

Chapter 5

FACULTY OF COMMERCE

Tax on revenues of professional or non- commercial activity

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Chapter topics:

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

First: Requirements for tax application.

Second: Application scope of the tax

Third: Revenues included in the tax base

Fourth: Deductible costs

Fifth: Tax Exemptions.

First: Requirements for tax application:

❑ A set of requirements must be met for tax on professional or non-commercial activity revenues. Such requirements are as follows:

1. Independent practice of the profession or activity.
2. The profession or activity's primary dependence on the labor element.
3. The actual practice of the profession for financial benefit (frequent and habitual activity).
4. Practicing the profession or activity in Egypt or abroad (Egypt is the main center for engaging in the activity).

Second: Application scope of the tax:

- Article (33) stipulates that revenues included in the taxable base shall be determined annually on the basis of net revenues during the preceding year. The revenue of non-commercial professions includes proceeds from the disposal of any professional assets and those resulting from the transfer of expertise or from the waiver of full or in part of the office of the profession's practice or any proceeds from the closure of the office.

Second: Application scope of the tax:

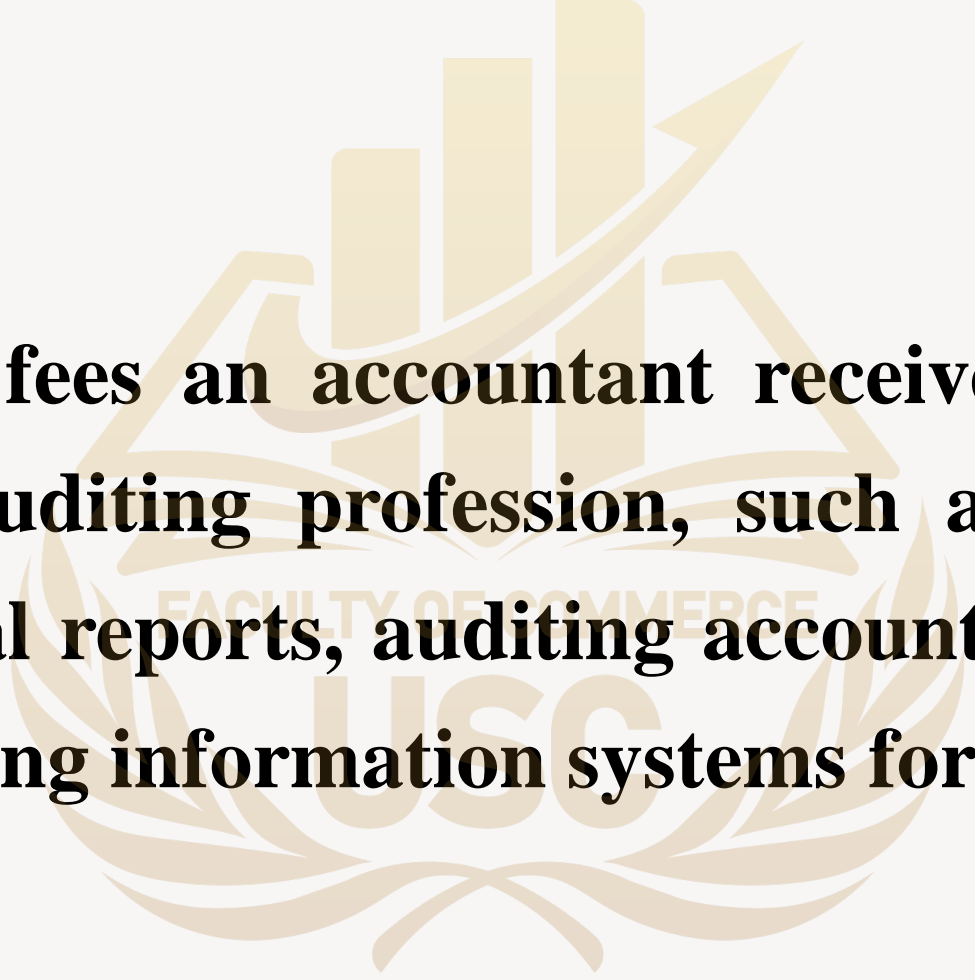
- ❑ In this regard, **all revenues** of non-commercial professions included in the tax base are determined using the **cash basis** because it is more appropriate for measuring net taxable revenue.
- ❑ Thus, the net taxable revenues are determined based on the revenues collected, whether they relate to the current tax year or the prior or subsequent year(s).

