

PRESENTED BY/ Noha Hamed

Tax Accounting

Chapter 4

Tax on commercial and industrial activity

كلية التجارة

جامعة مدينة السادات



Example 6

❖ The net accounting profit of one of the commercial proprietorships for the fiscal year ending 31/12/2023 amounted to 22,000 pounds, and the following was discovered when the tax examiner reviewed the establishment's books and records:

1. The establishment received a compensation in an amount of 7,000 pounds for goods damaged due to a fire in the facility's warehouses, but the statements didn't include anything about these goods,



Example 6

as the amount of compensation was used to purchase replacement goods for the burned goods, and it was found that the cost of these goods was 5,000 pounds, and its market value was 8,000 pounds

2. The revenues did not include a cash benefit to the enterprise in an amount of 2,000 pounds, while the value of a computer received by the enterprise as an in-kind benefit was included as revenue in an amount of 2,000 pounds, even though its market value is 5,000 pounds.

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3. The revenues included an amount of 15,000 pounds as a compensation collected for the acquisition of a building owned by the firm on 30/6/2023 for public benefit. The establishment had previously purchased it several years ago for an amount of 390,000 pounds, and the contract and registration expenses were 10,000 pounds. The accumulated depreciation of the building at the beginning of 2023 amounted to 350,000 pounds in accounting, and 385,000 pounds for tax purpose, noting that the accounting and tax depreciation rate is 5% annually.

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4. The revenues included the following amounts:
9,000, revenue of a built property (its monthly rent is 1000), 6,000, interest of installments sales, 2,000, judicial compensation in favor of the firm for imitating its trade name, of which only 1,200 collected, 5,000, collected bad debts (only 1,000 of which were previously recognized as expenses), 1,500, earned discount, and 8,000 deposit returns in the National Bank of Egypt.



Example 6

5. The expenses included a capital loss resulting from the collapse of a building during the year amounting to 8,000 pounds. The net book value of the building when it collapsed according to the establishment's books was 19,000 pounds, and from a tax perspective, it was 38,000 pounds, noting that the rubble was sold in an amount of 11,000 pounds.

Instructions: Calculate the tax due for the year ended 31/12/2023

Solution

Calculation of net taxable profit (tax base):

Net accounting profit	22,000
In addition:	
1- The amount of compensation for the burned goods: as revenue regardless of its use in purchasing goods	7,000

Solution

2- The value of the cash benefit: as taxable revenue is not included	2,000
3- The difference of the in-kind benefit (PC): it must be included as taxable revenue according to its market value (5,000 – 2,000)..	3,000

Solution

4- The difference between the annual property revenue and the collected revenue according to accrual basis:

$$(12,000 - 9,000) = 3,000$$

3,000

5- The interests of installment sales: are considered revenue directly related to the activity and are subject to tax, and therefore, the treatment is tax-sound

Solution

6- Judicial compensation: is considered a taxable revenue as it is related to the entire activity according to the accrual basis, regardless of the collection

7- Earned discount: is considered revenue directly related to the activity and are subject to tax

Solution

Total additions	15,000
Total	37,000
Deducted from:	
<p>The cost of the burned goods: is considered a deductible cost as a loss.</p> <p>There is another solution, which is:</p> <p>Adding the difference in compensation for the book value of the goods (2,000 pounds).</p>	(5000)

Solution

The difference in compensation for the capital gain of the building that was seized for public benefit is determined as follows:

Depreciation for a year 2023=

$$(390,000 + 10,000) * 5\% * (6/12) = 10,000$$

$$\text{Accumulated tax depreciation} = 385,000 + 10,000 = 395,000.$$

$$\text{Net book value} = 400,000 - 395,000 = 5,000.$$

$$\text{Capital gain} = 15,000 - 5,000 = 10,000.$$

This is what must be included in the revenues according to Article (17) of the law, and therefore, the excess compensation included must be deducted from the capital gain.

$$(15,000 - 10,000) = 5,000$$

(5,000)

Solution

collected bad debts that have not been previously recognized as an expense, and therefore are not recognized as revenue when collected (5,000 - 1,000)

(4,000)

The difference in capital loss from the building's collapse after adding the sale price of the debris from a tax perspective is calculated as follows:

Accounting capital loss = $(19,000 - 11,000) = 8,000$.

And from a tax perspective = $(38,000 - 11,000) = 27,000$

The tax loss must be taken into account (27,000), and the difference from the carried capital loss must be deducted.

$(27,000 - 8,000$

(19,000)

Solution

Returns on deposits in the National Bank of Egypt	(8,000)
Total deductions	(41,000)
Tax base for 2023.	(4,000)

Solution

Accordingly, there is no tax base despite the existence of a tax profit (as previously mentioned), and therefore, the establishment is not entitled to tax on natural persons for the year 2023. Then the tax loss is carried forward to 2023 to be deducted from the profits of 2024 if the establishment achieves tax profits.

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THANK YOU!



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