



Chapter four

Tax on commercial and industrial activity

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Chapter topics:

This chapter will address the tax treatment of the profits of these activities through the following:

First: Conditions for applying the tax.

Second: Determining the profits of commercial and industrial activity.

Third: Taxable Commercial and Industrial Activities

Fourth: Taxable revenues

Fifth: Profits from long-term contracts.

Sixth: Deductible costs.

Seventh: Losses carried forward.

Eighth: Tax Exemptions

First: Conditions for applying the tax:

❑ The following are the general prerequisites of the law governing the taxation of revenues derived from commercial and industrial activity:

1- Professionalism of the activity:

- It means practicing the activity **habitually** and **repeatedly**, and it is not required that this **repetition** occurs during the same tax period, as it depends on the nature of the activity, such as in construction contracts, the execution of a contract may continue more than one tax period.

First: Conditions for applying the tax:

2- Independence:

- To be subject to tax, a taxpayer must practice a commercial or industrial activity **independently, for his account and under his responsibility, without the cooperation of others, and to earn a profit for himself.**
- The taxpayer **must not have any dependency**, otherwise, the resulting revenue is considered a salary or a wage subject to tax on salaries and the like.

First: Conditions for applying the tax:

- For example, if a person is hired to manage a business in exchange **for a share of the profits**, their income is deemed a **salary**; thus, it is not subject to taxes on commercial and industrial activities.
- In contrast, if it is agreed to carry out management duties in exchange **for a share in the capital**, what this person receives is considered a **distribution of profits** because of practicing the commercial activity independently. Therefore, it is subject to tax on legal persons' commercial and industrial activity.

First: Conditions for applying the tax:

3- Intent of making a profit:

- The intention to achieve profits is a prerequisite for the tax to apply to the revenues of commercial and industrial activity, as imposing the tax requires the **availability of the intention to earn by the taxpayer when practicing the activity.**
- The legislator does not consider the nature and legitimacy of the taxpayer's activity but investigates the availability of **the intention to sell when buying to make a profit.**

First: Conditions for applying the tax:

4- Practicing the activity through a sole proprietorship:

- Revenues derived from commercial and industrial activities are included in taxable income if realized by a sole trader.
- In contrast, in the case of practicing these activities through one of the companies (corporations or partnerships), the profits of that company are subject to tax on the profits of legal persons, the provisions of which are stipulated in Book Three of Law 91 of 2005.

First: Conditions for applying the tax:

5- Making a profit in Egypt or abroad:

- The tax applies to the profits of a sole proprietorship operating in Egypt that carries out a commercial or industrial activity, whether **it is Egyptian**, and its income is realized from **operations inside or outside Egypt**, if Egypt represents the center of its activity, or a foreigner sole proprietorship who **carries out business in Egypt**.

Second: Determining the profits of commercial and industrial activity:

Article (17) stipulates that the profits of commercial and industrial activity shall be determined based on the revenue resulting from all commercial and industrial operations realized in Egypt, as well as the revenues realized from abroad if Egypt is a center of commercial and industrial activity of the taxpayer, including the **profits** resulting from **the sale of the assets** of the establishment stipulated in paragraphs (1), (2) and (4) of Article (25) of this law, the **profits** realized from **compensation** received by a taxpayer because of depreciation or acquisition of any of such assets, as well as the **liquidation proceeds** realized during the tax period after allowing all deductible costs.

Second: Determining the profits of commercial and industrial activity:

- **Net profit** is determined based on the income statement developed according to the Egyptian **Accounting Standards**. The **tax base** is determined by applying the **provisions of this law** to the net profit.
- It should be stated here to clarify the **distinction** between **accounting profit** and **tax profit** as follows:

Second: Determining the profits of commercial and industrial activity:

A- Net Accounting Profit:

- To determine the net profits or losses for a certain period, the income statement is prepared under Egyptian accounting standards.
- The accounting profit or loss of the establishment is defined through two theories (**exploitation – balance sheet**) versus the **source** theory and the **return theory** in taxation.

Second: Determining the profits of commercial and industrial activity:

The concepts underlying each of these theories will be summarized as follows

- **Exploitation theory (Source):** Profit is perceived as the difference between the revenues of the primary activity and the costs of acquiring those revenues, Which means that profit is the consequence of only main exploitation.
- **Balance Sheet Theory (Return):** The profit is the excess of assets over liabilities at the end of the year. Consequently, the net profit comprises the profits that arise from main exploitation as well as the profits or losses that occur as a result of re-evaluating the assets and liabilities of the establishment at the end of the year compared to their actual value at the beginning of the year.

Second: Determining the profits of commercial and industrial activity:

B- Net tax Profit:

- The tax legislator adopted a moderate situation and did not restrict the determination of taxable profit to normal exploitation only.
- The legislator indicated in Article 17 that profits are to be determined based on all commercial and industrial operations conducted by the firm. In addition to **incidental profits** and **capital earnings** resulting from the establishment selling one of its assets or receiving compensation for the depreciation or acquisition of any of such assets, as well as the liquidation proceeds realized during the tax period after allowing all deductible costs.

Second: Determining the profits of commercial and industrial activity:

- ❑ The law specifies two exceptions to the principle of imposing tax based on net profit, which are as follows:**
- ✓ The amounts which individual firms and legal persons pay to any natural person as commission or brokerage, if it is not related to the carrying on of her/his profession are subject to tax at a rate of 20% without deducting any costs.**
- ✓ Revenues on bonds issued by the Ministry of Finance in the favor of the Central Bank or other banks are subject to tax at the rate of 32%, without deducting any costs.**



Thank you

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