Third: Revenues included in the tax base:

❑ The legislator determined the taxable revenues for professional or non-commercial activity under Article (32) of Law No. 91 of 2005, amended by Law No. 53 of 2014, which are as follows:

1. Net revenues on self-employed professions and other non-commercial professions which the taxpayer practiced independently and of which the basic element is work if they have resulted from the practice of the profession or activity in Egypt:

❑ These revenues are represented by the cash or in-kind fees, bonuses, or commissions earned by the taxpayer as a result of engaging in the activity.



❑ For instance, the fees an accountant receives for practicing the accounting and auditing profession, such as filing tax returns, preparing financial reports, auditing accounts, and analyzing and designing accounting information systems for companies

Third: Revenues included in the tax base:

2. Revenue received by intellectual property rights' holders from selling or using their rights:

- ❑ This item refers to the revenues earned by intellectual property rights owners, such as **authors, inventors, artists**, and others, from selling their innovations or intellectual, literary, or artistic work.
- ❑ For instance, the amounts paid for the rights to publish literary or artistic works, such as **authoring, painting, sculpture, photography, composing**, and cinematic or theatrical **directing**.

Third: Revenues included in the tax base:

3. Any other revenues from any occupation or activity not stipulated in article 6 of this law:

- ☐ The tax legislator recognized the difficulty of defining non-commercial professions and therefore did not outline them exclusively.
- ☐ This clause stipulated that any profession or activity not stipulated in Article (6) of the law is subject to tax.

❑ In this context, Article (33) of the law added the following additional taxable revenues:

1. Proceeds from the disposal of any professional assets:

❑ It refers to the capital gains generated by the sale of assets utilized in the practice of the profession or activity. On the contrary, realizing capital losses due to disposing of a professional asset is considered one of the costs that must be deducted.

2. Proceeds resulting from the transfer of expertise:

❑ It means the revenues generated from training to transfer expertise to the trainees or consulting, etc., to some practitioners of the profession or any other party.

3. Proceeds from the assignment in full or in part of the office of the profession's practice:

- ❑ It refers to the sums collected as a consequence of the full assignment of the office to others or the partial assignment as the participation of others in the office in exchange for any form of revenue, as well as the use of the office façade to make advertisements in exchange for rent.

4. Any receipts from the closure of the office:

- ❑ It means the sums obtained when ceasing to practice the profession or activity in the office. In another sense, this item refers to the liquidation process of the office.

Fourth: Deductible costs:

- ❑ Article 35 of the law states that from the taxpayer's total revenue, **all costs and expenses necessary to earn the revenue may be deducted based on the proper accounts supported with related documents, including costs and expenses which customarily have no supporting documents according to the Executive Regulation of this law; however, in case no proper accounts are maintained, the deduction will be limited to 10%.**

Fourth: Deductible costs:

❑ Consequently, it is apparent that the legislator distinguished between two cases concerning costs and expenses that must be deducted from the total revenues, as follows:

(1) Maintaining proper accounts:

✓ If the taxpayer maintains accounting records, there are two sorts of deductible costs and expenses:

A. Costs and expenses stipulated by law:

❑ Article (33) of the Law and Article (44) of the Executive Regulation provide the following instances of costs that are deductible:

1. Professional assets depreciation (following the simplified accounting principles issued by a decree from the Minister):

❑ Since this expense is implicit and not paid, it is deducted using the **accrual basis** and considering **the period of use** of the professional assets during the period with the application of the depreciation rates specified in Article (25) of the Law.

