

Tax Accounting



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Section One

Introduction to Tax Accounting and the Egyptian tax system

Introduction:

Tax is one of the most important financial policy tools countries use to obtain the necessary funds to perform their activities and development processes. Economists have paid particular attention to the tax system and policy, mostly after countries abandoned their neutral ideas and moved from the guardian state to the intervening state. Taxes are no longer just revenue the state uses to fund its public expenditures. Still, it becomes one of the essential tools for the state to influence and interfere in economic and social life.

The Egyptian tax system is one of the oldest tax systems. However, it has changed and developed due to successive changes in the contemporary political, economic, social, and technological environment, leading to the issuance of the Income Tax Law 91 of 2005, then the Real Estate Tax Law 196 of 2008. In addition, a shift was made from sales tax to value-added tax to complete the tax legislation system.

The Egyptian tax system is not limited to tax legislation and administrative and technical methods for determining tax imposition procedures and collection stages. Rather, it is considered one of the tools necessary to implement the country's economic, financial, and social policies.

The country seeks to conclude a new social contract with the taxpayer, who voluntarily commits to giving up part of his income in exchange for the country's commitment to achieving tax justice. Thus, increasing the

revenues of the country's general budget, which are taxes, is considered one of the main sources of financing the country's public expenditures.

Recent developments and changes in Egypt have shown the need for a radical and complete amendment of the tax system to keep pace with Egypt's economic, financial, and social goals after two successive revolutions. One of the most important goals is tax justice among taxpayers as tributaries of tax revenues. These amendments should also be reflected in improving the relationship between the taxpayer and the tax authority to solve the crisis of trust resulting from the growing sense of inequality, the deterioration of the services provided to the taxpayer, and the persistent doubts about the efficiency and effectiveness of the tax administration's performance in achieving tax justice.

This section seeks to present the basics of tax accounting and identify the components of the Egyptian tax system and the most important stages of its historical development. It also reveals the most important pillars of Income Tax Law No. 91 of 2005 and its most important amendments. To achieve these objectives, this section will be divided into two chapters as follows:

- **Chapter One: The Conceptual Framework for Tax Accounting.**
- **Chapter Two: The Nature of the Egyptian Tax System.**

Chapter 1

Conceptual Framework for Tax Accounting

Introduction:

In this chapter, the author seeks to identify tax accounting basics, including the concept of tax, its characteristics, objectives, and the principles or rules for imposing a tax. It also discusses the concept of tax accounting and its objectives.

Because of the evolution of the state's functions and public spending on health, education, and public security, there is a need for funds to finance these expenditures. At this stage, the tax was neutral as it was imposed on various persons and organizations to finance the country's public treasury.

Due to the state's desire to intervene in economic activity, it relied on taxes as one of its fiscal policy instruments to achieve certain economic and social goals, such as redistribution of income and encouraging investment in certain sectors by exempting them from taxes, either permanently or for a limited time.

This chapter highlights the concept of tax, its characteristics and objectives, and the rules or principles governing its imposition. In addition, it addresses the fundamentals of tax accounting, including the concept of tax accounting and its primary objectives.

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

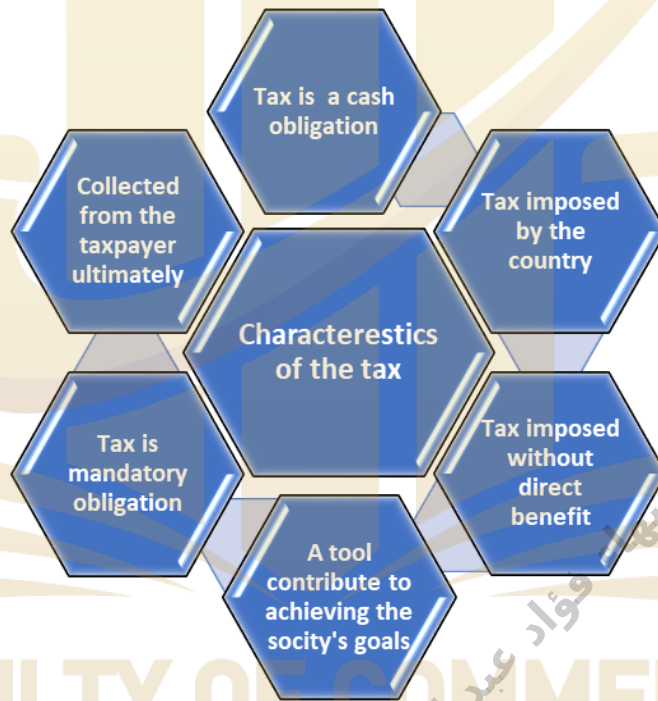
Tax can be defined as a monetary deduction levied by the state on natural and legal persons based on their ability to pay and without any direct benefits. The government utilizes taxes to finance public expenses and raise national revenue.

It can also be defined as a sum of money that is obligatorily paid to the state without receiving any direct benefits and in a final manner based on economic capacity and certain criteria. It is used to achieve the well-being of society's members through growing public expenditures.

Finally, 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.

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

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These characteristics will be briefly explained as follows:

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, unlike what was prevalent in some earlier eras. Cash collection facilitates the state to collect taxes and reduce costs.

2. It is imposed by the state:

It is well known that the tax is imposed, modified, or canceled 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.

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 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.

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 social, economic, and political goals. 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. Consequently, the tax does not result in negative social consequences, such as decreasing living standards. Therefore, this philosophy involves potentially exempting low-income individuals from paying taxes and redistributing incomes by increasing tax rates on luxury products to be re-spent in favor of low-income individuals.

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.
- **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 impoverished.

- **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, taking into account 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.

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 clarity, accuracy, and appropriateness:

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.

6- 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.

7- The annual principle:

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

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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, such as the tax on salaries and the like, tax on professional or non-commercial activity, tax on commercial or industrial activity, and tax on real estate.

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.

2- In terms of taking into account the personal circumstances of the taxpayer:

a. Personal taxes:

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

b. In-kind taxes:

3- 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.

4- 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.

5- 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.

Therefore, the taxpayer may be subject to more than one tax in the event of multiple sources of income or wealth or their uses. An example of qualitative tax is the transferred capital tax.

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 on the one hand. In addition, adopting the qualitative tax system to consider the taxpayer's circumstances in terms of tax exemptions or tax rates for some sources of income or wealth on the other hand.

Fifth: the nature of tax accounting:

Tax accounting is among the accounting disciplines, alongside financial accounting, cost accounting, and others. It is based on fundamental principles that comprise its intellectual, philosophical, and applied framework.

Tax accounting is also defined as that branch of accounting 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. In other words, it provides information that enables officials and those interested in taxes to achieve and carry out the following:

- Preparing tax returns that reflect the tax obligation of each taxpayer and submitting them to the Tax Authority to compute and collect the tax payable from each taxpayer.
- Providing the necessary reports and analyses for the managers responsible for making decisions that affect the tax implications and dimensions.
- Assisting in tax planning, which is intended to organize the affairs of the taxpayers so that they can benefit from the tax advantages and effects set in the law to maximize their return after tax.

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:

The taxable taxpayer is the person assigned to pay the tax to the state; the taxpayer may be a natural or legal person, such as a corporation. The taxpayer is defined in light of the provisions of the legislation that regulates the imposition of a specific tax.

2- Determine the taxable object:

The taxable item can be income, capital, or expenditure. Income may originate from various sources, including labor, capital, or both labor and capital, as well as it may be regular or irregular. There are two types of capital: fixed and current. Spending is the utilization of funds, whether for consumer, operational, or investment purposes.

In light of tax legislation, the function of accounting is to determine the taxable elements, meaning that accounting translates the provisions of tax legislation into financial items.

3- Determine the tax base:

One of the essential functions of tax accounting is determining the tax base by identifying taxable elements and then deducting the associated costs following the tax law provisions.

In income taxes, the tax base is determined by subtracting deductions from this income to reach the base, whether these deductions are related to components of particular costs or personal or family exemptions, based on what the tax legislator specifies.

In capital taxes, accounting determines the value of the capital elements subject to tax and the value of deductions from taxable elements according to the legislation.

The same applies to expenditure taxes, where the accounting determines the value of the expenditure subject to tax and any deductions from the such taxable expenditure.

4- Determine the amount of tax due:

Based on the tax base that was determined and in light of the tax rate, accounting determines the value of the tax due.

5- Providing different information about taxes:

Information provision is one of the essential accounting functions, as accounting provides diverse and detailed data about the accounting unit to the various parties and beneficiaries that rely on it for decision-making. Accordingly, tax accounting provides different and detailed tax information for many parties, such as the public, investors, government agencies, and other agencies. There is no doubt that this information is useful in analyzing and evaluating different tax legislation and assessing the impact of different tax policies.

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.

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:** After the decision to merge the income and value-added tax authorities, it is responsible for executing the tax laws governing income taxes, value-added tax, and other related laws.
- **Real Estate Tax Authority:** It is responsible for applying tax laws on real estate wealth.
- **Customs Authority:** Its objective is to collect taxes, tariffs, customs, and other taxes and fees paid by importers and exporters under the Customs Tariff Law and other applicable legislation.

