plants, publication rights, movies and animated cartoon which the firm obtains in return for payment of a certain amount of money. Capital gains resulting from the above intangible assets are taxable if the firm bought them and paid in cash or other property for them.
- 3- Lands, workers of art, antiquities, Jewelry, and other asset of the firm that are un-consumable by their nature and they are non-depreciable.

As for the capital gains realized from compensations for destruction or requisition of those assets, in case of insures them, whereas the increase in value of the compensation which the firm receives from the insurance company over net book value of the asset after excluding depreciation approved

by tax authority, are considered capital gains which are taxable according to article (17) of the law.

As for capital gains of other assets such as computers, Information systems, software and data storage sets and all other assets of activity, such as gains are exempted from being taxed.

(B) Revaluation Profits:

If we review the context of article No. 20 of the tax law, we shall find out that this article has stipulated that:

“The provision of this article does not apply to profits resulting from the revaluation of assets of individual firms if they are presented as in-kind share in the capital of a joint stock company or upon their merger into a joint stock company. This is under the condition that the offeror of in-kind share, the owner of the firm, will not dispose of the shares equal to his portions for a period of five years”.

This article has also stipulated that:

“Similarly, the provision of this article does not apply to the profits resulting from revaluation of assets of individual firms upon their conversion into a joint stock company”.

It may be understood from these paragraphs that the profits of revaluation are originally subjected to tax, and that

exceptions included in this article mean exemption these profits in some special cases.

However, the sound and academic point of departure may not accept this result despite its theoretical viability.

We believe that the profits of revaluation, as long as they are not always realizing profits, should be, when looking into the issue of subjecting them to tax.

It is possible, in general, to make asset revaluation profits for two main reasons which are:

- a- Recording assets basically at a value less than their real book value, either because of the exaggeration in the asset depreciation in the past, or the tackling of some capital expenditures as being revenue expenditure.
- b- General tendency of prices towards escalation.

We can conclude that, the reason of revaluation profits is due to the prices escalation in general.

This profit does not yield a real increase in the equity of the owner, and does not result in any cash profits for the owner of the individual firm. Thereof, these profits should not be subjected to tax on commercial and industrial profits.

Example (1):

A single firm purchased a building as a store for L.E. 90,000 on April 2018, the legal duties and fees were L.E.

4,000 other expenses related were L.E. 2,000 on first of April 2020, the firm spent L.E. 14,000 to renew the building. On Dec. 31, 2020 the building was sold at L.E. 150,000 and expenses related to this process were L.E. 15,000. Noting that:

- The annual maintenance expenses amounted to L.E. 1,000.
- The depreciation rate for tax purposes is 5% annually.

Required:

Determine taxable capital gains of the building.

Solution:

Sales proceeds: 150,000- 15,000	L.E.	L.E.
Less: Book value		135000
Purchase price	90,000	
Legal duties	4,000	
Other expenses related	<u>2,000</u>	
Total cost	96,000	
Renewable expenses	<u>14000</u>	
Less: Accumulated depreciation	110000	
Till April1, 2018 = $96000 \times 5\% \times 2 =$	(9,600)	
From April1, 2020 = $110,000 \times 5\% \times$ 9/12=	(4,125)	
Book value		<u>(96,275)</u>
Taxable capital Gains		38,725

Note:

Maintenance expenses are not included

We have to state some restraints concerning this article. It is a must that we would notice that by determining the capital

gain resulting from the sale of assets or the proceeds of compensation, a comparison is to be made between the sale value and the net book value of the fixed assets adding thereto any costs resulting from the removal of the asset. Note that the balance is determined by the difference between the original cost of the asset and balance of the asset, accumulated depreciation until date of stopping using the asset. Two issues must be observed with respect to depreciation, namely:

First: it is necessary to calculate the depreciation of the asset sold or destroyed from the beginning of the year until date of stoppage, and to compute accumulate depreciation which is deducted from the original cost of the asset.

Second: That figure of accumulated depreciation which is duly deducted from the original cost is the depreciation accepted by the tax administration, and not the depreciation according to the books of the firm as long as the depreciation rate used by the firm is different from the rate approved by the tax administration. Any other treatment may subject capital gain more than reality to taxation.

Example (2):

On 1/1/2021, the firm purchased premises with the amount of L.E 200,000 and decided to depreciate them

at the rate of 20%. But the tax administration was reckoning the firm to bases of a depreciation rate of 12.5%.

On 1/7/2024 these premises were sold for an amount of L.E. 75,000.

Required:

Determine capital gains for these transactions.

Solution:

According to the books of the firm, we find out that the accumulated depreciation balance on 1/7/2024 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 $(200,000 \times 20\% \times 0.5) = \text{L.E. } 20,000$ 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 = $120,000 + 20,000 = \text{L.E. } 140,000$

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 results 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
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	77,500
Taxable net profit	52,500
	25,000

Hereunder two examples to clarify the treatment methods under difference conditions and circumstances.

Example (1):

A single firm sold premises, the net book value of which amount to L.E. 40,000 for the amount of L.E. 48,000 bearing removal costs amounting to L.E.1,500 the profit for the year amounting to L.E. 57,000 exclusive of gains on the premises sales.

Required:

Determine the proper tax bracket noting that the firm holds regular accounts.

Solution:

Net profit	L.E. 57,000
Add: Net capital gains resulting from the sale of the premises. This is calculated as follows: ((sale price – (net book value + removal expenses)) ((48,000 – (40,000 + 1,500))	6,500
Taxable Net Profit	63,500

Example (2):

A single firm collected a compensation for the damage of one of its buildings in full in 2022. The value thereof amounted to L.E. 350,000 the net book value of this building was L.E. 280,000 with the firm calculating depreciation for this building at the same rate which is adopted and accepted by the tax administration. The firm carried forward the gains to a reserve account to use such amount in the future for new construction.

Required:

Determine the tax bracket if you learn that the net profit at the end of the year amounted L.E. 24,000.

Solution:

Net profit	L.E. 24,000
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- Building and Agriculture Land Revenues:

Revenues which the firm gets from buildings and agriculture lands owned and lease to others. Such revenues

are included in the taxable revenues of the firm as long as they are emanating from assets of the firm. Including such revenues amongst taxable revenue means double taxation because these revenues under other taxes' i.e.; building tax. In order to avoid this situation, the legislator considered these taxes among deductible expenses according to article (23) of the present law.

B- Compensations:

These items are amounts received from others for damages suffered by the firm resulting from un-implementation of contracts or delay in their implementation, or breach of contract. Such compensations are entered in the taxable revenues of the firm on cash basis.

If compensations received from insurance companies as a result of damage occurred to fixed assets of the firm, the excess over the book values of the assets is considered as capital gains and is entered in taxable revenues of the firm (refer back to the taxable capital gains in previous pages).

C- Subsidies:

Subsidies are amounts the firm use to receive from some other entities to achieve economic or social objectives, they include not only cash Amounts, but also other property or services received. Cash subsidies are taxable on a cash basis.

If subsidies are in a form of other than cash, the amount to be included in the taxable profits is the fair market value of the subsidy at the time it is received.

