

3TH year



Tax Accounting

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— جامعة مدينة السادات —



Chapter 4

Tax on commercial and industrial activity



كلية التجارة
جامعة مدينة السادات

Example 3

- ❖ The net accounting profit of one of the sole proprietorships for the fiscal year ending 31/12/2023 amounted to 350,000 pounds, and the following was discovered when the tax examiner reviewed the establishment's books and records:
 - 1- The salaries include 90,000 pounds of wages and annual salaries for the establishment's employees, including 10,000 pounds annual salary for the establishment's owner.

Example 3

2- The depreciation of fixed assets is 48,000, 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	40,000	1/7	10%	32,000	308,000
furniture	70,000			10%	7,000	63,000
Cars	80,000	20,000	1/7	10%	9,000	91,000
Total	450,000	60,000			48,000	462,000

Example 3

- 3- 3,000 provision for doubtful debts.**
- 4- 18,000 amounts deducted annually for Severance allowances.**
- 5- Donations paid to one of the registered associations amounted to 15,000 pounds**

Required: Determine the net tax profit with a statement of the reasons for adjusting the net accounting profit, and calculate the tax due.

Solution

1- Accelerated depreciation = 40,000 × 30% = 12,000 EGP of deductible costs.

2- Depreciation basis of fixed assets:

Book value at the beginning of the period	450,000
+ Additions:	
1- Purchased Machine (40,000-12,000)	28,000
2- Purchased car	20,000
Depreciation basis	498,000

Solution

3- Depreciation = EGP 498,000 × 25% = EGP 124,500 of deductible costs

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

Net accounting profit	350,000
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.	10,000

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.

48,000

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.

3,000

Solution

4- Amounts deducted annually for Severance allowances:

- Maximum allowed = $(90,000 - 10,000) \times 20 \% = 16,000$
- An actual provision included in the income statement = 18,000
- If there is an increase in the maximum limit = 2,000 EGP
- Added to the net profit because the excess of the maximum is not considered a cost)

2000

Solution

5- Donations paid to publicized NGOs:

(Donations paid to registered Egyptian NGOs, science houses, a government-supervised hospital, and Egyptian scientific research institutions are deductible costs up to 10% of net tax profit)

(Therefore, it is temporarily added to the net accounting profit until the net tax profit is reached)

15,000

Total additions

78,000

Total:

428,000

Solution

Deducted from:	
• Accelerated depreciation of the purchased industrial machine by 30% Article 27.	(12,000)
• Tax depreciation of fixed assets at 25% of the depreciation basis Article 25, 26, and 27.	(124,500)
Net tax profit before deduction of donations	291,500

Solution

Deducts donations to publicized associations:

Max = $291,500 \times (10/110) = 26,500$ EGP.

Donations paid = 15,000 EGP.

(15,000)

(Actual donations are deducted in full as they are within the tax limit of 10% of net tax profit)

The tax base

276,500

Solution

2- Calculation of tax due:

First Bracket	30,000 L.E	Zero L.E
Second bracket	15,000 * 10 %	1,500 L.E
Third bracket	15,000 * 15 %	2250 L.E
Fourth bracket	140,000 * 20 %	28,000 L.E
Fifth bracket	76,500 * 22.5 %	17,212.5
The annual tax due = EGP 48,962.5		

Example 4

- The net accounting profit of one of the sole proprietorships 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.

Example 4

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

Example 4

3- 4,000 EGP provision for doubtful debts.

4- 30,000 EGP amounts deducted annually for Severance allowances.

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

Example 4

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.

Example 4

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

<p>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.</p>	<p>46,000</p>
<p>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.</p>	<p>4,000</p>

Solution

4- Amounts deducted annually for Severance allowances:

- Maximum allowed = $(135,000 - 15,000) \times 20\% = 24,000$
- 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

<p>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</p>	<p>500</p>
<p>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.</p>	<p>3000</p>

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 = $2,352,625 \times (10/110) = 213,875$ EGP.	
Donations paid = 7,000 EGP.	(7,000)
(Actual donations are deducted in full as they are within the tax limit of 10% of net tax profit)	
The tax base	2,345,625

Solution

2- Calculation of tax due:

First Bracket	$1,200,000 \times 25\%$	300,000 L.E
Second bracket	$1,145,625 * 27.5\%$	315,047 L.E
The annual tax due = EGP 615,047		