3- Taxpayers:

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

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Chapter 2

The nature of the Egyptian tax system

First: The emergence and development of the tax system in Egypt:

Law (14) for the year 1939 is considered the beginning of the emergence of the first tax system in Egypt. According to this law, all movable capital revenues were subject to tax concerning the revenue whose source is capital, as well as commercial and industrial profits, with the revenue whose source is capital and work together, as well as labor earning, as of the beginning of September 1938.

In this law, the tax lawmaker relied on the qualitative tax system, in which each source of revenue or income was subject to a specific tax. Also, qualitative and personal exemptions were merged. Thus, a qualitative tax system emerged, which means multiple taxes according to different sources of income. Subsequently, many articles of this law were amended, either by addition or elimination, and it continued to be in force until 1980.

In 1949, Law No. (99) Issued imposing a general tax on revenue by collecting the qualitative tax bases and re-subjecting them to an additional tax, as it noted that direct such taxes do not contribute effectively to state budget revenues. This is considered double taxation in light of the continued work of Law No. (14) of 1939, as this tax applied to the total net revenue received by the natural person subject to one of the qualitative taxes.

In 1981, Law No. (157) was issued to significantly alter the tax system in Egypt by repealing Law No. (14) of 1939, with all its amendments and Law No. (99) of 1949. In defining the tax's scope, this new law was based on the qualitative tax system at the time. In addition, it combined qualitative and personal exemptions. It also imposed a general income tax, consistent with Law No. 99 of 1949. This law was divided into three books, the first of which was devoted to taxes on the income of natural persons and contained five chapters: the tax on movable capital revenues, the tax on commercial and industrial profits, the salary tax, the tax on non-commercial professions, and the general income tax.

The tax on corporations was introduced by Law No. 157 of 1981, and its provisions were included in the second book. This tax is levied on the annual net profits of corporations operating in Egypt, whatever their purpose. Its base is determined based on the outcomes of all operations. Finally, the third book stipulated the general provisions that apply to taxes mentioned in the first and second books, and this law continued to be in force until 1993.

Given the preceding, the objectives and characteristics of Law No. 157 of 1981 can be summed up as follows:

- This legislation intends to reduce income distribution gaps and uphold the tax justice concept.
- The law paved the way for introducing the unified tax system, as it distinguished the income tax treatment between natural persons and companies.

- Encouraging investment activity in various productive fields by granting a five-year exemption for new industrial investments.
- The law strengthened savings in social insurance, savings, and pension funds, as it canceled the tax on revenues generated from these funds.
- The relationship between the tax Authority and taxpayers is organized to ensure that the interests of both parties are taken into account. This is by clarifying rights and obligations, introducing the appeal system, and forming appeal committees to adjudicate disputes between the tax administration and taxpayers.
- The law introduced the first-ever tax card use, effectively defining the tax community.
- Some emergency and subsidiary taxes were eliminated, such as the national security and additional defense taxes.
- The law increased the burdens on the members of society as the tax rate increased, ranging from 20% to 40%. This may be due to the number of exemptions granted in this law.

Another major alteration occurred in the tax legislation with the issuance of Law (187) for the year 1993 and relying entirely on the unified tax system on the income of natural persons and the tax on the profits of corporations. This law was enacted to amend the provisions of Law No. 157 of 1981, which governed the income tax. The modification primarily concerned the inclusion of the organization of the unified tax on the income of natural persons in the first book, with the second and third books being amended so that their provisions align with those of the unified tax.

In this context, when the law was implemented, numerous deficiencies emerged, which can be summed up as follows:

- The unified tax system has not been implemented in its entirety.
- The increase of tax evasion, the growth of the shadow economy (informal activities), and the extravagance of tax exemptions, which led to a dwindling tax base.
- The absence of an efficient system for penalties and delay fines.
- The complexity of the tax administration function and its rising expenses are due to several factors, the most significant of which is the sophisticated procedures for examination, assessment, collection, and dispute resolution with a system based on scrutinizing 100% of taxpayer files.

Eventually, as part of a package of economic policies and reforms, the Income Tax Law No. 91 of 2005 was issued in 2005.

In conjunction with the economic reform measures aimed at making structural changes in the country's customs, tax, and financial systems, Income Tax Law No. 91 of 2005 was issued, which was considered a departure from the traditional concepts of the tax system in Egypt. This is in terms of identifying the taxable persons, exemptions, tax rates, and practical procedures for assessing and collecting the tax in light of the unified tax system. In addition to certain procedures aimed at resolving and settling tax disputes, in light of the trend towards alleviating and facing many aspects of conflict arising between the tax administration and the taxpayers.

Second: Income Tax Law No. 91 of 2005 and its most significant amendments

Since 1939, income taxes in Egypt have undergone several modifications. Law No. 91 of 2005 was created to govern the three forms of income taxes in Egypt:

- **The tax on the income of natural persons,**
- **The tax on the profits of legal persons,**
- **The tax withheld at source.**

In addition, Law No. 157 of 1981, amended by Law No. 187 of 1993, was repealed by Law No. 91 of 2005. Following is a discussion of the aspects and characteristics of the income tax under Law No. 91 of 2005 and the most significant amendments:

2/1-The general structure of the law:

The draft articles were discussed from September 2004 until Parliament finally approved them in June 2005. It was issued on June 8, 2005, with the title Income Tax Law No. 91 of 2005. Then, it was published in the Official Gazette in Issue No. 23 the following day. According to the requirements of the law, it went into effect in Egypt on June 10, 2005, the day after its publication in the Official Gazette, and twenty amendments have been introduced to the law since its issuance until now.

With the enactment of this law, the concept of a taxable natural person has evolved into the individual taxpayer and de facto corporation resulting from the inheritance of a sole proprietorship, with the determination of an

exempted segment and the escalation of tax rates on the remaining base to a maximum of 25%. In addition, the definition of a legal person is modified to incorporate partnerships, corporations, public authorities, public sector businesses, banks, and foreign firms operating in Egypt without an exemption bracket and at a rate ranging from 20% to 40.55%.

Moreover, the law defines new rules for identifying the tax base, raising the desire to maintain accounts and records, and submitting tax returns correctly while following Egyptian accounting standards for preparing the income statement. In addition, the introduction of a tax amnesty and reconciliation system in tax disputes and the sampling system of a tax examination, the tightening of penalties in cases of tax evasion, and the establishment of a higher tax council to guarantee taxpayers' rights.

In addition to the nine articles of issuance, Law No. 91 of 2005 contains 148 articles, which are organized as follows:

Book One: General Provisions, including articles from (1) to (5):

- Definitions of some terms.
- Elements of income generated in Egypt.
- Definition of the permanent and non-permanent entity.
- Defining the tax period and its due date.

Book Two: Income Tax of Natural Persons and includes Articles (6) to (46). It consists of five chapters, as follows:

Chapter One: Tax Scope and Rate.

Chapter Two: Salaries and The Like.

Chapter Three: Commercial and Industrial Activity.

Chapter Four: Revenues of Non-Commercial Professions.

Chapter Five: Real Estate Revenues.

Book Three: Tax on Profits of Legal Persons, includes Articles (47) to (55). It consists of two chapters:

Chapter One: Scope of the Tax

Chapter two: Determining Taxable Income.

Book Four: Tax Withheld at Source, includes articles (56) to (58).

Book Five: Withholding, Collection and Advance Tax Payments, includes articles (59) to (73).

Book Six: Obligations of Taxpayers and Others. It includes articles (74) to (130).

Book Seven: Penalties, which includes articles (131) to (138).

Book Eight: Closing Provisions, which includes Articles (139) to (147).

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2/2- The most crucial features of Law No. 91 of 2005:

- **Unifying the concept of income and adjusting its tax treatment:**

It no longer distinguishes between income generated by men and women, nor does it differentiate between different sources of income. Rather, all income sources are subject to a uniform tax rate.

- **Determining the geographical scope of the income tax:**

Every natural person who resides in Egypt permanently or has resided for more than 183 continuous or intermittent days within twelve months is subject to tax. A legal person is also considered subject to tax If its main or effective managing headquarters is in Egypt; or If established according to Egyptian law, If it's a corporation in which the state or any state-owned legal person holds more than 50% of its capital.

- **Simplifying and facilitating tax procedures:** streamlining the assessment and collection processes, as well as litigation and dispute resolution procedures.

