Chapter four

Tax on commercial and industrial activity

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

Seventh: Losses carried forward:

- **Article (29) of the Law stipulates that If the final account of a year is closed in a loss, the loss shall be deducted from the succeeding year's profits. If, however, part of the loss remains, it shall be carried forward to the succeeding years up to the fifth, after which no loss can be carried forward.**

- **The following must be considered to benefit from carrying forward losses:**

1. **The losses should pertain to the entire year, not a particular sort or portion of the loss.**
2. **The loss carried forward is the tax loss, not the accounting loss.**
3. **If a company incurs losses for more than one year, the oldest loss is carried forward first.**

Seventh: Losses carried forward:

4. **The benefit of carrying forward losses is related to the taxpayer himself, meaning that:**

- **The only beneficiary of the deduction is the taxpayer.**
- **If the taxpayer discontinues the activity in which he incurred the loss, carrying forward the losses will cease until the taxpayer resumes practicing the same or a similar activity within the specified term for carrying forward losses.**
- **The establishment's new owner does not benefit from the right to carry over the loss related to the prior owner.**
- **A taxpayer's heirs do not inherit the privilege to carry forward losses**

Eighth: Tax Exemptions:

- **Articles (20) and (31) of the Law addressed revenues exempt from taxation despite the availability of criteria to be taxed, to achieve economic or social objectives. Such exemptions will be outlined as follows:**

8/1- The exemption stipulated in Article (20)

- **Article (20) stipulates that the Tax shall not apply to profits from the revaluation of the assets of a sole proprietorship when providing this as an in-kind share to the capital of a joint stock company, providing that the shares corresponding to the in-kind share are nominal, and shall not be disposed of within five years.**

Eighth: Tax Exemptions:

8/2- Exemptions stipulated in Article (31):

According to this article, tax exemptions for revenues from commercial and industrial activity can be divided into two categories:

1- Specific exemptions: It is a set of exemptions related to the profits of certain enterprises, and the law defined these exemptions as follows:

- **Land reclamation or cultivation enterprises:**

- **The legislator exempted the profits of these establishments from tax for ten years from the date of activity inception, according to the first clause of Article (31) of the law. As one of the state's economic objectives, this exemption aims to expand the agricultural area by reclaiming unproductive lands or cultivating them to boost the agricultural sector's contribution to the gross domestic product.**

Eighth: Tax Exemptions:

- **Poultry farming enterprises:**

❑ **The profits of these enterprises have been exempted from taxation for ten years from the date of activity inception under the provisions of the second clause of Article (31) of the Law. Due to the significance of ensuring food security through poultry production, the legislator seeks to encourage investment in these projects.**

- **apiculture enterprises:**

❑ **The legislator exempted the profits of such enterprises from being taxed for ten years from the date of activity inception in accordance with the second clause of Article (31) of the Law. This may be due to the demand for these businesses stemming from the significance of bee honey as a food product.**

Eighth: Tax Exemptions:

- **Livestock husbandry and fattening enterprises:**

❑ **Under the provision of the second clause of Article (31) of the law, the legislators exempted these projects' profits from taxation for ten years from the date of activity inception. This is intended to stimulate investment in such businesses to cut meat imports and conserve foreign currency.**

- **Fisheries, fish farming enterprises, and fishing boats enterprises:**

❑ **Following the first paragraph of Article (31) of the law, the legislator exempted these enterprises' profits from taxation for ten years from the date of activity inception in recognition of the significance of fish as a food product.**

Eighth: Tax Exemptions:

- **New projects funded by the Social Fund for Development (SFD):**

- ❑ **The final clause of Article (31) of the law provides for the exemption of 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 and with a maximum equivalent to (50%) of the annual profit, and not exceeding fifty thousand pounds for five years from the date of activity inception or commencing production, as the case may be. This is provided that proper accounting records be maintained.**

Eighth: Tax Exemptions:

The conditions for this exemption can be summarized as follows:

- **It shall be within the limits of the ratio of this financing to the invested capital up to a maximum equivalent to (50%) of the annual profit and not exceeding fifty thousand pounds.**
- **This exemption is granted for five years from the activity or production commencement, as the case may be.**
- **Maintaining proper accounting records**

Eighth: Tax Exemptions:

In this context, Article (42) of the Executive Regulation adds the following conditions to benefit from the exemption provided for in item [6] of Article (31) of the Law for the profits of new projects founded with funding from the Social Fund for Development:

1. **The date of practicing the activity be after the date of obtaining funding from the Social Fund for Development.**
2. **The project's profits shall only result from commercial and industrial activity.**
3. **The establishment must be a sole proprietorship**

Eighth: Tax Exemptions:

2- Special exemptions: They are related to certain revenues, and the law defines these exemptions as follows:

- **Deposit and savings accounts**

Under Clause (5) of Article (31) of the Law, the tax legislator provided for exempting the interest which physical persons receive from:

- **Deposits and saving accounts in banks registered in the Arab Republic of Egypt.**
- **Investment, saving, and deposit certificates issued by said banks.**
- **Deposits and saving accounts in post office funds**
- **Securities and deposit certificates issued by the Central Bank**

Exercise

- The net accounting profit of a sole proprietorship for the fiscal year ending 31/12/2023 amounted to 2,400,000 pounds, and the following was discovered when the tax examiner reviewed the establishment's books and records:

1- The salaries include 135,000 pounds of wages and annual salaries for the establishment's employees, including 15,000 pounds annual salary for the establishment's owner.