D- Foreign Currency Gains:

In case of transactions between business firms of different countries, the amounts receivable and payable are denominated in the local currency of the buying firm or the selling one. If there is a change in the exchange rate of currency, the excess amount is realized by the taxpayer, and this excess amount is treated as taxable profit. On the other hand, if the excess amount occurs as a result of translating the accounts into local currency as fictitious profit, therefore, will not be included in the taxable profit.

E- Revenues of Securities:

Revenues emanating from investment which the firm carry out of its choice. Examples of such revenues are returns earned from dividends received on investments in stocks of stock companies or returns earned from investments in bonds issued by other entities.

F- Returns of Deposits and Saving Accounts:

Such returns derived from deposits and saving accounts with registered banks and post-office saving fund. These

returns are exempted from tax according to the present law as cited in article No. (31).

Examples:

Net profit of sole proprietorship for the year 2021 was L.E. 35,000. The tax examination revealed the following:

A- Revenues of the firm include: (Amounts in L.E.) 4000 bad debts collected which an amount of 3500 was approved by tax authority- 2000 juridical compensation in favors of the firm for counterfeiting its trade name, noting that the amount collected was 1200 only- 5000 interest of installment sales- 3000 as a profit on sale of securities listed on the Egyptian stock exchange- 2500 profits of shares in private Egyptian shareholding company- 8000 interests of deposits with banks- 11000 revenue of realty (nothing that the monthly rent is 1000)- foreign currency variance of 8000 which include 1500 as a result of translating the foreign account into local currency.

B- Revenues of the firm not included: 7000 compensation received from an insurance company for goods which were damaged by fire, nothing that this amount was used to purchase other goods- 4000 subsidies received from the city council of which 1000 in cash and the rest is in the form of computer hardware, its market value is 5000.

Required:

Determine the taxable net profit for the year 2021

Solution:

	L.E.	L.E.
ANP		35000
Add:		
1- accrued revenue of realty according to the accrual basis	1000	
(1000× 12) – 11000 =		
2- the entire amount of compensation for damage goods, because it is taxable regardless the replacement	7000	
3- Subsidy received in cash, because it is taxable	1000	
4- the market value of subsidy received in kind, because it is taxable.	5000	
Total		<u>14000</u>
Deduct:		49000
1- bad debts collected, not taxable because it was not previously deductible 4000 – 3500	500	
2- juridical compensation not collected because it was taxable on cash basis 2000- 1200	800	
3- the currency gain of translation, not taxable because it is fictitious profit.	1500	
Adjusted net profit		<u>2800</u>
Exemptions:		46200
1- profits on sale of securities listed on the Egyptian Stock Exchange	3000	
2- interests of deposits with banks		<u>11000</u>
Taxable Net Profit	<u>8000</u>	35200

Allowable Deductions:

This section of chapter is devoted for the discussion of the rules governing the tax treatment of allowable deductions. It is divided into three sections. The first discusses the criteria for determining whether a deduction is allowable. Expenses specifically allowably by the law are examined in the second section. The last section presents the tax treatment of losses carry forward to subsequent years.

Allowable Deductions by Law:

The taxable net commercial and industrial profits shall be determined on basis of the total profit after deducting all costs and expenses necessary for realizing those profits. The deductible costs and expenses shall conditionally fulfill the following requirements:

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

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. The aim of this requirement is to deny deduction for expenses incurred in any activity which is primarily personal in nature. Personal expenses are those expenses that satisfying personal needs such as food, cloth, shelter, etc., which are not related to the trade or business.

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 taxpayer is involved. An expense is necessary if it is appropriate, helpful, or capable of making a contribution to the taxpayer profit seeking activities.

3- It has to be reasonable:

This term is implied in the ordinary and necessary requirement. In practice, the reasonableness standard is most often applied in situation involving compensation paid for services, such as salary payments made by the proprietor to his son who is an employee in the firm, if the salary payments exceed the ordinary payments for similar services provided by outsider employee, the excessive salary is not deductible.

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. (Electronic invoices or receipts as of July 2023 for electronic invoices and January 2025 for electronic receipts. The Minister

may extend the two deadlines for a period not exceeding one year in accordance with what is determined by the executive regulations of this law).

Deductible Expenses by Law:

Article No. (23) of the present law lists nine items as deductible expenses. These items in detail as follows:

1- Interests on loans:

Interests which are due on the firm because of its dealings and transactions with external parties, and whatever loans it may contract in relation to its own activity are considered as costs deductible when determining taxable income of the firm, as long as they supported by documents, examples of these interests are those due to banks, on loans or advances. The law sets some conditions for such expenses to be deductible; they are as follows:

a- the loans shall be paid to natural person who is subjected to tax. If this natural person is not subjected to tax or exempted from it, the interests on loan and debts are not considered as deductible costs, according to item (5) of article (24) of the law.

On the other hand, the interests on the bonds that one put to public subscription, are considered as deductible costs

even is paid to a natural person who is not subjected to tax or exempted taxpayer.

b- The interests paid shall not exceed twice the discount rate of interest declared by 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.

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:

The tax administration approves the method adopted by the firm as long as it has been ascertained and evidenced that it is the proper and suitable method for the nature of its assets and its operational conditions.

2- Depreciation rate in use:

The rates stipulated by the present law in article (25) are as follows:

- a- Five percent (5%) of the cost of purchase, establishment, development, renovation or reconstruction of any of the buildings, establishments, installations, ships and aircraft for each fiscal period;
- b-Ten percent (10%) of the cost of purchase, development, improvement or renovation of any of the intangible assets to be purchased including the goodwill of the activity, for each fiscal period;
- c- The two categories here below of the establishment assets shall be depreciated according to the depreciation basis method at the rates indicated next to each of them:
 - Computers, information systems, and data storage sets: 50% of the depreciation basis for each fiscal year;
 - All other assets of the activity: 25% of the depreciation basis for each fiscal year.

d- No depreciation shall be calculated for the land, artistic and antiquities works, jewelry and the other assets of the establishment that are non-depreciable by nature.

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.

Accelerated Depreciation:

Article 27 of Law 91 of 2005, as amended by Article 6 of Law 17 of 2015, stipulates that it is permissible, upon the request of the taxpayer, to deduct 30% of the cost of machinery and equipment used in investment in the field of production, whether new or used, in the first tax period through which these assets are used, and the basis of depreciation stipulated in Article (25) of this law is calculated for that period of time after deducting the aforementioned 30%. To apply the provisions of the previous two paragraphs, it is required that the taxpayer have regular books and accounts.

With this deduction, the tax legislator has aimed to encourage firms to constantly renew their machines and equipment in order to keep pace with technical and technological progress and so that they can introduce everything new and innovative first-hand, which gives a strong impetus to investment. Accelerating the depreciation of new or used machinery and equipment and recovering their value in a short period encourages firms to continue to replace its machinery and equipment in order not to give up on pursuing development in the production, and this is what calls us to call it (accelerated depreciation). Accelerated

depreciation reduces the tax burden on the firm in the year in which the machinery and equipment are acquired, taking into account the burdens it bears in exchange for the acquisition of these machines and equipment.