- **Strengthening the relationship between the Tax Authority and the taxpayers:**

Establishing confidence between the taxpayer and the tax administration via the taxpayer's filing of the tax return and its recognition based on the taxpayer's information, with random samples selected and examined. It also allows the taxpayer to correct some data omitted or entered incorrectly. In addition to changing the tax administration's perception of taxpayers from tax debtors to tax process success partners, as demonstrated below:

- Assuming the good faith of taxpayers until proven otherwise.
- Excellent treatment of taxpayers.
- Pursue the policy of transparency and disclosure by the tax administration in its interaction with the taxpayers.
- Reorganizing current tax exemptions by eliminating or modifying tax concessions granted to foreign investment in contrast to national investment.
- **Taking tax capacity into account** by reducing the tax burden on low-income taxpayers.
- **Expanding the tax base:** by granting tax amnesty to previous tax evaders and dealing with them based on the premise that the beginning of their practice of the activity is the beginning of filing their tax returns.
- Moving partnerships from the tax on the income of natural persons to the provisions of the tax on the profits of legal persons.
- Introducing the system of advance payments of taxes in addition to the tax deduction system.
- **Eliminate discrimination in corporate tax treatment:**

It is currently subject to tax at the rate of 22.5% of net annual profits, with exception to the profits of Suez Canal Authority, the Egyptian General Petroleum Corporation and the Central Bank are subject to tax at the rate of 40%, and the profits of oil and gas exploration and production companies are subject to tax at the rate of 40.55%.

- **Standardization of personal exemption (minimum standard of living):**

Since the issuance of Law 14 of 1939, the tax legislator continued to distinguish between taxpayers according to marital status (single – married). However, Law No. 91 of 2005 unified the exemption, and it became 5,000 pounds annually for all sources of income for a natural person. It was amended by Law No. 82 of 2017 to become 7,200 pounds annually. Currently, this exemption amounts to 30,000 according to Law No. 175 of 2023. In addition to distinguishing the tax on salaries and the like with an additional personal exemption of 4,000 pounds, it has been increased by Law No. 26 of 2020 to 9,000 pounds. Finally, it became 15,000 pounds annually according to Law 30 of 2023 regardless of marital status.

2/3- The most significant amendments to Law No. 91 of 2005 (Article 8)

The Egyptian tax system experienced successive developments after issuing Law No. 91 of 2005, where many amendments were made to this law. This is because the state strives to reduce the burden on low and medium-income taxpayers and increase the percentage of exemption and tax deductions to achieve social justice, given the continual rise in prices and the significant increase in inflation rates.

Therefore, this part focuses on the amendments to Income Tax Law No. 91 of 2005 following the revolution of January 2011. In particular, Article (8)

and Article (49) related to amending the tax brackets since it is one of the most changing and affecting items on the tax.

Law 91 of 2005 by Law 51 of 2011:

	Under Law No. 91 of 2005	The amendment under Law 51 of 2011
Replaced by the texts of Article 8	<p>The tax rates are as follows:</p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> More than 5,000 EGP up to 20,000 EGP 10% <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> More than 20,000 EGP up to 40,000 EGP 15% <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> More than 40,000 EGP 20% <p>The total annual net income is rounded to the nearest ten pounds less when calculating the tax.</p>	<p>The tax rates are as follows:</p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> More than 5,000 EGP up to 20,000 EGP 10% <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> More than 20,000 EGP up to 40,000 EGP 15% <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> More than 40,000 and up to 10,000,000 pounds (ten million) 20% <p><u>Fourth bracket:</u></p> <ul style="list-style-type: none"> More than 10,000,000 (ten million pounds) ---- 25% <p>The total annual net income is rounded to the nearest ten pounds less when calculating the tax.</p>

It is evident from the above table that the legislator has added a fourth tax rate bracket. After the last tax bracket was 20% on an amount of 40,000 pounds or more, the third bracket here is more than 40,000 and up to 10 million at 20%.

In addition, the fourth new bracket is more than 10 million at 25%. Consequently, progressive prices achieve tax justice, and it is preferable, whenever possible, to specify them more precisely following the financial ability and adjust tax brackets accordingly. Then this procedure achieves justice and is consistent with the ability to pay.

Law No. 91 of 2005 amended by Law No. 101 of 2012

Under Law No. 91 of 2005	The amendment under Law 101 of 2012
<p>Article (7) The tax is due on more than five thousand pounds of the total net income achieved by the resident taxpayer during the year.</p> <p>Article (8): According to the latest amendment to Law No. 61 of 2011</p> <p><u>The tax rates are as follows:</u></p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> More than 5,000 EGP up to 20,000 EGP 10% <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> More than 20,000 EGP up to 40,000 EGP 15% <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> More than 40,000 and up to 10,000,000 pounds (ten million) 20% <p><u>Fourth bracket:</u></p> <ul style="list-style-type: none"> More than 10,000,000 (ten million pounds) 25% 	<p>Article (8): Article (7) is repealed, and without prejudice to Clause (1) of Article 13 of the law, the tax brackets and rates are as follows:</p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> 5000 pounds per year exempted. <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> More than 5,000 EGP up to 30,000 EGP 10% <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> More than 30,000 EGP up to 45,000 EGP 15% <p><u>The Fourth bracket:</u></p> <ul style="list-style-type: none"> More than 45,000 EGP up to 1,000,000 EGP Million EGP 20% <p><u>The Fifth bracket:</u></p> <ul style="list-style-type: none"> More than 1,000,000 pounds Million pounds 25%

The total annual net income is rounded to the nearest ten pounds less when calculating the tax.

This article relates to the tax rate on the profits of legal persons and stipulates:

The tax base is rounded to the nearest ten pounds less and is subject to tax at 20% of annual net profits.

Except for the price mentioned in the previous paragraph, the profits of the Suez Canal Authority, the Egyptian General Petroleum Corporation, and the Central Bank are subject to tax at the rate of 40%, and the profits of oil and gas exploration and production companies are also subject to tax at the rate of 40.55%.

When calculating the tax, the annual net income is rounded to the nearest ten pounds less

The tax base is rounded to the nearest ten pounds less and is subject to tax at 25% of annual net profits.

Except for the price mentioned in the previous paragraph, the profits of the Suez Canal Authority, the Egyptian General Petroleum Corporation, and the Central Bank are subject to tax at 40%. The profits of oil and gas exploration and production companies are also subject to tax at the rate of 55.40%.

From the previous table, it is clear that the legislator did not introduce new amendments to tax rates but instead modified the range of tax brackets. Thus, these amendments aim to achieve social justice, as the range of brackets has been modified so that the income bracket that is subject to a lower price is reduced, and the income bracket that is subject to a higher tax rate is increased. This is evident in the final tax bracket, where incomes over one million are now subject to a 25% tax rate, whereas, under the prior law, this bracket began at 10 million or more.

These amendments are consistent with the principle of social justice, as they aim to identify the actual ability of the taxpayer to pay. They further include in their content that high incomes are subject to a high tax rate, while medium and low incomes are subject to low rates; thus, reliance is

on those with high profits, who constitute the target group to achieve the tax base. Hence the expanding scale of social justice.

On the other hand, regarding Article 49 governing the tax rates on the profits of legal persons, the most significant amendment to this article would be to increase the tax rate on the profits of legal persons to 25% from 20%. Thus, it was reasonable for the tax rates on the profits of legal persons to be progressive and segmented and for their prices to vary based on the income earned, contributing to achieving tax justice and realizing the taxpayer's actual ability to pay.

Law 91 of 2005 amended by Law 11 of 2013:

Under Law No. 91 of 2005	The amendment under Law No. 11 of 2013
<p>Article (8): According to the latest amendment in Law 101 of 2012: The tax brackets and rates are as follows:</p> <p><u>The first bracket:</u> 5000 pounds per year exempted.</p> <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> More than 5,000 pounds and up to 30,000 pounds (10%) <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> More than 30,000 EGP up to 45,000 EGP (15%) <p><u>The Fourth bracket:</u></p> <ul style="list-style-type: none"> More than 45,000 pounds up to 1,000,000 pounds (one million pounds) (20%) 	<p>Article (8): The tax rates are as follows:</p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> Up to 5,000 pounds per year are exempt from tax. <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> More than 5,000 pounds up to 30,000 pounds (10%). <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> More than 30,000 pounds up to 45,000 pounds (15%). <p><u>The Fourth bracket:</u></p> <ul style="list-style-type: none"> More than 45,000 pounds up to 250,000 pounds (20%). <p><u>The Fifth bracket:</u></p> <ul style="list-style-type: none"> More than 250,000 (25%).

<u>The Fifth bracket:</u> <ul style="list-style-type: none"> More than 1,000,000 pounds (one million pounds) (25%) <p>When calculating the tax, the annual net income is rounded to the nearest ten pounds less.</p>	<p>The total annual net income is rounded to the nearest ten pounds less when calculating the tax.</p>
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From the previous table, it is clear that incomes subject to tax at the rate of 20%, which is the fourth income tax bracket, have been modified to be applied to incomes that are more than 45,000 to 250,000 instead of one million. In addition, the range of incomes subject to tax at the rate of 25% has been modified for more than 250,000 instead of being on incomes over a million.

Therefore, lower incomes should be subject to a lower price, and higher incomes should be subject to a higher price. Adjusting these tax rates following this concept contributes to achieving tax justice and reaching the real ability of the taxpayer to pay.

