Tax Accounting

Dr. Elsayed Shabana

Syllabus	
Section One: Introduction to Tax Accounting and the Egyptian tax system	
Chapter 1 :	The Conceptual Framework for Tax Accounting.
Chapter 2 :	The Nature of the Egyptian Tax System.
Section two: Income tax on natural persons	
Chapter 3 :	Salaries and the like
Chapter 4 :	Commercial or industrial activity
Chapter 5 :	Professional or non-commercial activity
Section three: Tax on Profits of Legal Persons	
Chapter 6 :	Scope and rate of the Tax
Chapter 7 :	Determining Taxable Income
Chapter 8 :	Deductible Costs

Chapter One

Conceptual Framework for Tax Accounting

Chapter topics:

The topics of this chapter will be addressed in the following points:

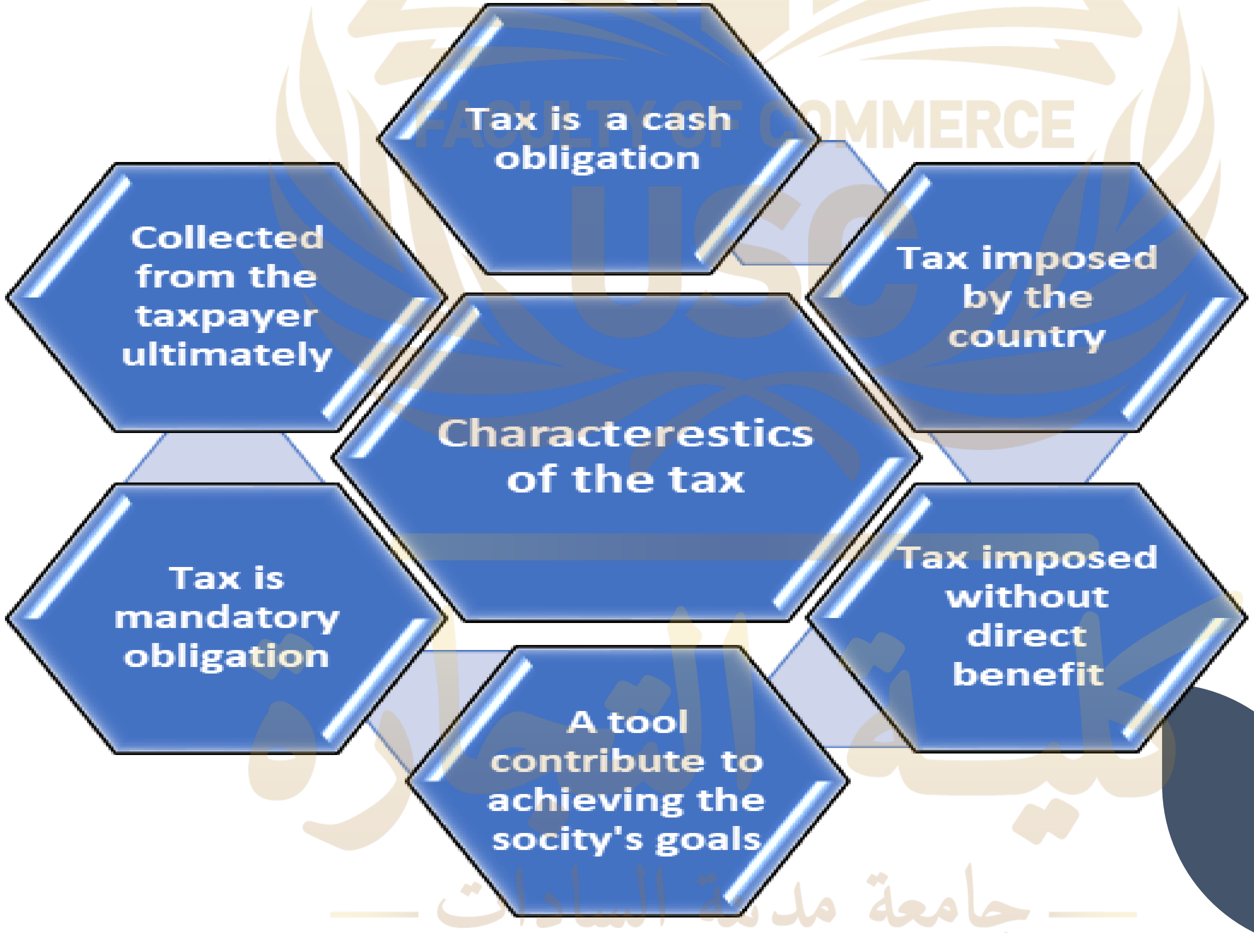
1. **The concept of tax and its most important characteristics.**
2. **Tax objectives.**
3. **The basic rules or principles for imposing the tax.**
4. **Types and classifications of taxes.**
5. **The nature of tax accounting.**
6. **Tax accounting objectives.**
7. **Elements of the tax system (pillars of the tax system).**