The conditions and rules for considering accelerated depreciation as deductible costs are as follows:

- 1- The machinery and equipment to which accelerated depreciation is applied are new or used.
- 2 - The firm must obtain machinery and equipment to which accelerated depreciation is applied by any means, whether through purchase from others or through manufacturing within the firm.
- 3- Accelerated depreciation is calculated based on the taxpayer's request and for one time, and in the year in which the machinery and equipment were used and not in the year in which they were purchased or manufactured.
- 4-Accelerated depreciation is calculated at 30% of the cost of new or used machinery and equipment, regardless of the period during which these machines and equipment were used in the year in which their use began. This means that accelerated depreciation is calculated at 30% whether the machinery and equipment were used in production in The beginning of the fiscal year or on the last day thereof.

5-The firm is allowed to calculate normal depreciation for the same year mentioned, at the tax-approved rates, and on the amount remaining from the cost of these machines and equipment after deducting accelerated depreciation. This means that the remaining value of the cost of these machines and equipment after deducting accelerated depreciation is included in the depreciation basis.

6-to benefit from the accelerated depreciation discount, the firm must maintain regular books and accounts.

7- If the request is not submitted, only normal depreciation rates will be deducted.

Example:

The capital cost of machine purchased new by the firm on January first of the year amounted to L.E. 500,000 noting that the firm had resolved to depreciate this machine at a rate of 25% annually.

Required: Indicate the accounting treatment and fiscal tackling of depreciation of this machine during its production life-span.(the taxpayer make a request for accelerated depreciation deduction)

Solution: From the point of view of accounting the company will calculate depreciation at the rate of 25% charging same

to its final accounts. Consequently, the accounting depreciation amount is:

$$= 500,000 \times 25\% = \text{L.E. } 125,000$$

With its income statement not being charged with the value of the accelerated depreciation at the rate of 30%. Whereas the depreciation from the tax standpoint will be as follows in the first year.

Accelerated depreciation:

$$= 500,000 \times 30\% = \text{L.E. } 150,000$$

Ordinary depreciation:

$$= (500,000 - 150,000) \times 25\% = \text{L.E. } 87,500$$

Consequently, it is a must, when preparing the tax bracket to deduct the value of accelerated depreciation from the accounting profit figure, and deduct the difference of depreciation between accounting depreciation and tax depreciation as follows:

Net Profit	xxx
Plus: difference in depreciation (125,000-87,500)	62,500
Less: accelerated depreciation	150,000
The tax bracket	xxx

In every one of the following years, we can observe that the accounting depreciation amounts to L.E. 125,000 whereas the fiscal depreciation amounts to L.E. 87,500 which

means that it is a must to add the difference between them both over the accounting forfeit figure when preparing the tax bracket. The following are examples to clarify the calculations of depreciation expense for assets as per law 91/2005.

Example (1) Depreciation of Buildings, Constructions, etc.:

ABC firm owned a factory which was built on January 1, 2013 at a cost of L.E. 200,000 on March 2024, 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, 2024 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, 2024.
- The book value of the old factory on January 1, 2024 was L.E. 100,000
- The accounting period ends on December each year.

Required: Compute the taxable depreciation expense for 2024.

Solution:

Amounts subjected to depreciation	L.E.
a- Original cost of old factory	200,000
b- Renewable cost as from 1/5/2024 70,000 – 10,000	60,000
c- Original cost of the new factory as from 1/3/2024: 400,000- 100,000	300,000
d- Cost of reception office as from 1/3/2024	60,000
Total	620,000
Taxable depreciation expense:	
200,000 × 5%	10,000
60,000 × 5% × 8/12	2,000
300,000 × 5% × 10/12	12,500
60,000 × 5% × 10/12	2,500
Total	27,000

Example (2) Intangible Assets:

An individual purchases a patents for some products as follows:

- a- L.E. 24,000 for the patent of product (x) on first March 2022.
- b- L.E. 30,000 for the patent product (y) on first July 2022.

If you learn that:

- (i) He sold the patent related to product (x) to another individual at the end of June 2023 at L.E. 25,000.
- (ii) He prepares his accounts on 31. Dec. of every year.

Required:

Compute the tax depreciation that must be considered as deductible costs for the year 2022& 2023.

Solution:

1- Year 2022:	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 2023:	
- Depreciation of cost patent for product (x) = $24,000 \times 10\% \times 6/12 =$	1200
- Depreciation of cost of patent for product (y) = $30,000 \times 10\% =$	3000
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 2023.

Example (3) Computer Hardware, Software:

ABC firm began its operations on January 1, 2021, and its accounting period ends on December. The firm purchased some computers for operations as follows (amount in L.E.):

- On Nov. 1, 2021 at a cost of 15,000.
- On April 1, 2022 at a cost of 5,000.
- On March 1, 2023 at a cost of 3,000.

Required: Compute the taxable depreciation expense deductible through 2021 till 2023.

Solution:

1- Year 2021:	L.E.
Addition of Nov. 1, 2021	15,000
Less: annual depreciation expense $15,000 \times 50\%$	(7,500)
Depreciable balance	7500
2- Year 2022:	5000
Addition April 1, 2022	12500
Depreciable balance	(6250)
Less: annual April 1, 2022 = $12500 \times 50\%$	
3- Year 2023:	6250
Additions March 1, 2023	3000
Less: annual depreciation expense	9250
	<u>(9250)</u>

Example (4)

A sole proprietorship prepares final accounts on December 31. The following transactions took place during 2022:

a- 15 June 2022, computer sold (originally purchased for 6000) for 6500.

b- 10 May 2022, computer purchased for L.E. 10000.

If you learn that the depreciable balance on 1 January 2022 was L.E. 12000.

Required: compute the taxable depreciation expense for 2022.

Solution:

Beginning balance	L.E. 12,000
Additions- 10 May, 2022	10,000
	22,000
Less: sale proceeds- 15 June 2022	(6,500)
	15500
Less: annual depreciation: $15500 \times 50\%$	(7750)
Ending Balance	7750

Example (5):

A sole proprietorship prepares final accounts for the nine-month period ended Dec. 31, 2022. At 1 April 2022 the balance brought forward on the pool of expenditure was L.E. 12400, on 13 May 2022 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, 2022.

Solution:

Beginning balance	L.E. 12,400
Additions- 31 May, 2022	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, 2022, 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. 2022 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, 2022.

Solution:

	L.E.
Additions- July 1, 2022	
- Furniture	20,000
- Car	35,000
	55,000
Less: sale proceeds for car	(28,000)
	27,000
Less: tax depreciation: $27000 \times 50\% \times 10/12$	(5625)
Ending Balance	21375

Example (7):

A sole proprietorship prepares final accounts on Dec. 31, 2022. The following transactions took place in 2022:

- a- On June 1, 2022 furniture sold for L.E. 6000.
- b- On May 1, 2022, furniture purchased for L.E. 2500.

If you learn that the beginning balance on January 1, 2022 was L.E. 3000.

Required:

Indicate the effect of these transactions on the taxable profit for the year 2022.

Solution:

	L.E.
Beginning Balance	3000
Additions- May 1, 2022	2500
	5,500
Less: sale proceeds – June 1 , 2022	(6,000)
	(500)

Since, the depreciation basis was negative by a value of L.E. 500, thus it shall be added to the taxable profit of the firm.