Exercise

2- **The depreciation of fixed assets is 46,000, and its statement is as follows:**

Statement	Balance 1/1/2023	Additions during the year		rate	Depreciation	Balance 31/12/2023
		Value	Date			
Machinery	300,000	45,000	1/5	10%	33,000	312,000
furniture	70,000			10%	7,000	63,000
Cars	60,000			10%	6,000	54,000
Total	**430,000**	**45,000**			**46,000**	**429,000**

Exercise

3- The allowances item includes the following:

- 4,000 EGP provision for doubtful debts.
- 30,000 EGP end-of-service reward allowances.

4- Insurance premiums held by the taxpayer against his disability or death are 3500 pounds per year.

Exercise

5- Bad debts charged to the profit and loss account consist of the following:

- 3,000, a judgment was issued during the year, obliging the debtor to pay the debt, but the establishment failed to collect it after 17 months of its due date.
- 4,500 debts on a customer that the establishment has taken serious actions to recover the debt but failed to collect after 19 months of its due date.

Exercise

6- Donations paid to a government unit amounted to EGP 5,000, while donations paid to a legally registered Egyptian association amounted to EGP 7,000.

Required: Determine the income tax base and the tax due for 2023.

Solution

1- Accelerated depreciation = 45,000 ×30% = 13,500 EGP of deductible costs.

2- Depreciation basis of fixed assets:

Book value at the beginning of the period	430,000
+ Additions:	
Purchased Machine (45,000-13,500)	31,500
Depreciation basis	461,500

Solution

3- Depreciation = EGP 461,500 × 25% = EGP 115,375 of deductible costs

4- Calculation of net taxable profit (tax base):

Net accounting profit	2,400,000
In addition:	
1- Annual salary of the owner of the establishment: is not considered deductible costs and therefore are fully added to the net profit.	15,000

Solution

2- **Depreciation of fixed assets:** because they are calculated under accounting rules and standards, which violates tax laws, they are added in full until the depreciation is calculated under Articles 25, 26, and 27.	46,000
3- **Provision for doubtful debts:** It is fully added to the net profit because it is not considered a tax-deductible cost because it is a potential loss, not an actual one.	4000

Solution

4- Provision for Separation of Service Bonus: • Maximum allowed = (135,000 - 15,000)× 20 % = 24,000 • An actual provision included in the income statement = 30,000 EGP. • If there is an increase in the maximum limit = 6,000 EGP • Added to the net profit because the excess of the maximum is not considered a cost)	6000

Solution

5- **Insurance premiums held by the taxpayer:** against his disability or death or to obtain an amount or income so that the value of the premiums does not exceed 3000 pounds per year (increase in costs = 3500 - 3000 maximum = 500 added to the net profit	500
6- **Bad debts 3,000 months have passed since the maturity date:** It is not considered a deductible cost according to Article 28 since 18 months or more have not passed since the maturity date, with all legal procedures taken to pay the debt.	3000

Solution

7- Bad debts of 4,500 EGP 19 months from maturity: (It is considered one of the costs deductible under Article 28, as the company has taken all necessary legal procedures to meet and collect the debt and has not been able to collect it despite the passage of 18 months or more from the due date).	--------
8- Donations paid to the government are 5,000: costs that must be deducted in full.	-------
9- Donations paid to one of the legally registered NGOs: The costs must be deducted within 10% of the net tax profit and added temporarily until the net tax profit is reached	7,000

Solution

Total additions	81,500
Total:	2,481,500
Deducted from:	
• Accelerated depreciation of the purchased industrial machine by 30% Article 27.	(13,500)
• Tax depreciation of fixed assets at 25% of the depreciation basis Article 25, 26, and 27.	(115,375)

Solution

Net tax profit before deduction of donations	2,352,625
Deducts donations to publicized associations: Max = 2,352,625 × (10/110) = 213,875 EGP. Donations paid = 7,000 EGP. (Actual donations are deducted in full as they are within the tax limit of 10% of net tax profit)	(7,000)
The tax base	2,345,625

Solution

2- Calculation of tax due:

- First bracket = 1,200,000 × 25% = 300,000 L.E
- second bracket = 1,145,625 * 27.5% = 315,047 L.E

❑ Tax due = 615,047 L.E.

Thank you