Law 91 of 2005 by Law 96 of 2015:

Under Law No. 91 of 2005	The amendment under Law No. 96 of 2015
<p>Article 8 According to the latest amendment to Law No. 11 of 2013:</p> <p>Article (8):</p> <p>The tax rates are as follows:</p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> Up to 5,000 pounds per year exempted. <p><u>The second bracket:</u></p>	<p>Article (8):</p> <p>The tax rates are as follows:</p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> Up to 6,500 pounds per year exempted <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> More than 6,500 pounds up to 30,000 pounds (10%)

<ul style="list-style-type: none"> More than 5,000 pounds up to 30,000 pounds (10%). <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> More than 30,000 pounds up to 45,000 pounds (15%). <p><u>The Fourth bracket:</u></p> <ul style="list-style-type: none"> More than 45,000 pounds up to 250,000 pounds (20%). <p><u>The Fifth bracket:</u></p> <ul style="list-style-type: none"> More than 250,000 (25%). <p>When calculating the tax, the total annual net income is rounded to the nearest ten pounds less</p>	<p><u>The third bracket:</u></p> <ul style="list-style-type: none"> More than 30,000 pounds up to 45,000 pounds (15%) <p><u>The Fourth bracket:</u></p> <ul style="list-style-type: none"> More than 45,000 EGP up to 200,000 EGP (20%) <p><u>The Fifth bracket:</u></p> <ul style="list-style-type: none"> More than 200,000 EGP (22%) <p>The total annual net income is rounded to the nearest ten pounds less when calculating the tax.</p>
<p>Article (49) first paragraph:</p> <p>The tax base shall be rounded to the nearest ten pounds less and be subject to tax at the rate of (22.5%) of the annual net profits.</p>	<p>Article (49) According to Law 101 of 2012:</p> <p>The tax base is rounded to the nearest ten pounds less and is subject to tax at 25% of annual net profits.</p> <p>As an exception to the price mentioned in the previous paragraph, the profits of the Suez Canal Authority, the Egyptian General Petroleum Corporation, and the Central Bank are subject to tax at 40%. The profits of oil and gas exploration and production companies are also subject to tax at the rate of (55.40%).</p>

From the previous table, it is clear that the personal exemption limit for the taxpayer has been increased; instead of 5000 pounds, this exemption became 6500, which is considered the minimum required for the taxpayer to live. The idea of this exemption came to achieve tax justice, and because

of the change in the general level of prices, justice requires that this exemption be constantly changed to keep pace with changes in prices.

Therefore, the adjustment of the scope of these brackets and the tax rates, if it is based on good studies of the Egyptian case in terms of the level of income and that this adjustment is compatible with these incomes, then these amendments achieve tax justice.

Concerning Article (49) on the tax rates on the profits of legal persons, the tax rate was amended to 22.5% instead of 25%.

Therefore, relative prices originally did not achieve tax justice. It was better to divide this income into segments subject to taxation at progressive rates, which contributes to achieving tax justice.

Law No. 91 of 2005 amended by Law No. 82 of 2017:

Under Law No. 91 of 2005	In light of the amendment to Law No. 82 of 2017
<p>Article (8): According to the latest amendment to Law No. 96 of 2015</p> <p>The tax rates are as follows:</p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> Up to 6,500 pounds per year exempted. <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> More than 6,500 pounds up to 30,000 pounds (10%) <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> More than 30,000 pounds up to 45,000 pounds (15%) <p><u>The Fourth bracket:</u></p>	<p>The tax rates are as follows:</p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> Up to 7,200 pounds per year exempted. <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> More than 7,200 pounds up to 30,000 pounds (10%) <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> More than 30,000 pounds up to 45,000 pounds (15%) <p><u>The Fourth bracket:</u></p> <ul style="list-style-type: none"> More than 45,000 EGP up to 200,000 EGP (20%)

- More than 45,000 EGP up to 200,000 EGP (20%)

The Fifth bracket:

- More than 200,000 EGP (22%)

The total annual net income is rounded to the nearest ten pounds less when calculating the tax.

The Fifth bracket:

- More than 200,000 EGP (5.22%)

Those subject to the following three brackets are granted a deduction from the tax due on them as follows:

- Second bracket 80%
- Third bracket 40%
- fourth bracket 5%

The discount referred to in the previous paragraph shall be granted for one time according to the highest bracket in which the taxpayer falls, and this discount may not be granted to those subject to the fifth bracket.

The total annual net income is rounded to the nearest ten pounds less when calculating the tax.

The Executive Regulations shall specify the method of calculating the tax.

From the previous table, it is clear that the exemption for the minimum necessary for the living costs of the taxpayer has been increased to become 7,200 pounds instead of 6,500. This amendment is consistent with the achievement of tax justice in light of the continuous rise in prices and, thus, the increase in inflation rates. Hence, the second bracket has been modified to start from 7200 to 30000 at a rate of 10%.

The legislator also has granted a deduction from the tax due to some brackets at certain rates as follows:

- Second bracket 80%
- Third bracket 40%

- Fourth bracket 5%

The discount referred to in the previous paragraph shall be granted for one time according to the highest bracket in which the taxpayer falls, and this discount may not be granted to those subject to the fifth bracket.

Therefore, this amendment may achieve social justice by raising the personal exemption limit, as well as granting a descending tax deduction that is gradual so that the largest deduction is for low-income people, and the tax deduction rate decreases with the increase in income, which achieves tax justice and each taxpayer bear the tax burden commensurate with their cost ability.

Law No. 91 of 2005 amended by Law No. 97 of 2018:

Under Law No. 91 of 2005	In light of the amendment to Law No. 97 of 2018
<p>Article (8): According to the latest amendment to Law 82 of 2017</p> <p>The tax rates are as follows:</p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> ▪ Up to 7,200 pounds per year exempted <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> ▪ More than 7,200 pounds up to 30,000 pounds (10%) <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> ▪ More than 30,000 pounds up to 45,000 pounds (15%) <p><u>The Fourth bracket:</u></p> <ul style="list-style-type: none"> ▪ More than 45,000 EGP up to 200,000 EGP (20%) 	<p>The tax rates are as follows:</p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> ▪ Up to 8,000 pounds per year exempted. <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> ▪ More than 8,000 EGP up to 30,000 EGP (10%) <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> ▪ More than 30,000 pounds up to 45,000 pounds (15%) <p><u>The Fourth bracket:</u></p> <ul style="list-style-type: none"> ▪ More than 45,000 EGP up to 200,000 EGP (20%) <p><u>The Fifth bracket:</u></p> <ul style="list-style-type: none"> ▪ More than 200,000 EGP (5.22%)

The Fifth bracket:

- More than 200,000 EGP (5.22%)

Those subject to the following three brackets are granted a deduction from the tax due on them as follows:

- **Second bracket 80%**
- **Third bracket 40%**
- **Fourth bracket 5%**

The discount referred to in the previous paragraph shall be granted for one time according to the highest bracket in which the taxpayer falls, and this discount may not be granted to those subject to the fifth bracket.

The total annual net income is rounded to the nearest ten pounds less when calculating the tax.

The Executive Regulations shall specify the method of calculating the tax.

Those subject to the following three brackets are granted a deduction from the tax due on them as follows:

- **second tranche 85%**
- **The third tranche 45%**
- **Fourth tranche 7.5%**

The discount referred to in the previous paragraph shall be granted for one time according to the highest bracket in which the taxpayer falls, and this discount may not be granted to those subject to the fifth bracket.

The total annual net income is rounded to the nearest ten pounds less when calculating the tax.

The Executive Regulations shall specify the method of calculating the tax.

It is clear from the previous table that the personal exemption limit required for the taxpayer's living has been raised to become 8000 pounds instead of 7500. This amendment is consistent with achieving tax justice, as the continuous changes in prices require that this exemption be adjusted to suit changes in the price level, thus amending the second bracket to start from 8000 to 30000 at a rate of 10%

The value of the deduction from the tax due for the brackets has also been raised as follows:

- Second bracket 85%
- Third bracket 45%

- Fourth bracket 7.5%

The discount referred to in the previous paragraph shall be granted for one time according to the highest bracket in which the taxpayer falls, and those who are subject to the fifth bracket are excluded from this discount.

However, despite the increase in the deduction rates for the brackets to reduce the tax burden on the lower-income classes, the practical application of this deduction resulted in a marginal effect for the brackets, which led to distortions in the progression of taxes, as higher tax brackets receive a lower deduction.