Example (8) Accelerated Depreciation:

An industrial sole proprietorship prepares its ending financial accounts at Dec. 31, the firm had the following transactions in 2022:

- 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 2022 was L.E 15050

If you learn that the firm has regular books, and the machines & equipment was used through the year 2022((the taxpayer make a request for accelerated depreciation deduction)

Required:

Compute the taxable depreciation expense for the year 2022.

Solution:

Beginning Balance	L.E. 15050
Additions: 15 June 2022= 6500	
31 Aug. 2022= <u>12000</u>	
18500	
Less: A, D. = $18500 \times 30\%$	<u>(5550)</u> 12950
	28,000
Less: sale proceeds 30 Nov. 2022	(2,800)
	25,200
Less: tax depreciation: $25200 \times 25\%$	(6300)
Ending Balance	18900

3- Taxes and Duties:

All taxes which are paid by the firm, a part from the tax on commercial and industrial activity profits, are amongst costs.

Taxes due on the firm:

Taxes which are considered a charge on the firm are all direct and indirect taxes, whether Egyptian or foreign, paid by the firm as a result of practicing its commercial or industrial activity, and imposed on the firm as an independent corporate entity. The following are some examples of these taxes:

- A- Taxes and custom duties on what is imported by the firm in items of commodities or assets for its own account taking into consideration that if taxes and custom duties are due on fixed assets, they are to be added to the cost of these assets.
- B- Real estate tax on real estate properties owned and occupied by the firm.
- C- Fiscal stamp duties and taxes.
- D- Any other duties due on the firm or any royalties such as the improvement royalties.

What is considered a tax is the original tax without any penalties for non-payment of tax or delay penalties.

activity which deducted by the firm from occasional

4- Donations and Subventions:

Article (23) stipulated that the following are considered as costs:

- a- Donations paid to the government, local administration units, and public authorities whatever may be their amounts.
- b- Donations and contributions paid to charitable institutions, and Egyptian social organizations notarized and publicized as per the provisions of their regulating laws, as well as to the scientific institutes and hospital under governmental supervision and control, not exceeding 10% of the net taxable annual profit of the firm. It is also impermissible to repeat the deduction of the same donations out of any other revenues amongst those stipulated upon in article (6) of this law.

The general rule here is that donations are considered a disposal of the income and are not considered as costs unless their aim is the achievement of some benefit for the firm or for advertising.

Prior to the law containing a context to the effect that donations are considered as deductible costs, some verdicts were passed in relation to disputes which arose between taxpayers and tax administration. It ensues from clause (7) of

article (23) of the law that the law considers as costs those donations paid to the government, local administration units, and to public authorities.

The tax administration approves of the charity and alms paid to the alms fund with the Nasser Social Bank as being deductible costs although they go beyond the donations concept.

The law also considered donations and contributions paid to charitable entities, social organizations, scientific institutes and hospitals as part of costs if the following terms and conditions are fulfilled:

- 1- Donations and contributions should be paid to Egyptian charitable entities and social organizations exclusive of the foreign ones. Those organizations should be registered. Donations and contributions may also be paid to scientific institutes and hospitals under governmental supervision and control.
- 2- Donations and contributions should be actually paid.
- 3- The value of these donation and contributions should not exceed 10% of the annual net profit of the firm.

What is meant here by the annual net profit is the taxable net profit and not the accounting net profit.’

So, donations must be temporary added to the accounting net profit, then deducted from the adjusted net profit given that these donations are not more than 10% of taxable net profit. If donations are more than 10% then only 10% of the taxable net profit must be deducted for donations.

5- Social Security Installment:

Item (4) of article (23) stipulated that amongst costs are “the social security installments imposed on the owner of the firm in favor of his employees and in his own favor and which are paid to the general social security authority or to insurance and pensions general authority”.

It is understood out of this context that the share of employees in terms of the social security installments is considered as part of costs deducted when determining the tax bracket.

6- Amount deducted for special funds accounts:

Items (5) stipulated that amongst costs are “those amounts which the firm deducts annually from its funds or profits for the account of special funds to provide for savings or pensions or others, whether they were set up according to the special funds law 54/1975 or law 64/1980 concerning alternative social security private systems or if set up according to a system which has its own statute or special

terms and conditions, not exceeding 20% of salaries and wages of the firm's employees. It is a precondition that what the firm pays as an end of service bonus or pension cover their obligation under the said system, and that the funds of this system are separate and independent from the funds of the firm, and invested for its own account”.

To consider these amounts as deducted costs when settling accounts tax-wise, it must fulfill the following terms and conditions:

- a- Deducted amounts should not exceed 20% of the salaries and wages of employees. Consequently, if the deducted amount exceeds the 20% in question, the excess should be added back to profits when settling accounts tax-wise, if the amount had been charged to the final accounts as cost. Only the equivalent of 20% salaries and wages is deducted from profits as cost.
- b- The system must have its own statute special terms, and conditions determining what is to be disbursed by the firm in respect of the end-of-service bonus or pension.
- c- Resources of the fund must be separate and independent from the funds of the firm and duly invested for funds' benefit in special and private investments independent from firm investments.

7- Insurance Premiums Related to Tax Payer:

Article (23) in its item (6) stipulated that insurance premiums concluded by taxpayer against his disability or decease, or for obtaining an amount or revenue providing the value of premiums shall not exceed L.E. 3000 a year.

8- Penalties and Indemnifications:

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

- The originate from professional work. As for legal expenses incurred such as law suits fees, lawyers' fees and others, which are connected with the taxpayer's personal expenses, they may not be considered as costs, because they are not considered related to practice of the profession, and have no relationship with profit realized or its upkeeps.
- They are not applied to criminal violation and the personal fines or contraventions sentenced on the taxpayer such as the contraventions or violation the provisions of tax law, mandatory pricing or fraud.

9- Bad Debts:

Bad debts are those debts which the firm ascertains the impossibility of collecting them. Amongst factors which

ascertain the impossibility of collection are the declaration of bankruptcy of the debtor and insufficiency of liquidation funds to repay his debts, death of debtor without having left a legacy sufficient to cover his debts, confiscation of his wealth, or his disappearance without leaving adequate funds repayment.

Actual bad debts differ from those debts for which a bad provision is formed in that bad debts in the latter cannot be definite determined.

Bad debts are considered as a loss for the firm. Accordingly, there must be no objection as to that, on part of the tax administration, as long as the evidence confirm the impossibility of collection of these debts, through a report from one of the accountants registered evidence satisfaction of the following conditions:

- The firm maintains regular book.
- The debt is related to the firm's activity.
- The debt has been recorded in the accounts of the firm.
- The firm took all serious procedures to recover such debt, but it has failed to collect it within 18 months after the due date.

Explanatory instructions of the tax administration No. (6) article (39) of law 14/1939 replaced by the new tax law

stipulated that bad debts are not approved as being amongst costs, unless they become an actually realized loss. They are not to be approved except after the firm undertakes legal claim procedures, and that upon implementing this, the collection impossibility is ascertain. Bad debts are to be approved as part of costs in the year, during which it is evidence and proof that it is impossible to collect.

However, some tax departments agree with the firm in writing-off small debts where legal claim expenses exceed their value on condition that they have been actually written off in books of the firm as a result of the debtor's bankruptcy, or due to his non-existence. Although this is permitted for convenience only, it would be preferable not to expand it.