2. Registration fees, annual subscriptions, and profession's practice fees:

❑ Legislator permits deduction of the fees and subscriptions required for **registration in the syndicate** and obtaining a **license** to practice the profession, or **those paid annually to the syndicate** to continue practicing the profession, as well as any other fees, such as **subscriptions to scientific and professional journals**, that are associated with the practice of the profession.

3. Taxes paid by the taxpayer for the practice of the profession, other than the tax paid under this Law:

☐ For example, the **real estate taxes** levied on the premises owned by the taxpayer and in which the profession is practiced.

4. Amounts paid by the taxpayer to his syndicate under its pension system.

5. Life and health insurance premiums paid by the taxpayer in his favor or favor of his wife and minor children:

☐ In applying the provisions of items 4 and 5, the total amount exempted from the taxable revenue cannot exceed **3000** LE per annum. The same deductions cannot be applied to other income stipulated in article 6 of this law.

□ Article (45) of the executive regulation defines the conditions for considering costs and expenses to be deductible as follows:

- 1. The taxpayer must maintain proper books and records.**
- 2. The costs and expenses must be essential to practice the profession or carry out the activity.**
- 3. The costs must be real and supported by documents, except for costs and expenses that customarily have no supporting documents**

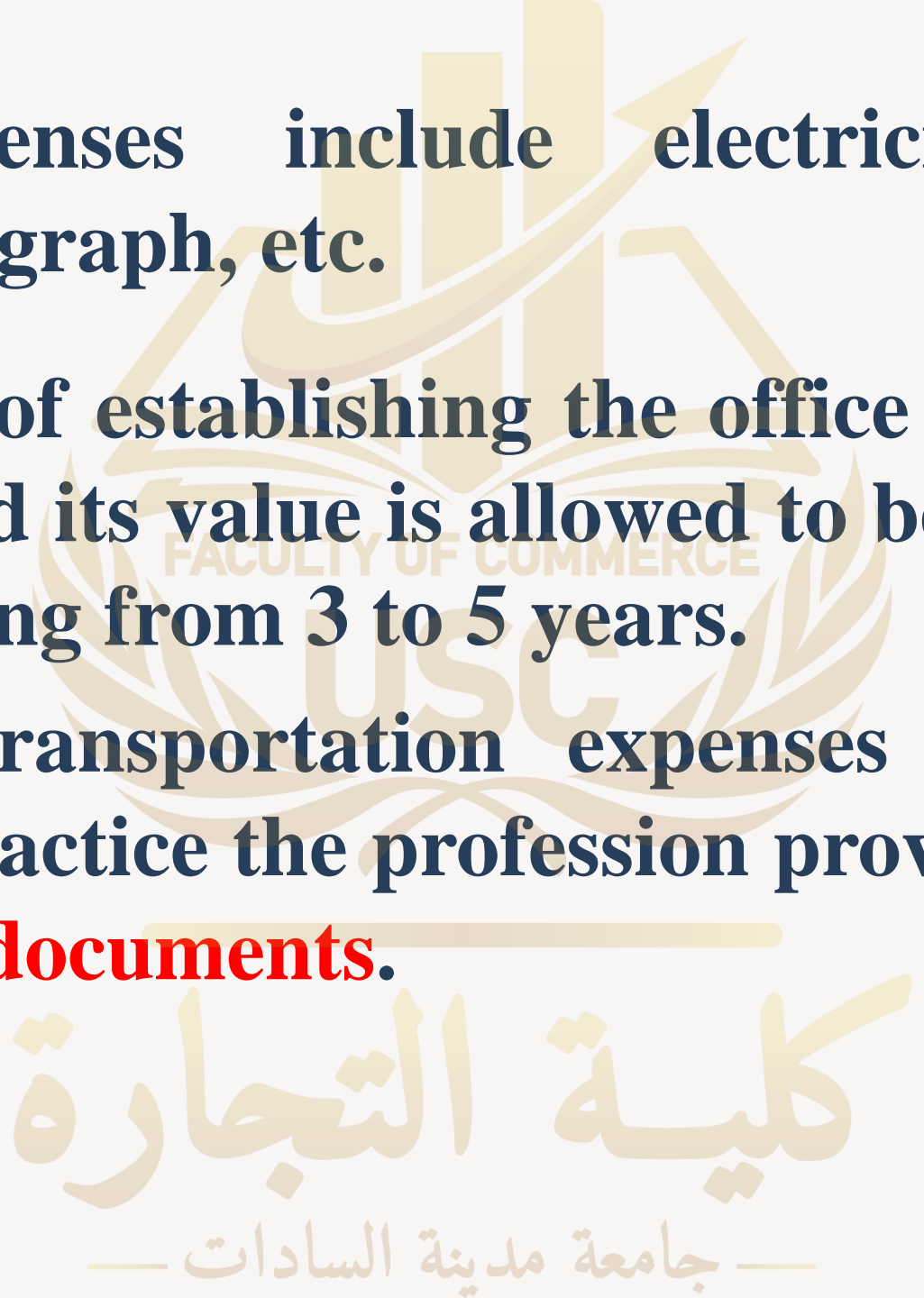
□ As for non-documented expenses, they are deducted up to 7% of the total general and administrative expenses supported by documentation, under Article (46) of the executive regulations.