Amendments to Law 91 of 2005 by Law 26 of 2020:

Under Law No. 91 of 2005	In light of the amendment to Law No. 26 of 2020
<p>Article (8): According to the latest amendment to Law 97 of 2018</p> <p>The tax rates are as follows:</p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> ▪ Up to 8,000 pounds per year (tax-free) <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> ▪ More than 8,000 EGP up to 30,000 EGP (10%) <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> ▪ More than 30,000 pounds up to 45,000 pounds (15%) <p><u>The Fourth bracket:</u></p> <ul style="list-style-type: none"> ▪ More than 45,000 EGP up to 200,000 EGP (20%) <p><u>The Fifth bracket:</u></p>	<p>The tax rates are as follows:</p> <p>Therefore, the tax deduction system was abolished, and the limits of the brackets expanded as follows:</p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> ▪ Up to 15,000 pounds per year are exempt from tax <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> ▪ More than 15,000 EGP up to 30,000 EGP (2.5%) <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> ▪ More than 30,000 EGP up to 45,000 EGP (10%) <p><u>The Fourth bracket:</u></p> <ul style="list-style-type: none"> ▪ More than 45,000 EGP up to 60,000 EGP (15%)

- More than 200,000 EGP (5.22%)

Those subject to the following three brackets are granted a deduction from the tax due on them as follows:

- **Second tranche 85%**
- **The third tranche 45%**
- **Fourth tranche 7.5%**

The discount referred to in the previous paragraph shall be granted for one time according to the highest bracket in which the taxpayer falls, and this discount may not be granted to those subject to the fifth bracket.

The total annual net income is rounded to the nearest ten pounds less when calculating the tax.

The Executive Regulations shall specify the method of calculating the tax.

The Fifth bracket:

- More than 60,000 EGP up to 200,000 EGP (20%)

The Sixth bracket:

- More than 200,000 EGP up to 400,000 EGP (22.5%)

The seventh bracket:

- More than 400,000 pounds (25%)

To ensure that tax revenues are not wasted, a new bracket has been created for those with incomes of more than 400,000 pounds annually.

The draft law established additional rules to ensure that support is directed to those who deserve it and stipulates that:

- If the annual net income exceeds 600,000 pounds to 700,000 pounds, the taxpayer is not entitled to benefit from the exempted bracket.
- If the annual net income exceeds 700,000 to 800,000 pounds, the taxpayer is not entitled to benefit from the 2.5% social bracket.
- If the annual net income exceeds 800,000 pounds to 900,000 pounds, the taxpayer is not entitled to benefit from the 10% bracket.
- If the annual net income exceeds 900,000 pounds to 1,000,000 pounds, the taxpayer is not entitled to benefit from the 15% bracket.
- If the annual net income exceeds 1,000,000 pounds, the taxpayer is not

entitled to benefit from the 20% bracket.

From the previous table, it is clear that the reason behind this amendment is to reduce the distortions caused by the tax deduction in the tax progression. Therefore, the tax deduction was canceled, and the tax rates were adjusted, as the tax exemption limit was raised to become 15,000 pounds, an increase of 7,000 pounds over the exemption limit before the amendment, which was 8,000, as well as creating a new bracket, reduced at a rate of 2.5%, on incomes up to 30,000 annually to achieve social justice. A new bracket has been created for incomes exceeding 400,000 at a rate of 25% annually.

To maintain the progressiveness of taxes, the legislator set some rules that would not apply the exemption limit to the higher-income classes. If the annual net income exceeds 600,000 pounds, the taxpayer is not entitled to benefit from the exempted bracket (i.e., the 15,000 bracket). If the income exceeds EGP 700,000, the taxpayer is not entitled to benefit from the 2.5% bracket. And so on, to redirect support to those who deserve it.

Amendments to Law 91 of 2005 by Law 30 of 2023:

Under Law No. 91 of 2005	In light of the amendment by Law No. 30 of 2023
<p>Article (8): According to the latest amendment by Law 26 of 2020</p> <p>The tax rates are as follows:</p> <p>The tax deduction system was abolished, and the limits of the brackets were expanded as follows:</p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> Up to 15,000 pounds per year are exempt from tax <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> More than 15,000 EGP up to 30,000 EGP (2.5%) <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> More than 30,000 EGP up to 45,000 EGP (10%) <p><u>The Fourth bracket:</u></p> <ul style="list-style-type: none"> More than 45,000 EGP up to 60,000 EGP (15%) <p><u>The Fifth bracket:</u></p> <ul style="list-style-type: none"> More than 60,000 EGP up to 200,000 EGP (20%) <p><u>The Sixth bracket:</u></p> <ul style="list-style-type: none"> More than 200,000 EGP up to 400,000 EGP (22.5%) <p><u>The seventh bracket:</u></p> <ul style="list-style-type: none"> More than 400,000 pounds (25%) <p>To ensure that tax revenues are not wasted, a new bracket has</p>	<p>The tax rates are as follows:</p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> Up to 21,000 pounds per year are exempt from tax <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> More than 21,000 EGP up to 30,000 EGP (2.5%) <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> More than 30,000 EGP up to 45,000 EGP (10%) <p><u>The Fourth bracket:</u></p> <ul style="list-style-type: none"> More than 45,000 EGP up to 60,000 EGP (15%) <p><u>The Fifth bracket:</u></p> <ul style="list-style-type: none"> More than 60,000 EGP up to 200,000 EGP (20%) <p><u>The Sixth bracket:</u></p> <ul style="list-style-type: none"> More than 200,000 EGP up to 400,000 EGP (22.5%) <p><u>The seventh bracket:</u></p> <ul style="list-style-type: none"> More than 400,000 pounds (25%) <p>In addition to the above tax brackets imposed on net income that does not exceed 600,000 EGP, the tax legislator stipulated that:</p> <ul style="list-style-type: none"> If the annual net income exceeds 600,000 pounds to 700,000 pounds,

been created for those with incomes of more than 400,000 pounds annually.

The draft law established additional rules to ensure that support is directed to those who deserve it and stipulates that:

- If the annual net income exceeds 600,000 pounds to 700,000 pounds, the taxpayer is not entitled to benefit from the exempted bracket.
- If the annual net income exceeds 700,000 to 800,000 pounds, the taxpayer is not entitled to benefit from the 2.5% social bracket.
- If the annual net income exceeds 800,000 pounds to 900,000 pounds, the taxpayer is not entitled to benefit from the 10% bracket.
- If the annual net income exceeds 900,000 pounds to 1,000,000 pounds, the taxpayer is not entitled to benefit from the 15% bracket.
- If the annual net income exceeds 1,000,000 pounds, the taxpayer is not entitled to benefit from the 20% bracket.

the taxpayer is not entitled to benefit from the exempted bracket.

- If the annual net income exceeds 700,000 to 800,000 pounds, the taxpayer is not entitled to benefit from the 2.5% social bracket.
- If the annual net income exceeds 800,000 pounds to 900,000 pounds, the taxpayer is not entitled to benefit from the 10% bracket.
- If the annual net income exceeds 900,000 pounds to 1,200,000 pounds, the taxpayer is not entitled to benefit from the 15% bracket.
- If the annual net income exceeds 1,200,000 pounds, the taxpayer is not entitled to benefit from the 20%, 22.5% bracket. Net income ranging from 1 pound to 1,200,000 pounds is taxed at a rate of 25%, while any net income over that amount is taxed at a rate of 27.5%.

Consequently, this law increased the personal exemption limit to 15,000 pounds, in addition to increasing the scope of the tax-exempt bracket to 21,000 pounds instead of 15,000. Thus, the total tax exemption for a natural person became estimated at 36,000 pounds instead of 24,000 pounds.

Conversely, the lawmaker expanded the range of the tax bracket for income over 900,000, setting the new upper limit for this bracket at 1,200,000 pounds instead of 1,000,000 pounds.

Amendments to Law 91 of 2005 by Law 175 of 2023:

Under Law No. 91 of 2005	In light of the amendment by Law No. 175 of 2023
<p>Article (8): According to the latest amendment by Law 30 of 2023</p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> Up to 21,000 pounds per year are exempt from tax <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> More than 21,000 EGP up to 30,000 EGP (2.5%) <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> More than 30,000 EGP up to 45,000 EGP (10%) <p><u>The Fourth bracket:</u></p> <ul style="list-style-type: none"> More than 45,000 EGP up to 60,000 EGP (15%) <p><u>The Fifth bracket:</u></p> <ul style="list-style-type: none"> More than 60,000 EGP up to 200,000 EGP (20%) <p><u>The Sixth bracket:</u></p> <ul style="list-style-type: none"> More than 200,000 EGP up to 400,000 EGP (22.5%) <p><u>The seventh bracket:</u></p> <ul style="list-style-type: none"> More than 400,000 pounds (25%) <p>In addition to the above tax brackets imposed on net income</p>	<p>The tax rates are as follows:</p> <p><u>The first bracket:</u></p> <ul style="list-style-type: none"> Up to 30,000 pounds per year are exempt from tax. <p><u>The second bracket:</u></p> <ul style="list-style-type: none"> More than 30,000 EGP up to 45,000 EGP (10%) <p><u>The third bracket:</u></p> <ul style="list-style-type: none"> More than 45,000 EGP up to 60,000 EGP (15%) <p><u>The Fourth bracket:</u></p> <ul style="list-style-type: none"> More than 60,000 EGP up to 200,000 EGP (20%) <p><u>The Fifth bracket:</u></p> <ul style="list-style-type: none"> More than 200,000 EGP up to 400,000 EGP (22.5%) <p><u>The Sixth bracket:</u></p> <ul style="list-style-type: none"> More than 400,000 pounds (25%) <p>In addition to the above tax brackets imposed on net income that does not exceed 600,000 EGP, the tax legislator stipulated that:</p> <ul style="list-style-type: none"> If the annual net income exceeds 600,000 pounds to 700,000 pounds,

that does not exceed 600,000 EGP, the tax legislator stipulated that:

- If the annual net income exceeds 600,000 pounds to 700,000 pounds, the taxpayer is not entitled to benefit from the exempted bracket.
- If the annual net income exceeds 700,000 to 800,000 pounds, the taxpayer is not entitled to benefit from the 2.5% social bracket.
- If the annual net income exceeds 800,000 pounds to 900,000 pounds, the taxpayer is not entitled to benefit from the 10% bracket.
- If the annual net income exceeds 900,000 pounds to 1,200,000 pounds, the taxpayer is not entitled to benefit from the 15% bracket.
- If the annual net income exceeds 1,200,000 pounds, the taxpayer is not entitled to benefit from the 20%, 22.5% bracket. Net income ranging from 1 pound to 1,200,000 pounds is taxed at a rate of 25%, while any net income over that amount is taxed at a rate of 27.5%.

the taxpayer is not entitled to benefit from the exempted bracket.