Other Deductible Expenses:

Wages and Salaries:

Wages and salaries are amongst the cost elements which there are no disputes as in considering them as cost, and it is allowed to deduct all wages and salaries which are paid by the firm to its employees.

a) Salary of the firm's owner:

according to present law, it is not permitted to consider any salaries of the owner of an individual firm as part of

deductible charges when determining the commercial and industrial profits.

Example: The net profit of a company, have net profit amounted to L.E. 100,000. When examined, it is revealed that the owner had received salary of L.E. 26,000

Required: Prepare the tax bracket.

Solution:

First: the tax bracket:	L.E.
Net profit	100,000
Plus: owner's salary	<u>26,000</u>
The tax bracket	<u>126,000</u>

b) Salaries of relatives:

The firm's owner may employ his relatives to work for the firm, consequently considering their salaries as part of costs, all of which would be on condition that they perform actual work in the firm, and that their salaries would be within the reasonable limits compared with the salaries of equals.

Expenses are not Supported by Documents:

By the term above it is meant all amounts paid by the firm to facilitate performance of its operations, whether that has taken place through offering amounts of cash as a grant, or tip or in the form in-kind benefits, or free samples of their products for the same purpose. Such expenses rarely

supported by documents of external nature. That is why the verdict pronounced by the court of cessation sentenced that they should be approved without presentation of supporting documents. This verdict is in line with the instructions of the tax administration No. 14, replaced by article (24) of the new tax law, wherein it is stipulated that what is considered as “admissible” costs deductible from profits, what has been paid by custom and practice in terms of gratuities closely connected with the realization of profits, on condition that they have been actually paid, and do not exceed 7% of total general and administrative document expenses. Accordingly, as long as these gratuities are within this limit, they are authorized and approved.

However, if they exceed that much, only what within the limits of the role in question can be approved, with the rest being added back to profits.

We believe that these expenses should be characterized with the following features in order to allow their deduction:

- 1- Their amounts should be within the limits, with which gratuities are usually paid.
- 2- They have to be paid voluntarily or optionally.

Example of these expenses are:

- Internal travel

- Refreshment, (buffet expenses).
- Postage's.
- Pitty cash expenses.
- Cleaning expenses.

Rent Value of Building and Real Estates:

The value of rent of premises occupied by a firm is considered a part of its cost elements.

In the case of the premises or building rented from others, there is no problem, for the rent is an expense incurred in the process of generating of revenues and accordingly have to be charged to the result accounts, the rent contract should be in the name of the firm and not its owners. In other words, the firm must be the occupant of these buildings, not one of its owners. It must also be noted that rent charged to the result accounts have to be rent for the period according to the accrual basis.

Example (1):

A firm owns its buildings, occupies half of them and leased the other half. Examining the accounts of the firm revealed that the income summary account includes the following elements. (Amounts in L.E.)

3,000 rent revenue collected 270 depreciation expense of buildings, 600 maintenance expense for the building, 250 real estate tax (10%) on the building, 34,450 net profits.

Required: Prepare the tax bracket.

Solution:

Prior to preparing the tax bracket or the tax return, we must differentiate between buildings owned and occupied by the firm and buildings owned and rented to outsiders, whereas any expenses related to this part shall be added to the ANP as well as the total rent received according to the present law.

This appears in the tax bracket as follows:

Net profit	L.E. 34,450
Add: Expenses related to half of the real estate rented to others (270) depreciation+ 600 maintenance+ 250 taxes × 0.5	560
The total revenue of the real estate rented to others	2700
The Tax Bracket	37,710

Maintenance Expenses:

Maintenance, repair and renovation expenses include different kinds of expenses, whether due to their nature,

timing or the purpose of spending. These expenses consider deductible costs.

Publicity and Advertisement Expenses:

The firm incurs several expenses on publicity and advertisement, whose nature differs in quality, objectives, effective period, and the length of their expending periods.

These expenses can be classified into the following categories:

a- Periodical promotional publicity expenses, which represent the petty publicity expenses spent periodically and repeatedly, and which are characterized with their short time limited effect.

Consequently, they are considered as revenue expenditure to be fully charged to the year during which they become due.

b- Advertising campaigns (introductory and market penetration publicity). These expenses are spent with the aim of presenting a new product for the first time in the market or with the aim of giving a strong impetus for one of its products whose sales rate has slowed down, or to face competitive products. Expenses of advertising campaigns are deferred revenue expenditures which must

be distributed over the estimated benefit years related to this advertisement in an equitable manner.

Insurance Premiums:

Insurance premiums mean amounts paid by a firm as an expenditure to get insurance protection in its different forms such as insurance against theft, accidents, fire or otherwise. Accordingly, they do not include retrievable deposits water, electricity meters, or deposits for participation in tenders and adjudications as they are not considered as part of costs but as asset elements.

As for insurance premiums which the firm pays as an insurance covering probable risks such as risks of theft, or fire are considered as part of the costs of the firm as long as the insurance relates to properties owned by the firm and not the personal properties of its owners.

As for life insurance covering the individual firm owner. It is not be considered as an expense, but costs related to its owners and is considered as a tax-payers usage of his own personal income.

Commission Paid:

Commission paid by a firm to external parties for services obtained are considered one of the costs.

Reserves:

Article (24) the law stipulated that, the following shall not be among the deductible costs and expenses:

- 1- Reserves and appropriations of all different kinds.
- 2- Financial fines and penalties, as well as, indemnifications ruled against the tax payer because he or his sub-ordinates has committed a deliberate felony or misdemeanor.
- 3- Income tax payable according the present law.

As stated, before items 2 and 3 above have been discussed in great details in the previous pages, now is the turn of reserves and appropriations.

if a firm includes amongst the elements of profits and losses any reserves, they will not be approved as part of its costs and must be added back to profits when preparing the tax bracket, whether these reserves were a mere detainment of profits or to face a probable lose.

Losses:

The firm may suffer some losses as a result of practicing its activity such as the loss resulting from deterioration of goods, or the loss resulting from theft or robbery or embezzlement of some of its assets and properties without being in a position to retrieve the value of this loss either in full or in part.

losses resulting from what has been ascertained to have been on the firm in terms of robbery or embezzlement should be deducted from taxable profits as long as these were not actually refunded to the taxpayer regardless of the taxpayer having slackened or neglected implementing the verdict pronounced against the robber, thief or embezzler; for the taxpayer cannot be questioned as to what he neglected to collect in items in terms of profit or failed to prevent in terms of losses, but should be questioned about those profits or losses which were actually realized.

Joint Expenses:

The term joint expenses mean those expenses of which an element of a personal expenditure of the owners of the project, such as the expenses disbursed or incurred towards the tax-payer's living, or the living of his family or towards his house, or towards any other personal purpose.

If the taxpayer expends certain expenses towards his own personal affairs but also in which the business benefits, what is adopted in such a case is to divide these amounts according to the importance of each one of the two aspects for which those amounts were spent, and deducting from the

tax bracket, that part of the expenditure which related to the firm.

It has been the practice of the tax administration as regards these expenses to approve two-thirds of these costs as part of the firm's costs, without approving the remaining one-third considering it is personal expenses for the taxpayer.

