

Chapter 4

Tax on commercial and industrial activity

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— جامعة مدينة السادات —



Example 1

□ Al-Amal Shops for Trading is a sole proprietorship with a net profit of 1,000,000 pounds extracted from the income statement prepared on 31/12/2023, and the tax auditing of the elements of income and expenses showed the following:

- 1- There are sales of 80,000 pounds that took place before the end of the year but were not included in the income statement.
- 2- An amount of EGP 200,000 provision for doubtful debts is included in the expenses in the income statement.



Example 1

3- General and administrative expenses are included in the income statement at EGP 40,000, and expenses not supported by documents are EGP 10,000.

Required: Determine the net taxable profit (tax base), and calculate the tax due.

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Solution

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

Net accounting profit (from the income statement)	1,000,000
ADD:	
- Sales not recorded in the books	80,000
- Provision for doubtful debts	200,000
- Excess of the permissible limit in general and administrative expenses not supported by documents.	7,200
Net Tax Profit	1,287,200



Solution

2- Calculation of tax due:

First Bracket	$1,200,000 * 25\%$	300,000 L.E
Second bracket	$87,200 * 27.5 \%$	23,980 L.E
The annual tax due = EGP 323,980		



Example 2

- ❑ The net profit of one of the sole proprietorships amounted to 240,000 EGP submitted to the Tax Authority for the year 2023. The following was discovered by the tax examiner when reviewing the establishment books and records.
- ❑ The depreciation of fixed assets includes 46,000 EGP, 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 2

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 = $45,000 \times 30\% = 13,500$ EGP of deductible costs.

2- Depreciation basis of fixed assets:

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



Solution

3- **Depreciation** = EGP 461,500 \times 25% = EGP 115,375 of deductible costs

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

Net accounting profit (from the income statement)	1,400,000
In addition:	
Depreciation of fixed assets: It is added in full because it is calculated under accounting standards and must be calculated under the Tax Law, Articles 25, 26, 27, and Article 30 of the executive regulation and deducted from the net profit	46,000



Solution

Total additions	46,000
Total:	286,000
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)
Total Discounts	(128,875)
The tax base for 2023	157,125

The background features a collage of business-related terms in various orientations and opacities, including 'INTEREST', 'CAPITAL', 'EXPENSE', 'RETURNS', 'INTEGRATE', 'INVESTMENT', 'BENEFIT', 'PROFIT/LOSS', 'FISCAL POLICY', 'REFORM', 'SALES', and 'LUXURY'. A large, semi-transparent logo of the University of South Carolina (USC) is centered in the background. The logo consists of a shield with a book and a torch, surrounded by a laurel wreath, with the letters 'USC' prominently displayed in the center.

Multiple choice questions

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Solution

1- The value of the accelerated depreciation of the industrial machines added during the year (from deductible costs) is.....

- A. 11,000 pounds.
- B. 13,000 pounds.
- C. 12,500 pounds.
- D. 13,500 pounds.



Solution

2- The value of the depreciation base amounts

A. 451,500 pounds.

B. 461,500 pounds.

C. 471,500 pounds.

D. None of the above.



Solution

3- The depreciation value is calculated according to the depreciation base at a rate of.....

- A. 25% of the depreciation base
- B. 30% of the depreciation base.
- C. 35% of the depreciation base.
- D. 35% of the depreciation base.



Solution

4- The depreciation value according to the depreciation base (from deductible cost) amounts.....

A.110,375 pounds.

B.112.000 pounds.

C.115,375 pounds.

D.None of the above.

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Solution

5- The total value of accounting depreciation that is added to the net profit because it calculated according to the accounting standards.....

A. 45,000 pounds.

B. 46,000 pounds.

C. 50,000 pounds.

D. 43,000 pounds.

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Solution

6- The net taxable profit or the tax base for the year 2023 after its amendments equals.....

A.126,875 pounds.

B.127,000 pounds.

C.157,125 pounds.

D.43,000 pounds.

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Solution

7- Un documented general expenses are deductible cost in limit of.....

- A. 7% of legal expenses.
- B. 20% of general expenses.
- C. 7% of total general and administrative expenses.
- D. None of the above.



Solution

8- If the general and administrative expenses of a proprietorship amounted to L.E 100,000, while the undocumented expenses amounted to L.E 15,200, therefore the deductible amount of the undocumented expenses equals.....

A. 15,200 Pounds.

B. 7000 pounds.

C. 8200 pounds.

D. 1064 pounds.

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Solution

9- If the general and administrative expenses of a proprietorship amounted to L.E 100,000, while the undocumented expenses amounted to L.E 15,200, therefore the not deductible amount of the undocumented expenses equals.....

A. 15,200 Pounds.

B. 7000 pounds.

C. 8200 pounds.

D. 1064 pounds.

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Solution

10- The administrative expenses of a proprietorship amounted to 4000 EGP, and include 400 EGP as a commission to a person for a deal but the company didn't disclose his name or address to the tax authority, then the maximum taxable limit for commission deduction equals.....

A.4000 pounds.

B.280 pounds.

C.400 pounds.

D.None of the above



Solution

11- If the general and administrative expenses in the income statement of a proprietorship amounted to 8000 L.E, and include 500 L.E as a commission to a person for a deal but the company didn't disclose his name of address to the tax authority, we must:

- A. Add 60 L.E to the net profit.
- B. Deduct 650 L.E from the net profit.
- C. Add 500 L.E to the net profit.
- D. No adjustments should be made.



Solution

12- Provision for doubtful debts is not considered a deductible cost, as.....

A. Not supported by documents.

B. Actual loss.

C. Predicted loss.

D. None of the above.



Solution

13- According to article (25) of the law, the depreciation of building, establishment, ships, and aircrafts is calculated for each tax period at a rate of

A. 15% of the cost of those assets.

B. 5% of the cost of those assets.

C. 10% of the cost of those assets.

D. 20% of the cost of those assets



Solution

14- According to article (25) of the law, any intangible assets purchased, including goodwill, are depreciated at a rate of.....of the cost of procuring, developing, improving, or renewing for each tax period

A. 15%.

B. 5%.

C. 10%.

D. 20%.

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Solution

15- Computers, information systems, software, and data storage equipment are depreciated for tax purposes at a rate of..... for each tax year.

- A. 50% of the depreciable base.
- B. 10% of the depreciable base.
- C. 15% of the cost of those assets.
- D. None of the above



Solution

16- Bad debts expense that is charged to the profit and loss account of an industrial company include L.E 10,000 with a judgment by court through the year obligating the debtor to pay the amount, but the company couldn't collect them although it has been accrued 16 months ago, 3000 debt on a costumer accrued 20 months, but couldn't be collected although the company has taken serious procedures to collect them, the un-deductible bad debts equal.....

A. 3000 Pounds.

B. 10,000 pounds.

C. 13,000 pounds.

D. None of the above.



Solution

17- Bad debts expense includes 2200 L.E with a judgment by court binding the debtor to pay the amount but the company couldn't collect them although it has been accrued 9 months ago. To adjust the net profit for calculating the tax base, we must.....

- A. Add 2200 pounds to the net profit.
- B. Deduct 2200 pounds from the net profit.
- C. Add 1100 pounds to the net profit.
- D. None of the above.

Thank
you