- If the annual net income exceeds 700,000 to 800,000 pounds, the taxpayer is not entitled to benefit from the 2.5% social bracket.
- If the annual net income exceeds 800,000 pounds to 900,000 pounds, the taxpayer is not entitled to benefit from the 10% bracket.
- If the annual net income exceeds 900,000 pounds to 1,200,000 pounds, the taxpayer is not entitled to benefit from the 15% bracket.
- If the annual net income exceeds 1,200,000 pounds, the taxpayer is not entitled to benefit from the 20%, 22.5% bracket. Net income ranging from 1 pound to 1,200,000 pounds is taxed at a rate of 25%, while any net income over that amount is taxed at a rate of 27.5%.

Consequently, this legislation expanded the range of income that is not subject to taxation to 30,000 pounds, up from 21,000 pounds. As a result, the total amount of income exempt from taxes for an individual is now expected to be 45,000 pounds, instead of 30,000 pounds. However, the

legislator decided to eliminate the social bracket that had a rate of 2.5%, resulting in the second bracket beginning at a rate of 10%.

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كلية التجارة

46

Section two

Income tax on natural persons

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كلية التجارة

Chapter 3

Tax on salaries and the like

Introduction:

The tax legislator stipulates the tax treatment of salaries and the like in Chapter 2 of Book 2 (Income Tax of Natural Persons) of Law (91) of 2005 and its amendments, starting from Article 9 to Article 16. In addition, the executive provisions of this tax treatment are outlined in the Law and its modifications, beginning with Article (10) and ending with Article (23).

According to the provisions and articles, whether in the Law or its executive Regulation and their amendments, the employment contract is the basis for imposing a tax on salaries and the like. This is referred to as employment gain, where tax is levied on the income of dependent work, which is defined as labor performed on behalf of and under the supervision and control of another, whether natural or legal.

The legislator obliged employers, including companies and projects established under the free zones' regime, to withhold at the source the amount of due tax on salaries and the like and remit it to the competent Tax Office within the first fifteen days of the following month in which the withholding took place. Employers and those obligated to withhold the tax must pay any tax differences without prejudice to their right to claim to the taxpayer what is owed.

The revenues included in the tax base are computed for each part of the year in which any taxable revenue was acquired, in proportion to its period to one year (the proportional accrual) and based on the monthly revenue after converting it into an annual revenue (annual tax). The tax on salaries and the like is considered a monthly tax (collected monthly) as it is deducted from the monthly salary of employees.

This chapter discusses the tax treatment of salaries and the like under the provisions of Law No. 91 of 2005, its executive regulations, and their amendments in terms of the scope of the tax, taxable revenues, tax exemptions, as well as determination, calculation, and settlement of the tax at the end of the tax period, and finally tax rate exceptions.

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49

First: The scope of the tax:

Article (9) of the Law stipulates that the tax applies to salaries and the like as follows:

- 1- All earnings by a taxpayer resulting from work for third parties, with or without a contract, on a regular or irregular basis, regardless of such dues names, forms, or reasons, whether they are for works performed in Egypt or abroad, and the consideration thereof was paid from a source in Egypt, including wages, bonuses, incentives, commissions, grants, additional payments, allowances, dividends or shares in profits and cash and in-kind benefits of all types;
- 2- All earnings by a taxpayer from a foreign source for work performed in Egypt;
- 3- Salaries and remunerations of non-shareholding chairpersons and board members of public sector and public business sector companies;
- 4- Salaries and remunerations of chairpersons, board members, and managers of corporations in return for their administrative work.

It is thus evident that the legislator adopts residence and source of income principles when defining the scope of the tax on salaries and the like. The basis for imposing the tax is the entitlement of the income to the natural person, as Article (2) of the general provisions stipulates that In applying the provisions of this law, a natural person is an Egyptian resident in any of the following cases:

- 1- If having permanent residency in Egypt.

2- If residing in Egypt for more than 183 continuous or intermittent days within twelve months.

3- An Egyptian working abroad and receiving income from an Egyptian Treasury.

Likewise, Article (3) of general provisions stipulates that Income earned from a source in Egypt includes the following:

a) Income from services rendered in Egypt, including salaries and the like.

b) Income paid by an employer residing in Egypt, even if the work is performed abroad.

In all cases, according to Article (14) of the law, employers and those required to pay taxable revenues, including companies and projects established under the free zones' regime, shall withhold from the amounts payable and stipulated in Article (9) of this law, an amount on account of the due tax, according to the percentage determined by the Executive Regulation of this law. They shall remit to the competent tax office within the first fifteen days of each month the payments withheld in the previous month.

The most important forms of income subject to tax on salaries and the like can be explained according to what is stated in the law, as follows:

1- Salaries and the like, wages:

Salaries and the like are the amounts payable to employees for their work as a result of a dependency relationship resulting from an employment contract, paid periodically and often monthly. The legislator added the term "the like" to ensure that the provision is comprehensive to prevent any ambiguity and that no person would evade or avoid tax, for example, the tips received by workers of public shops such as cafes and hotels, the monthly salaries paid to wives of mission members.

As for the wages, it means the amount the worker receives daily in exchange for the work that has been accomplished, and it is usually paid at close intervals (daily, once a week, or every two weeks). The taxable wages also include the grants awarded to workers on specific occasions and the periodic rewards paid to them in addition to the basic wage. Consequently, regardless of the varying designations of the sums earned by employees and workers, they are regarded as taxable income, whether the labor is mental or physical, technical or non-technical.

2- Bonuses:

It refers to amounts paid to employees in addition to their basic salary in exchange for work or services provided to the establishment, such as incentive rewards, rewards for marking answer sheets in universities, special rewards, etc. These amounts are subject to tax regardless of whether they are periodic or not, except for severance allowances, which

are exempt from taxation because they represent compensation for leaving a job, not an income for work, and they lack the periodicity aspect.

Regarding the rewards received from another place rather than the original employer, Article (11) stipulates that as an exception to the provisions of article (8) herein, tax is also imposed on amounts earned by residents from other than their original place of employment at a rate of (10%) without any reduction to cover costs, and without further deductions.

In this regard, the executive regulation has clarified in Article (15) that the original place of employment is where the employer works and receives their original salary. The original employment place is where workers work more than 50 percent of their time or earn more than 50 percent of their income throughout the tax period.

Finally, in all cases, the tax shall be withheld and remitted to the competent tax office within the first fifteen days of every month, according to the rules and procedures specified in the Executive Regulation of this Law.

3- Incentives:

It is the amounts that workers obtain for additional efforts, increased production, reduced manufacturing costs, or production of new products aimed at increasing sales.

4- Commissions:

They are amounts earned by employees that are typically computed as a percentage of sales or amounts collected in addition to their basic salary. Consequently, they are subject to payroll tax as part of employees' salaries.

5- Grants and additional payments:

Grants are the amounts granted to employees on certain occasions, subject to taxation if they are paid individually to certain employees.

Additional payments are the amounts paid to employees for overtime exceeding official working hours and are consequently liable to payroll tax.

6- Allowances:

There must be a distinction between three types of allowances:

- **Allowances granted not in exchange for an actual cost**, which are the allowances awarded by the government and businesses to workers that are not in exchange for actual costs spent by workers or employees to execute their jobs, are taxable. For instance, the allowance for the work's nature which is an integral part of the salary under Article (9) of the law.
- **Allowances granted in exchange for an actual cost**, such as transportation allowance, which is in exchange for transportation expenses incurred by employees in the execution of a task, as well as

travel allowances, which are paid to employees when they travel to perform work related to their job, as well as clothing allowance and housing allowance, are not subject to tax, provided they are granted in exchange for actual cost.