B. Other costs and expenses not stipulated by law:

❑ They are costs not stipulated in Law 91 but meet the conditions for deductible costs and expenses specified in Article (45) of the executive regulations. Examples of such costs are:

1. The office rent

2. Salaries, wages, and rewards of assistants and employees paid by the taxpayer in cash or in-kind. It is also permitted to deduct wages and salaries paid to relatives and family members as long as they are in exchange **for actual work and within the limits of a **similar wage** range.**

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3. General expenses include electricity, water, gas, telephone, telegraph, etc.
 4. The expenses of establishing the office for practicing the profession, and its value is allowed to be depreciated over a period ranging from 3 to 5 years.
 5. Travel and transportation expenses incurred by the taxpayer to practice the profession provided that they are **supported by documents.**

6. Costs associated with the automobile, excluding those associated with the taxpayer's personal use, if the car is utilized to practice the profession and the personal purposes of the taxpayer. The opinion settled on dividing such expenses by one-third as personal expenses and adopting **two-thirds as deductible expenses**.
7. The price of academic books and references borne by the taxpayer as long as they are **related to the profession** being practiced and **supported by documents**.
8. Expenses of scientific conferences (internal and external) borne by the taxpayer as they enhance the experience of practicing the profession.

(2) Not maintaining proper accounts:

- ❑ In this case, it is difficult to determine the actual costs necessary to practice the profession; thus, the legislator permitted an estimate of the costs and expenses that must be subtracted in the absence of proper books on a judgmental basis.**
- ❑ Article (35) of the law, which states that from the taxpayer's total revenue, all costs and expenses necessary to earn the revenue may be deducted based on the proper accounts supported with related documents, including costs and expenses which customarily have no supporting documents according to the Executive Regulation of this law; however, in case no proper accounts are maintained, the deduction will be limited to 10%.**

(3) Other deductible costs and expenses:

A. Deductions from net revenue:

- ☐ These sums are deducted from the net revenue after subtracting the deductible costs and expenses, whether they are actual costs based on the establishment's proper books or projected costs in the absence of such books.
- ☐ In this regard, Article (34) of the Law defines that the following shall be deducted from the net revenues as stipulated in Article (32) of this Law:

1. Donations to the Government, local Administrative Units, and Public Legal Persons provided that the amount deducted **does not exceed the net annual revenue.**
2. Donations and assistance granted to recognized Egyptian NGOs according to the provisions of their respective regulatory laws and to educational institutions and hospitals that are subject to the supervision of the government as well as Egyptian scientific research institutions, but not more than **10%** of the **annual net revenue.**

(3) Other deductible costs and expenses:

B. Deduction for carrying forward losses

- ☐ According to the second paragraph of Article (35) of the Law, the provision of Article (29) of the Law applies **if the taxpayer was maintaining proper books.**
- ☐ Article (29) 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.