First: The concept of tax and its most important characteristics:

- **Tax can be defined as a financial commitment that the state obtains through its affiliated bodies under specific rules in a mandatory and definitive manner from the taxpayers to fund public expenses and achieve economic and social welfare without any obligation on the state.**

Characteristics of Tax

It is evident from the previous definition that tax has numerous characteristics, which are summarized in the following figure:



Characteristics of Tax

1. Tax is a cash obligation:

It indicates that the tax is imposed and collected in cash in most nations, and it cannot be collected in the form of personal or in-kind services. Cash collection facilitates the state to collect taxes and reduce costs.

2. It is imposed by the state:

Tax is imposed, modified, or abolished by the legislative authority. The tax administration implements the provisions of the law and can only collect taxes. Therefore, the tax law provisions must also be binding on the state since they bind to taxpayers; otherwise, they are entitled to appeal to the judicial authority.

Characteristics of Tax

3. It is imposed without direct benefit:

It means that taxpayers receive no direct benefit because they are required to pay taxes as members of society. Instead, indirect benefits accrue to taxpayers through spending tax revenue on public utilities and services provided to citizens by the state.

4. Tax is a mandatory obligation:

Tax is not a fine or fees but a legal requirement, as both natural and legal persons are obligated to pay it. Therefore, once the tax is imposed, it must be paid to the state, and taxpayers have no alternative.

Characteristics of Tax

5. It is definitively collected from the taxpayer:

It indicates that the amount of tax due and collected is not refunded. The taxpayers have no right to claim what they have paid as a tax since it is considered a contribution to public expenditures.

6. It is considered a tool that contributes to achieving society's goals:

Tax can be used to accomplish society’s goals economic, political and social. Therefore, social priorities are among the fundamental pillars of the optimal tax structure, which considers social justice by imposing taxes based on the taxpayer's financial ability.

Second: Tax Objectives:

The four most significant objectives of the tax can be summed up as follows:

- **Financial objectives:**

- **Providing financial resources for the state to fund its public expenditures.**

- **Economic objectives:**

- **Protecting national industries from competition with foreign rivals by imposing high customs duties on imported products.**
- **Encouraging foreign investments by exempting them from taxes for certain years or cutting taxes on such investments.**
- **Limiting consumption of luxury goods by imposing high taxes on them.**
- **Imposing high taxes during periods of inflation and vice versa during the recession.**

Second: Tax Objectives:

- **Social objectives:**
  - **Reducing the inequality between incomes by imposing high taxes on high incomes, with these taxes decreasing as incomes fall.**
  - **Using tax proceeds to provide public services.**
  - **Providing essential necessities for the poor.**
- **Political objectives:**
  - **The tax is a means for countries to assert their sovereignty and extend their influence over everything within their regional borders**

Third: The basic rules or principles for imposing the tax:

1- The principle of tax justice:

- **The tax is imposed on all individuals and incomes, considering the financial ability of the taxpayers and their circumstances, thereby granting some personal exemptions and allowing the deduction of costs and expenses incurred by the taxpayer to obtain the taxable revenue, in addition to distinguishing between tax rates based on the source of income.**

2- The principle of stability:

- **Tax legislation must be characterized by stability and relative consistency, and modifications must be confined to those that are necessary and inevitable so that taxpayers are aware of them.**

Third: The basic rules or principles for imposing the tax:

3- The principle of economizing:

- **The tax revenue must exceed its collection costs and be collected at the lowest possible costs.**

4- The principle of regionalism:

- **It signifies that every natural or legal person exercising an activity or owning property inside the country's borders is subject to taxation, regardless of nationality or political affiliation.**

5- The principle of flexibility:

- **It indicates that the tax system adapts to fluctuating economic conditions so that tax revenues increase during periods of inflation and decrease during the recession.**

Third: The basic rules or principles for imposing the tax:

6- The principle of clarity, accuracy, and relevance:

- The tax should be specified in terms of its base, price, and collection date for both the taxpayer and the tax administration. The tax system should be clear and understandable to all parties, and the tax administration should collect taxes at suitable times.