Annuity of tax and carrying forward of losses

Annuity of Tax:

the tax legislator adopted the principle of the annuity for tax accountability. It is stipulated in the second paragraph of article (17) that “this tax is imposed on net profits realized during the year out of any commercial or industrial activity”.

It is stipulated in article (22) that tax bracket is determined on basis of the net profit during the previous years or during the period of the twelve months, whose result are taken as a basis for the preparation of the latest balance sheet, as the case may be.

Carrying Forward of Losses:

When the establishment suffers loss in a year, it results from this loss a decrease in its capital with the value of this loss. The application of the stability of capital principle requires that the firm preserves its capital fixed since it is a general guarantee for creditors. The preservation of capital is

to be through using the realized profits in the following years in writing off the balance of losses realized until they are fully covered, and until the capital is restored to its state and condition.

From the accounting point of view, the realized profits in a certain year, result from the increase of revenues over the expenditures during that year. Also, from the accounting standpoint, the profits realized in the current are used to cover losses of previous years. Any company is abstained from disbursing profits in general prior to covering losses of previous years, otherwise this distribution is to be considered a capital distribution.

From the viewpoint of taxes, subjecting the profits of the year to taxation in spite of the existence of losses carried forward from previous years means the imposition of the tax on part of the capital, which contravenes the settled rules of taxation. That is why the tax law permits the firm to carry forward losses of the year to several consecutive years to be absorbed by the profits of those years.

Article No. (29) stipulated that if the results of certain year is ended up with a loss, then loss would be deducted from the profits of the following year, if the profit are not sufficient to cover the loss in full, the rest is carried forward

to the following year. If after that there remains part of the loss, it would then be carried forward to the next year, and up to the fifth year. However, it is impermissible after that to carry forward any part of the loss to the account of any other years.

Section4: Tax exemptions:

Article (31) of the law 91/2005 stipulated several exemptions which are considered as a reflection of the legislator's use of tax exemptions as investment incentives.

These exemptions are confined to the following:

- 1- Profits of the land reclamation or cultivation establishments for a period of the years effective from the date of beginning the exercise of activity.
- 2- Profits of establishments of poultry production, bees breeding, cattle breeding and fattening, and fisheries projects, as well as profits of trawlers projects, for a period of ten years from the date of beginning the exercise of activity.
- 3- Yield of the natural person's dealing in their investments in securities listed in the Egyptian stock exchange alone with non-permitting the deduction of losses resulting from this dealing or carrying them forward to the following years.

This exemption was canceled under Article 4 of Law 53 of 2014, thereby making these revenues subject to tax according to special rules set by Articles 46 added under Law 53 of 2014. However, the tax legislator revoked the law 96 for the year 2015, and suspended the tax on the profits of dealing in securities listed on the Egyptian stock market for two years, thus reinstating the previous exemption of such profits in law 91 of 2005 when it was issued.

4- all that the natural persons obtain as represented in:

A- interest of all kind of debentures and finance bonds listed in the Egyptian stock exchange, which are issued by the government or corporations.

B- dividends of the shares of joint stock companies and partnership limited by shares.

C-dividends of the shares of the capital of limited liability companies, partnerships, and non-shareholders partners in limited by shares companies.

D- Dividends of the investment securities issued by the investment funds.

The exemptions mentioned in (b, c, and d) have been abolished and are subject to tax under special rules in accordance with Articles 46 bis, and bis (1) and bis (2), added by Law 53 of 2014 and amended by Law 96 of 2015.

Also, the exemption mentioned in (a) has been canceled and this income is taxable according to the general rules for taxation and is included in the revenues of the taxable activity.

5-returns obtained by the natural persons from deposits, saving accounts in the banks registered in the Arab Republic of Egypt, the investment, saving and deposits certificates issued by these banks, as well as the deposits and saving accounts in postal saving offices, and the securities and deposits certificates issued by the central banks.

6-profits realized from the new projects established by finance from the social fund for development within the limits of the ratio of this finance for a period of five years from the date of beginning the exercise of the activity or beginning the production,

However, because some investors abused the funds, they receive from the Social Fund so that this exemption does not achieve the desired social and economic objective, the exemption mentioned in item (6) has been amended by Law 11 of 2013 in such a way that it has been restricted and not benefited from, except under certain conditions, the text of item (6) which decides this exemption is amended as follows:

"Profits realized from new projects established with funding from the Social Fund for Development within the limits of the ratio of this financing to the invested capital, with a maximum of 50% of the annual profit, and not exceeding fifty thousand pounds, for a period of five years from the date of practicing the activity or starting Production as the case, provided that regular books and accounts are maintained."

It is clear from the text of item (6) that the profits of projects financed by the Social Fund are exempted from the tax within the limits and the following conditions:

A-The exemption shall be within the limits of the ratio of financing from the Social Fund to the capital invested in the project.

The capital invested means the total funds invested in the project from fixed capital (fixed assets) and working capital (current assets - current liabilities).

B- Exempted from annual profits within the limits of the funding from the Social Fund and with a maximum of 50% of the net annual profit, and not to exceed LE 50000 per year. As a result, the exemption shall be as follows:

The amount of profits within the ratio of financing from the Social Fund	Or 50% of net annual profit	Or LE50,000 of annual profits
Which is less		

For example, one of the taxpayers set up a factory to produce silk products with an invested capital of LE 200000, of which LE 150000 was financed by a loan obtained by the taxpayer from the Social Fund at an annual interest rate of 4%. The rest was funded by his own money. At the end of the first year of operation, the factory achieved a net profit of LE 60000.

Required: Specify the tax treatment of the profits of the taxpayer from this factory.

Solution

Since this factory is one of the projects established with funding from the Social Fund, its profits are exempted from the tax within the limits of this financing percentage:

Funding ratio = loan from the Social Fund / Total capital invested

$$\text{Funding ratio} = 150000 \div 200000 \times 100 = 75\%$$

The exemption is as follows:

The amount of profits within the ratio of financing from the Social Fund	Or 50% of net annual profit	Or LE50,000 of annual profits
$60000 \times 75\%$ =45000	$60000 \times 50\%$ =30000	50000
Which is less		

Based on the above it is exempted from the annual profit for the taxpayer LE 30000 and above that is subject to tax.

C-This exemption shall last for five years from the date of practicing the activity or commencing production as the case may be.

D- In order for the taxpayer to benefit from this exemption, it is necessary to practice his activity through an individual establishment, and keep books and regular accounts.

Example (1):

The following are the balances of a sole proprietorship as presented to the tax department enclosed to the tax bracket of the year ended Dec. 31, 2023.

Wages, salaries & Bonuses	30,000	Gross profits	140,000
Reserves	20,000	Discount earned	10,000
Insurance premiums & Deposits	10,000	Recovered bad debts	20,000
Advertisement expenses	15,000	Stock dividend	30,000
General expenses	7,000	revenue	
Net profit	105,000		
	200,000		200,000

Tax examination of the firm's books revealed the followings:

1- Wages and salaries included:

- L.E. 10,000 an annual salary for the son of the firm's owner. He actually manages the firm (Equivalent manager's salary is L.E. 8,000).
- L.E. 2,000 a bonus to the firm's owner.
- L.E. 6,000 a bonus to the firm's staff members as a distribution of the firm's profits, and the remaining is the staff members' salaries.