(3) Other deductible costs and expenses:

B. Deduction for carrying forward losses

- ❑ Therefore, the taxpayer who does not maintain proper books and accounts may not benefit from the provision of the previous article by carrying forward losses. This is an incentive for professional or non-commercial activities to maintain such books. This contrasts commercial and industrial activity, where the principle of carrying forward losses applies whether or not the taxpayer maintains proper books.**

Fifth: Tax Exemptions:

□ According to Article (36) of the law, the exemptions from being subject to tax on the revenues of professional or non-commercial activity are as follows:

1. Revenues of **editing and translating** books and religious, scientific, cultural, and literary articles, except for proceeds from the sale of printed work or translation with a view to producing it in an **audio or visual format**.
2. Revenues received by teaching staff at universities and institutes for their books and teaching notes authored for distribution among students according to the regulations and prices set by the universities and institutes.

3. Revenues of members of the Formative Artists Syndicate pursuing the production of photography, sculpture, and engraving artworks.
4. Revenues of self-employed professionals registered as members of their professional syndicates in their fields of specialization for **three years** from the date of practice, with a maximum of 50,000 thousand pounds annually.

The period of exemption will be limited to **one year** for whoever practices the profession for the first time if **fifteen years** have elapsed since graduation.

Exercise

❑ The following data have been provided for a law firm for the year 2023 (figures in Egyptian Pound):

88,000 cases fees - **30,000** fees for providing consultations in Kuwait - **4,000** rewards for articles published in a scientific journal - **1,600** profits from selling part of furniture - **400** advertising revenue installed on the façade of the office - **1,400** salaries and wages - **2,400** car expenses used in private and professional affairs - **1,920** registration fees in lawyers syndicate - **960** depreciation of furniture and machinery - **440** Legal books and periodicals.

Exercise

6,800 Travel expenses to Kuwait to provide consultations – **800** for purchasing stationery – **180** buffet expenses – **160** Tips – **880** water and electricity – **7,000** donations to a local administrative unit – **120** monthly premium of life insurance for the benefit of his wife and minor children.

Note that:

- ❑ The balance of stationery on 1/1/2023 is 240, and the remaining on 31/12/2023 is 340.

Exercise

Instructions:

- Determining the tax base and tax due, if the taxpayer maintains regular accounts and books, with the explanation.

Solution

- Depreciation of stationery =
Beginning Bal. + Cost of purchases during the year – Ending Bal.
 $= 240 + 800 - 340 = 700$.

Solution

First : Determine the tax base:

Taxable Revenues:

1- Cases Fees: it is revenue that occurs because of the practice of the profession in Egypt (Article 33).

88,000

2- Fees for providing consultations in Kuwait: Article (32) of Law 91 of 2005, as amended by Law 53 of 2014, is subject to tax.

30,000

Solution

<p>3- Rewards for publishing articles: Revenues from the editing and translation of religious, scientific, cultural, and literary books and articles are exempt from taxation(article: 36)</p>	<p>.....</p>
<p>4- Profits from the sale of part of the office furniture: Capital gains resulting from the disposal of any professional assets are subject to tax (33).</p>	<p>1600</p>



Solution



5- Advertising revenues installed on the facade of the office: Any income resulting from the practice of the profession is subject to tax (Article 33).	400
Total Revenues:	120,000
Deducted from it (total expenses)	
Administrative and general expenses supported by documents:	
- Salaries and wages	1,400
- Car expenses used in professional affairs ($2400 \times (2 \div 3)$)	1,600