- **Allowances are exempted under specific laws**, such as representation and reception allowances for employees in senior administrative positions in the government and public sectors to meet the requirement that they appear decently. The same applies to the university allowance granted to staff members, and the agency, deanship, and department chair allowances in universities, which are exempted under the Universities Organization Law. They also include allowances awarded to members of the judiciary that are exempt from taxation under applicable laws.

7- Dividends or shares in profits (Profit-based wages):

They are the amounts the establishment pays workers as wages based on a certain percentage of profits. These amounts are considered part of the salary and are therefore subject to tax. Although such payments are calculated as a percentage of the firm's net earnings, they are distinct from the dividends distributed to employees under the Law.

8- Cash benefits:

Amounts that the worker receives in addition to the salary on a regular or occasional basis, whether paid by the employer or those who deal with the establishment, such as gifts or tips - obligations paid on behalf of workers,

club membership, syndicate subscription. For cash benefits to be subject to tax, it is required.

- a) The benefits result from the dependent relationship under the employment contract.
- b) The benefits represent a personal benefit for the worker without being required by the nature of the work.

9- In-kind benefits:

They are what is granted to the worker in an in-kind form without charge, such as free accommodation, free food, and a free car. For these benefits to be taxable, the following must be met:

- a) Achieving a personal advantage (benefit) for the worker.
- b) Not to be granted to facilitate the work to be accomplished.

Where such benefits are taxed, two situations must be distinguished:

- A- If the in-kind benefits are granted in exchange for cash: The difference between the market value of the in-kind benefit and that cash is subject to tax.
- B- If the in-kind benefits are granted free of charge: they are subject to tax at their full market value.

The rules for determining the value of in-kind benefits that are subject to tax under the law are as follows:

As Article (11) of the executive regulation clarified that what is meant by cash and in-kind benefits, in the application of the provision of Article (9)

of the law, is everything that workers receive in cash or in-kind without it being compensation for expenses incurred to perform their work, and that it represents a personal benefit for them.

The value of the in-kind benefit is estimated based on the market value. However, the value of the following in-kind benefits is estimated as indicated for each of them respectively:

1- Company vehicles made available to the employee for personal use:

This benefit is set at 20% of the value of fuel, insurance, and periodic maintenance related to these cars, whether owned or rented by the company.

2- Mobile: The value of this benefit is equivalent to 20% of annual phone-related expenses.

3- Loans and advances from employers:

Suppose the employer grants the employee a loan over the total amount paid during the six months preceding obtaining the loan without interest or with an interest of less than 7%. In that case, the benefit value shall be determined at 7% or the difference between the loan interest rate and the aforementioned interest rate if the loan interest rate is less than 7%. This means that a distinction must be made between:

a) A loan or advance is not regarded as a taxable benefit if its total value does not exceed the employee's wage for the six months before the loan or advance or if its interest rate is higher than 7%.

- b) If the amount of the loan or advance exceeds the total salary of the six months preceding the loan or advance and the interest rate is less than 7%, the tax advantage is figured by multiplying the total value of the loan or advance by the difference between 7% and the interest rate at which the loan or advance was granted.

The loan includes any form of the loan, including advance payments made or shown in the employer's books and records, which are charged to the employee's account.

4- Insurance policies on the life of the workers, their family, or their property: The value of this benefit is determined by the employer's contribution to the annual premiums.

5- Company shares awarded below the market value of the share:

The benefit's value depends on the difference between the market value of the share at the time it was acquired, and the amount charged to the employee. If there are limits on the transfer of ownership of shares, the benefit will not be realized until these restrictions are removed.

It is clear from the preceding that the legislator has defined the scope of the tax on salaries and the like based on the income that is due to a natural person as a result of working for others, whether with or without a contract and whatever its names (wages - bonuses - incentives - allowances - commissions - grants - additional wages - cash and in-kind benefits) whether the business relationship is periodic or non-periodic.

Third: Tax exemptions:

Article (12) of the Law states that neither pensions nor Severance allowances are subject to tax. Pensions are the amounts paid by the government, the authorities, and the companies to former employees or their heirs for their previously performed services.

In applying the provisions of Clause [2] of Article (12) of the Law, Article (16) of the executive regulation defines severance allowances as the remuneration decided by the systems applied in the entity, company, or establishment upon the end of the worker's service. If these systems do not exist or do not regulate this remuneration, the provisions of the Labor Law shall govern the determination of severance allowances. These allowances are not subject to tax because they are paid to the employee as compensation for ending work and not as an addition to the employee's salary or wages.

Likewise, in this context, Article (13) and its last amendment, according to Law No. 30 of 2023, added more exemptions, as it stipulated that Without prejudice to other tax exemptions granted by special laws, the following are tax-exempt:

- 1- An amount of 15000 pounds as the annual personal exemption for the taxpayer:** This exemption is attributed to the tax year based on the period for which the taxable revenue is due.

2- Social insurance contributions and other payments deducted according to the provisions of the social insurance laws or any alternative systems thereto;

The legislature exempted the employee's share in social insurance contributions and other payments deducted under the provisions of the social insurance laws or any alternative regulations.

In applying the provision of Clause [2] of Article (13) of the legislation, Article (17) of the executive regulations defines alternative systems as those established in line with the provisions of Law No. 64 of 1980 or any of the other Egyptian laws.

The employee's share in social insurance contributions is calculated **under the provisions of the Social Insurance and pensions Law No. 128 of 2019 and its executive regulations, as follows:**

- a) **Determining the wage for contributions:** It is the monetary amount the insured receives, and its value is determined by all the worker earns, except for the allowances required to perform the work, provided that they do not exceed 25% of the subscription wage.

The minimum and maximum monthly contributions' wage are set at 1,000 pounds and 7,000 pounds, respectively, as of 1/1/2020. Both increase annually by 15% on the first of January of each year for seven years ending on 12/31/2027. Then these two limits are increased by the inflation rate, and the monthly minimum and maximum limits are rounded to the

hundred pounds high. Thus, the maximum and minimum limits for 2022 amount to 9400 pounds and 1400 pounds, respectively.

The following table outlines the maximum and minimum wages for contributions from the commencement of the law's execution to the end of 2027.

Starting from	Monthly insurance wage	
	Minimum	Maximum
January 2020	1000	7000
January 2021	1200	8100
January 2022	1400	9400
January 2023	1700	10900
January 2024	2000	12600
January 2025	2300	14500
January 2026	2700	16700
January 2027	3200	19300

b) **Calculating the monthly contributions**, the employee bears for the contribution wage at 11% of the contribution's wage value.

3- Employees' subscriptions in private insurance funds established according to the provisions of the Private Insurance Funds Law, promulgated by law no. 54 of 1975.

4- Life and health insurance premiums for the taxpayer, or in favor of his wife or minor children; or any insurance premiums for pension entitlement.

For items (3) and (4), the total exemption for a taxpayer shall not exceed (15%) of the net revenue or ten thousand pounds, whichever is greater. The same contributions and premiums (paid) from any other income stipulated in article (6) of this law may not be repeatedly exempted.

5- The following collective in-kind benefits:

- (a) Meals offered to employees;
- (b) Collective transportation of employees or the equivalent cost;
- (c) Health care;
- (d) Tools and clothing necessary for performing the work.
- (e) Accommodation provided by an employer to employees for the performance of work.

6- Employees' dividends distributed according to the law.

This is because it is part of the company's total profits that are subject to tax on the profits of legal persons, as these profits are not considered deductible costs from the tax base on the profits of legal persons.

7- Amounts received by members of the diplomatic and consular corps, international organizations, and other foreign diplomatic representatives, in the scope of their official work, on condition and to the extent of reciprocity.

In addition to the exemptions as mentioned earlier from salary and the like tax under Law 91, there are some other exemptions stipulated by special laws, which are as follows:

- (a) **Special bonuses:** This refers to the special bonuses that were not subject to taxation from the date of their issuance in 1987 through the end of 2013, as the special bonuses issued from 2014 to the present are subject to tax under their laws.
- (b) **Some allowances:** such as representation and reception allowances for state and public sector workers, university allowances, deanship allowances, department head allowances for staff members, and others.
- (c) **Lieu of vacations:** This is what the employee receives in exchange for the balance of regular leave upon being referred to the pension system.
- (d) **Stamp duty Tax:** it is imposed on amounts paid by government agencies and public sector businesses in the form of salaries, bonuses, the like, and subsidies.:

- The first 50 pounds are exempt
- More than 50 pounds to 250 pounds, six per thousand
- More than 250 pounds to 500 pounds, six and a half per thousand
- More than 500 to 1000 pounds, seven per thousand
- More than 1,000 to 5,000 pounds, seven and a half per thousand
- More than 5,000 to 10,000 pounds is eight per thousand
- More than 10,000 is calculated as three in a thousand

Fourth: Determining, calculating, and settling the tax base at the end of the tax period:

Article (10) stipulates that the Revenues included in the taxable base shall be determined for each part of a year in which any taxable revenue was earned in proportion to a year, based on the monthly revenue after transferring it to annual revenue.

If a change occurs in the taxable base, the calculation of the base shall be adjusted from the date of change based on the new or old base, whichever is less, after transferring such to annual revenue. An adjustment must be made every year according to the procedures and rules specified by the Executive Regulation of this law.