7- The annual principle:

- The tax is levied annually on the income generated during the tax period of twelve months.

Fourth: Types and classifications of taxes

There are many types of taxes and their classifications according to several aspects, as follows:

1- In terms of the possibility of transferring the tax burden:

a. Direct taxes:

They are taxes that are imposed when the income is generated, and the taxpayer is charged with its burden. Moreover, the law does not allow the transfer of its burden to another person.

b. Indirect taxes:

These are taxes imposed on the usage of wealth or income, and the legislation permits its burden to be transferred to others, such as value-added and customs taxes.

Fourth: Types and classifications of taxes

2- In terms of considering the personal circumstances of the taxpayer:

a. Personal taxes:

They are taxes that consider the personal circumstances of the taxpayer and the ability to pay, as they permit exemptions that correspond to family responsibilities.

b. In-kind taxes:

These taxes do not consider the taxpayer's circumstances, as they are imposed at a proportional tax rate without deducting any costs or expenses incurred to obtain the revenue. Such as the tax on interest on treasury bills and bonds.

Fourth: Types and classifications of taxes

3- In terms of the tax object:

a. Income taxes:

They are levied on the incomes of natural and legal persons acquired from various sources over a specified period, often one year.

b. Taxes on capital or wealth:

They are taxes levied on the capital or wealth of natural and legal persons, regardless of their income or revenues, such as real estate taxes.

c. Taxes on the usage of wealth and income:

Taxes on consumption, such as value-added tax or tax on goods or services, whether at the time of production or provision of services, when marketing or selling them, or when consuming them.

Fourth: Types and classifications of taxes

4- In terms of the tax system:

a. Qualitative tax system:

They are taxes levied separately on sources of income or wealth or their uses, with each source being taxed differently in terms of exemptions, tax rates, and accounting procedures.

b. Unified tax system:

It is the tax imposed on the sum of a taxpayer's net income or wealth from multiple sources without distinguishing between these sources and subjecting them to a single tax treatment, whether in terms of tax rates, exemptions, or tax accounting procedures, such as the tax on the income of natural persons.

c. Hybrid tax system:

A system takes advantage of both previous systems in adopting the unified tax system to achieve equality in sacrifices.

Fifth: the nature of tax accounting:

- **Tax accounting is defined as that branch of accounting science that provides financial information that assists those interested in taxes in making decisions related to determining and collecting the tax and drawing and planning tax policy.**
- **Tax accounting incorporates the science of accounting and tax science simultaneously, as the principles and rules of financial accounting influence tax legislation. Therefore, the legislator requires taxpayers to maintain certain books and records, submit reports in a particular format, and identify the revenues and costs that must be deducted so that only the net revenue is taxable to preserve the capital.**

Sixth: Tax Accounting Objectives

- Like other branches of accounting, tax accounting has a set of objectives it seeks to accomplish. The most crucial of these objectives can be addressed as follows:

  1- Determine the taxpayer.

  2- Determine the taxable object.

  3- Determine the tax base.

  4- Determine the amount of tax due.

  5- Providing different information about taxes.

Seventh: Elements of the tax system (pillars of the tax system):

1- Tax legislation: The pillars of tax legislation are as follows:

- **Tax Law: It is issued through the legislative body (Parliament).**
- **Executive Regulation: It is issued by the competent minister (Minister of Finance) and contains a thorough explanation of the law's provisions and its application.**
- **Periodical books, notes, and explanatory instructions: These are published by the head of the tax authority and provide a more thorough explanation of the law's articles than the executive regulation.**

Seventh: Elements of the tax system (pillars of the tax system):

2- Tax administration:

- **Tax administration is responsible for enforcing tax laws through tax examination, tax assessments, and tax collection. The tax administration consists of the following:**

- **General Tax Authority.**
- **Real Estate Tax Authority.**
- **Value Added Tax Authority.**

3- Taxpayers:

- **They are the individuals subject to the tax legislation and those charged with paying the tax, whether natural or legal persons.**

Thank you