2- Reserves included:

- L.E. 5,000 a reserves for fixed assets depreciation.
- L.E. 6,000 a reserves for doubtful debts, and the remaining is an emergency reserves.

3- Insurance premiums and deposits included:

- L.E. 5,000 a deposit for a governmental bid, and the remaining amounts are fire and the insurance premiums on the firm's assets.

4- Advertising expenses included:

- L.E. 10,000 the cost of an advertising campaign of a new product, and the remaining amounts are periodical advertising costs.

- 5- From the recovered bad debts,** the tax department approved only L.E. 12,000 in 2022 when these debts were considered uncollectible.

6- Taxes included:

- L.E. 3,200 tax on stock dividend revenue.
- L.E. 5,800 tax on commercial and industrial activities, revenues deducted from the sales revenue that the firm earned from sales to a governmental entity, and the remaining are custom duties for imported goods.

- 7- **general expenses** include L.E. 500 not documented expenses.

Required:

Determine the taxable net profit for 2023 given that the firm's results for previous years were as follows:

2020	2021	2022
L.E. 50,000 profit	L.E.40,000 profit	L.E20.000 Loss

Solution: Determination of Taxable Net Profit:

Description	Additional to net profit	Deduction from net profit
Accounting net profit	105000	
1- Wages, salaries and Bonuses:		
- the excess in the salary of the firm owner's son over the salary of equivalent managers (L.E. 10000- 8000= 2000).	2000	
- Bonus of the firm's owner are not considered expenses. It must be taxed according to art. no.30 of the law	2000	
- Staff members bonuses are a distribution of the firm's profits are not approved as expenses.	6000	
2- Reserves:		
- Provision of fixed assets depreciation is approved because it is an actual expense.		
- Reserve for doubtful debts not approved.	6000	
- Emergency reserve is not approved because it is considered as a reserve.	9000	
3- Deposits and Insurance premiums:		
- Bid deposit is not approved as an expense because it will be retrieved, then it must be added to net profit.	5000	
- Fire and theft insurance premiums are approved as expenses in full.		
4- Advertising expenses:		
- The cost of the advertising campaign must be allocated over a period of 3 to 5 years.	2000	

<ul style="list-style-type: none"> - The annual approved part of this cost = $10,000 \div 5 = \text{L.E } 2000$ - The excess L.E. 8000 must be added to the net profit because they are deferred revenue expenses. - Periodical Advertising expenses are approved. <p>5- Recovered Bad Debts. Bad debts that were not approved by the tax department as uncollectible in 2022, are not to be taxed when recovered in 2023. They must be deducted from net profits. The unapproved amount: = $20000 - 12000 = 8000$</p> <p>6- Taxes:</p> <ul style="list-style-type: none"> - the tax on stock dividend revenue is not approved as an expense (art.no.29), it is added - The tax deducted from the sales revenues is not approved as an expense because it is a tax on commercial and industrial activity revenue (art.no.23), then it must be added. - Custom duties are approved <p>7- Expenses without Documented: Approved is an amount that does not exceed 7% of total general expenses.</p>	<p>8000</p> <p>----</p> <p>8000</p> <p>3200</p> <p>5800</p> <p>---</p> <p>45</p>	<p>8000</p>
Total profits after additions	152,045	
Total deductions	(8,000)	(8,000)
Net profit	144,045	
Less: losses forward from previous	(20,000)	

years		
Taxable Net Profit	124045	

Example (2):

The following is the income summary of ABC industrial firm presented to the tax department with their tax bracket for 2023 (amounts in L.E.):

Wages, salaries	5,800	Gross profits	13,650
Depreciation of fixed assets	300	Recovered bad debts	100
Advertisement expenses	1,600	Discount earned	4,450
Differences in taxation	200		
Donations	1,000		
Bad debts	300		
General expenses	4,000		
Revaluation losses	2,000		
Net profit	3,000		
	18,200		18,200

On tax examination, the following facts were revealed:

1- Salaries included the following:

- A monthly salary to the owner of L.E. 150.
- L.E.1,000 annual bonus to staff members equal to 3 months' salary, and the remaining is the total annual salaries of staff members.

2- A new machine was purchased and used in production starting from Jan. 1, 2023. Its cost was L.E. 4,000. The firm did not record any depreciation for that machine.
(submitted a request)

- 3- Advertising expenses include L.E. 1,500 the cost of a campaign that will last for 3 years starting from July 1st, 2023, the balance represented periodical publicity expense.
- 4- Donations consists of L.E. 500 to a poor family, and the balance to an Egyptian charity associating.
- 5- The firm did not take legal actions to collect the bad debts, and recovered bad debts were not approved by the tax department when they were written off.
- 6- General expenses included L.E. 1200 as the firm's car that was also used by the owner for his private affairs, and L.E. 400 the cost of a present for his daughter on her marriage.
- 7- The cost of ending inventory recorded was L.E. 4000 its actual cost was L.E. 9000 and its selling price was L.E. 13000 (the firm used to determine inventory value based on the cost or selling price whichever is lower).

Required:

Given the firm's books were approved by the tax department calculate the tax on the revenue of industrial activity for this firm.

Solution:

Determination of Taxable Net Profit:

Accounting Net Profit	3000
Add:	
- The annual salary of owner it is not an expense but a profit distribution (150× 12)	1800
- The staff members bonus is not expense	250
- The excess over the year's share of the advertising campaign's cost The year's share= $1500 \times \frac{1}{3} \times \frac{6}{12} = 250$ ∴ The excess = $1500 - 250 = \text{L.E. } 1250$	1250
The remaining advertising expenses are approved in full because they are periodical advertising expenses	---
- Donations to the poor family are not approved as expenses.	500
- Donations to the Egyptian charity association are to be added temporarily in order to determine the taxable net profit.	500
- Bad debts are not approved as expenses because the firm did not take legal actions to collect them.	300
- 1/3 of car expenses used by owner in his private affairs.	400
- The cost of the present to his daughter for her marriage is not an expense, it is a profit distribution.	400
- The difference in the value of ending inventory that had to be valued on cost or selling price which is lower. The difference = $9000 - 4000 = \text{L.E. } 5000$	5000
- Differences in taxation are not expenses.	200
- Revaluation losses are not approved as expenses because they are artificial losses	2000
Net Profit Adjusted by Additions	15600

Less:	
- Accelerated depreciation of the new machine (according to item 2 of art. No. 23) = $4000 \times 30\% = 1200$	(1200)
- Normal depreciation of the machine = $(4000 - 1200) \times 25\% = \text{L.E. } 700$	(700)
- Recovered bad debts that were not approved by the department when written off.	(100)
Net Profit before Deducting Donations	13600
Less:	
Donations to the Egyptian charity association which are approved is not more than 10% of the annual net profit. Paid donations = L.E. 500 10% of profit = $13600 \times 10\% = \text{L.E. } 1360$ \therefore The amount to be deducted is 500	(500)
Taxable Net Profit	13100

Questions:

(1) The accounting net profit before tax from the income statement of one of the individual commercial company amounted to 135,000 for the year ending on December 13, 2022: The company's revenues for this year included the following amounts: 4000 L.E bad debts, from which 3500 L.E were previously approved, by the tax authority - 2000 L.E the value of judicial compensation in favor of the company for imitating its trade name, knowing that it only got 1200 L.E from them - 2000 L.E discount - 3000 L.E Profits from selling securities listed in the Egyptian Stock Exchange - 2500 L.E dividends From a private sector joint-stock company - 8000 returns on deposits in Al-Ahly Bank - 11,000 rent revenue (monthly rent 1000) - 5000 interests from installment sale. If you know the following: - The company obtained a compensation of 7,000 L.E for the damage caused to its goods as a result of a fire in one of its warehouses. It

did not include it in its revenues because it used it completely to buy new goods instead of the damaged ones. - The company obtained a subsidy from third parties (not included in its revenues) which amounted to 1,000 L.E. It also obtained a computer that it listed in the books on the basis of an amount of 3,000 L.E, while its market value amounted to 5,000 L.E. Required: determine the due tax

(2) The accounting net profit before tax for one of the individual commercial establishments is 90,000 for the year ending 12/31/2022: If you know the following: Expenses include: 2500 donations (of which 500 L.E for the poor, 600 L.E paid to Nasser Social Bank, and the rest to the Egyptian Red Crescent Society), 3000 L.E losses on securities listed in the Egyptian stock market, 2,200 paid social insurance premiums, knowing that the company did not pay the December installment, 9000 depreciation of machinery and equipment (noting that it was purchased on January 1, 2020 at an amount of 90,000 L.E and is depreciated at a rate of 10%), 300 L.E as a building tax on the property owned by the business in which it operates, 6000 bad debts (12 months have passed since its due date), 1500 insurance premiums on the life of the owner. Revenues include: 2000 interest from installment sale, 3500 L.E as dividends from a joint stock company, 5000 L.E interest on deposits in Bank Misr. Required: determine the taxable bracket.

(3) The approved losses of one of the taxpayer on his commercial activity during 2022 amounted to 150000 L.E, so if the approved profits during the following five years: 25000 L.E, 30000 L.E, 55000 L.E, 40,000 L.E, 40,000 respectively. Required: Determine the taxable bracket for each year.

(4) The approved losses of one of the taxpayer on his commercial activity during 2020 amounted to: 200,000 L.E, so if the approved profits during the following five years amounted to: 30,000 L.E, 40,000 L.E, 28,000 L.E, 27,000

L.E, 20,000 L.E, respectively. Required: Determine the taxable bracket for each year

(5) The approved losses of one of the taxpayers on his commercial activity during 2020 amounted to: 130,000 L.E, so if the tax authority approved during the next five years the following results: 25,000 L.E, (16,000) L.E, 16500 L.E, 27000 L.E, 15,000 L.E, respectively. Required: Determine the taxable base for each year

(6) The accounting net profit of a commercial company for the year ended on 31/12/2022 amounted to 100,000 L.E. And the tax examination of the company's income statement showed that it included an amount of 23,000 L.E for general expenses, from which an amount of 3000 expenses that are not supported by documents represented as follows - 1300 gratuities - 800 expenses for internal transfers - 500 buffet expenses - 400 cleaning and maintenance expenses. Required: Determine the taxable bracket

(7) The accounting net profit of one of the industrial companies amounted to 500,000 L.E for the year ended 31/12/2022. Upon examination, it became clear that the income statement included the following: A-125,000 depreciation of machinery, noting that: -The book value of the machines on 1/1/2022 is 300,000 L.E - used machine was purchased during the fiscal year for the amount of 100,000, and it began to be used in production on 1/1/2022, and the installation expenses amounted to 5000 L.E. -The cost of overhauls on the machines during the year amounted to 60,000 . -One of the dilapidated machines was sold for 80,000 L.E, while its book value on the date of sale is 70,000 L.E. B- 12000 Building depreciation at a rate of 6% annually. C- 10,000 patents depreciation at a rate of 20% annually
Required: determine the taxable bracket

(8)The accounting net profit from the income statement of one of the individual industrial establishments amounted to

120,000 L.E for the year ending in 31/12/2020: If you know the following: company expenses include: 20,000 L.E remunerations to workers equivalent to four months - 11,000 L.E Depreciation of new purchased machines and equipment at a rate of 20% (noting that its cost is 132,000 L.E and the date of its purchase is 1/8/2020, and it was installed on 1/10/2020 And the book value of the machines and equipment on is 90000, and the company sold machines and equipment by 18000 on 1/9/2020) - 3,000 advertising expenses, of which 1,800 an advertising campaign paid on July 1, 2020 for three years -6,000 donations of which 4000 are for charitable association and the rest are for the heirs of former employees of the company- 15000 for the end of the service reward, knowing that this amount was deposited in a special fund that has an independent financial accounts - 4000 premiums for the life insurance of the taxpayer. Company's revenues include: 1500 delays interest, from some suppliers - 16000 bad debts collected, half of which was previously approved by the tax authority - 20000 rent for a warehouse owned by the company and leased to others at an amount of 2000 per month. Required: determine the taxable bracket.

(9) An individual has established on the first January of 2005 a factory costing L.E. 900,000 (out of which L.E. 300,000 for the land), and on the first April 2018 he renewed it costing him L.E. 50,000 (out of which L.E. 8,000 for maintenance expenses). If you learn that the taxpayer prepares his final accounts on Dec. 31, each year. Required: Calculate the taxable depreciation expenses for the year 2018. (10) On the first march of 2020, an individual sole proprietorship purchased machines and equipment for L.E. 13,000, on the first October 2018 purchased used machines and equipment for L.E. 9,000 and at the end of year it sold machines and equipment for L.E. 4,000. If you learn that: a- The

accumulated depreciation of the machinery machines and equipment on the first January of 2020 amounts L.E. 40,000. B- The machinery and equipment purchased were used during the year of 2020. Required: Calculate the tax depreciation.

(11) The net profit of an industrial sole-proprietorship amounted to L.E. 90,000 for the year ended on Dec. 31, 2022. You learn the following: A- The expenses of the firm includes: (amounts in L.E.) 2200 social premiums paid during the year (noting that the firm did not pay the premium of December)- 17000 salaries and wages (out of which 12000 as basic salaries and the rest is rewards)- 400 buildings tax for the building owned by the firm, half of which it occupied by it, and the other half is rented for 300 per month- 900 contributions for a private school under to the governmental supervision- 800 cost of goods withdrawn by the employer for his private use- 10000 a depreciation with a rate of 10% of the machine cost on first Jan 2017 (noting that depreciable balance of machines and equipment on such date was 40000 and the firm sold the machine for 15000 on the first December of the same year)- 30000 interests for loans used in the business with a rate of 10% of their value (noting that credit and discount rate declared by the Central Bank on the first Jan 2022 was 12%. B- The revenues of the firms include: 3900 return of a building- 3000 profits realized from selling securities in the Egyptian Stock Exchange- 3000 returns of bonds from a limited company by shares- 1500 dividends from a joint stock company. Required: Prepare the taxable net profit of 2022.

(12) Losses approved for a sole proprietorship for its commercial business for the year of 2018 amounted L.E. 13,000. If you know that the results approved for the following years were as follows:

Year	2019	2020	2021	2022	2023
Net profit (loss) L.E.	25000	(16000)	16500	30000	2500

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