Solution

- Registration fees in the syndicate	1,920
- Depreciation of furniture and equipment: calculated according to accounting standards or rules determined by the competent minister according to the nature of each profession	960
- Legal books and periodicals: related to the activity.	440
- Travel expenses to Kuwait to provide consultations: It is considered one of the costs necessary to practice the profession in Egypt and outside it	6,800

Solution

- Depreciation of stationery	700
- Water & Electricity Expenses	880
Total expenses supported by documents	14,700
2- Costs and expenses not supported by documents.	
Buffet expenses	180
Tips	160
Total	340

Solution

<p>Max = 14,700 × 7% = 1,029 EGP. (costs that are not supported by documents are fully deducted as they are within a maximum limit of 7% of expenses supported)</p>	340
Total expenses	(15,040)
Net annual income before deduction of donations	104,960

Solution

Deduction:

- Donation to a local administrative unit (deductible costs within the limits of the annual net revenue, and it was fully deducted as the net revenue is 104,960 and the donation is 7,000).

(7000)

Solution

Deduction:

Life insurance premiums for the benefit of the wife and minor children:

Insurance paid = $120 \times 12 = 1,440$ L.E.

Maximum allowed = 3,000 EGP per year.

(The insurance paid in full has been deducted because it is within the maximum allowable limit)).

(1440)

Tax base

96,520

Solution

2- Calculation of tax due:

First Bracket:	30,000	Exempted
Second Bracket:	$15,000 * 10 \% =$	1500 EGP
Third Bracket:	$15,000 * 15 \% =$	2250 EGP
Fourth Bracket	$36,520 \times 20\% =$	7,304 EGP
Total Tax Due		11,054 EGP

Exercise 2

Instructions:

- Determining the tax base and tax due if the taxpayer doesn't maintain regular accounts and books, with explanation (the same previous example).

Solution

First : Determine the tax base:

<p><u>Taxable Revenues:</u></p> <p>1- Cases Fees: because it is revenue that occurs because of the practice of the profession in Egypt (Article 33).</p>	<p>88,000</p>
<p>2- Fees for providing consultations in Kuwait: Article (32) of Law 91 of 2005, as amended by Law 53 of 2014, is subject to tax.</p>	<p>30,000</p>

Solution

<p>3- Rewards for publishing articles: Revenues from the creation and translation of religious, scientific, cultural, and literary books and articles are exempt from taxation, except for those resulting from the author's output in visual or audio form (article: 36)</p>	<p>.....</p>
<p>4- Profits from the sale of part of the office furniture: Capital gains resulting from the disposal of any professional assets are subject to tax (33).</p>	<p>1600</p>

Solution

5- Advertising revenues installed on the front of his office: Any income resulting from the practice of the profession is subject to tax (Article 33).	400
Total Revenues:	120,000
Deducted from it (total expenses)	
10% of the total revenue against all costs because the taxpayer does not keep regular books and accounts. $120,000 \times 10\% = 12,000$ L.E.	12,000
Net annual income before deduction of donations	108,000

Solution

<p>Deduction:</p> <p>Donation to a local administrative unit (deductible costs within the limits of the annual net revenue, and it was fully deducted as the net revenue is 108,000 and the donation is 7,000).</p>	<p>(7000)</p>
<p>Tax base</p>	<p>101,000</p>

Solution

Important Note:

- Donations are not considered deductible costs but considered disposed of in the annual net revenue.
- Life insurance and pensions of the syndicate are deductible costs as stipulated in the tax law; therefore, they are part of 10%.

Solution

2- Calculation of tax due:

First Bracket:	30,000	Exempted
Second Bracket:	$15,000 * 10 \% =$	1500 EGP
Third Bracket:	$15,000 * 15 \% =$	2250 EGP
Fourth Bracket	$41,000 \times 20\% =$	8,200 EGP
Total Tax Due		11,950 EGP

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Thank you

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