Block salaries, wages, and the like paid in a single payment in a specific year must be apportioned among the years of entitlement after excluding payments in lieu of vacations. Income included in the tax base must be recalculated for each year, and the tax due shall be adjusted accordingly.

Accordingly, the calculation and settlement of the tax on salaries and the like are based on the revenues the employee or worker receives during one year. Still, the tax is deducted monthly, provided that a final settlement of the tax due on the employee or worker is conducted at the end of the year based on the following:

1- Determining tax base:

The tax applies to the total net salaries and the like the taxpayer obtains. All taxable revenues are counted within twelve months, provided legally stipulated exemptions are deducted.

2- Calculation of monthly tax payable:

The tax is calculated annually and then divided by twelve to determine the monthly tax that must be withheld from the employee's wage. The tax is calculated according to the tax rate stipulated in Article (8), amended under Law No. 26 of 2020, as follows:

Tax rate	Net Income less than 600000	Net Income of more than 600000 and less than 700000	Net Income of more than 700000 and less than 800000	Net Income of more than 800000 and less than 900000	Net Income of more than 900000 and less than 1200000	Net Income of more than 1200000
0%	1:30000	-	-	-	-	-
10%	30001:45000	30001:45000	-	-	-	-
15%	45001:60000	45001:60000	1:60000	-	-	-
20%	60001:200000	60001:200000	60001:200000	1:200000	-	-
22.5%	200001:400000	200001:400000	200001:400000	200001:400000	1:400000	1: 1200000
25%	More than 400000	More than 400000	More than 400000	More than 400000	More than 400000	More than 1200000
27.5%						

3- Tax adjustments at the end of the year:

- Employers and those required to pay taxable revenues shall withhold an amount monthly on account of the due tax and remit to the competent tax office within the first fifteen days of each month the payments withheld in the previous month.

- In the event of a change in the taxable revenue, such as the employee obtaining an allowance or because of a deduction from the salary for a penalty imposed on him, the calculation of this revenue is adjusted from the date of the change based on the new or old revenue, whichever is less, after converting such into annual revenue.
- At the end of each year, an adjustment is made, and all the amounts received by the employee or worker are recorded; deductions and exemptions decided by the legislator are subtracted from these amounts, the tax is calculated, and its value is determined for the whole year, and the tax that the employee or worker previously paid monthly is deducted from the annual tax.
- Employers and those required to remit such revenue shall pay any tax differences due, without prejudice to their right to claim from the taxpayer what is owed or to reimburse him for the increase in the case of a creditor.
- The employer may retain the tax payable on the difference between the new and old revenue for the worker account to make the settlement at the end of the fiscal year.
- Regarding Block salaries, wages, and the like paid in a single payment in a specific year, which is related to years before this year, it must be apportioned among the years of entitlement after excluding payments in lieu of vacations. The income included in the tax base must be

recalculated for each year, and the tax due shall be adjusted accordingly.

Finally, to sum up, the tax is settled at the end of the year by calculating it on all the amounts the employee received during the year, including the incidental revenues, and deducting what was previously paid from it monthly.

Fifth: Exceptions to tax price:

Tax is also imposed on amounts earned by residents from other than their original place of employment at a rate of (10%) without any reduction to cover costs or further deductions. The tax shall be withheld and remitted to the competent tax office within the first fifteen days of every month, according to the rules and procedures specified in the Executive Regulation of this law. This applies to all state employees, whether from the public sector, the public business sector, or others, regardless of the agency or body employing them, as long as this entity has its legal personality separate from the original employer.

It is noticeable from the previous that the tax legislator has eliminated the exception for non-residents (Egyptians or foreigners), as their income is subject to the tax rates in Article (8) and not at the rate of 10% as it was before the last amendment under Law No. 11 of 2013.

Activities

Exercise 1

A public sector employee received the following amounts for the year 2020 (in pounds):

Basic wage including bonuses of 4.000 EGP per month, production incentives of 2.000 EGP per month, work nature allowances of 100 EGP per month, a cash amount of 500 EGP per month for a meal, bonuses (outside basic wage) 200 EGP per month, MSC incentive 100 EGP per month.

The following information is available:

- The monthly contribution wage for social insurance is 1500 EGP.
- Minimum and maximum monthly contribution wage of social insurance for the year 2020 (1000, 7000).
- Subscription in private funds of 4000 EGP annually, and insurance premiums on the life of the taxpayer for his wife of 8000 pounds annually
- Social allowances of 180 per month.
- The employee worked for another party (non-original) with a monthly salary of 1500 EGP.
- Exempted allowance because of inflation of 200 EGP per month.
- The relative stamp tax per year amounted to 120 pounds.
- A mobile phone is dedicated to the employee, and his annual expenses amounted to 1000 EGP.

- Deducts from the employee's salary monthly: a car installment of 1000 EGP, social club installments of 300 EGP, and a legitimate expense of 500 EGP.

Instructions: Tax due to be supplied to Tax Authority for the year

Solution

• Determination of the taxable base:

		Revenues:
	48000	Annual basic wage 4000×12
	24000	Annual production incentives 2000×12
	1200	Annual work allowances 100×12
	6000	Cash amount for 500 $\times 12$ Meal
	2400	Bonuses not included annually 200×12 .
	1200	MSC Incentive 100×12
	200	Mobile Features $1000 \times 20\%$
83000		Total Revenues
		Deduct Exemptions:
		1– Amounts (allowances) exempted by a specific law.
	2160	Exempt social allowance 180×12 .
	2400	Exempted allowance of inflation 200×12
	zero	2– Exempt amounts for actual costs:
		3– Exempted amounts according to Article (13):
	15,000	Personal exemption
	1980	The worker's share in the social security = $1500 \times 11\% \times 12$
21,540		Total discounts

61,460		Net Revenue
	9219	Deductions:
		✓ The worker's subscription to special funds and Life insurance premiums
		1- Paid 12000
		2- Max: 15% of net revenue is 9219 or 10,000, whichever is less (9219).
		3- Exempted amount (paid or maximum, whichever is less) 10,000.
	120	✓ Relative stamp tax
(9339)		
52,121		Net taxable income
52,120		The tax base is rounded to the nearest 10 EGP less

• **Tax due:**

- Exempted bracket 30,000 EGP.
- First bracket $15000 \times 10\% = 1500$ EGP.
- Second bracket $7120 \times 15\% = 1068$ EGP.

- Tax due from the original place of employment = 2568 EGP.
- Tax on amounts from other than the original place of employment.
= $1500 \times 12 \times 10\% = 1800$

- **The due tax annually = $1800 + 2568 = 4368$ EGP**

- **The tax payable monthly is 364 EGP.**

Exercise 2

An employee in one of the foreign companies operating in Egypt received the following amounts (in pounds) for one of the months during 2021:

Basic monthly salary 1200 EGP, 13,000 annual bonuses, 600 additional monthly wages, 700 annual nature of work allowance, 8,000 annual representation and reception allowances, 17,000 annual production incentives, 500 monthly transportation allowance for actual cost, 600 monthly meal cash allowance.

Note that he obtained free air tickets for himself and his wife worth 14000 EGP, subscribed to one of the private insurance funds at the rate of 600 LE per year, and pays a life insurance premium for the benefit of minor children at the rate of 1200 LE per year, the allowances received by the worker are not exempted by special laws.

- 1- A monthly subscription wage for social insurance is 1800 EGP.
- 2- Minimum and maximum insurance Monthly subscription wage of insurance for the year 2021 (1200, 8100).

Instructions: Calculate the annual tax due

Solution

1- Determination of the tax base:

14,400	Annual Base Salary (1200×12)
13,000	Annual Bonus
7,200	Additional wages (600×12)
700	Annual nature of work allowance
8,000	Annual representation and reception allowance
17,000	Annual production incentives
6,000	Annual transfer allowance (500×12)
14,000	Free tickets
7,200	Annual Meal Allowance (600×12)
87,500	Total Earned by the Worker
	Deducted from:
zero	1. Amounts (allowances) exempted by a specific law.
	2. Exempt amounts for actual costs:
6,000	Transfer Allowance
	3. Exemptions according to Article (13):
15,000	Personal exemption
2376	Social Insurance $1800 \times 11\% \times 12$ = 2376
(23,376)	
64,124	Net Revenue

1800	Deductions: 1- Insurance subscriptions in special funds and health and life insurance subscriptions for the benefit of the taxpayer, spouse, or minor children within 15% of the net income (9619) or 10000 EGP, whichever is less. Article (13): <ul style="list-style-type: none"> Subscription to insurance funds 600 life insurance premiums of taxpayers 1200 Total actual amount = 1,800 EGP Maximum = 10,000 EGP
62,324	Tax base
62.320	The tax base is rounded to the nearest 10 EGP less

- **Tax due:**
 - Exempted bracket 30,000 EGP.
 - First bracket $15,000 \times 10\% = 1500$ EGP.
 - Second bracket $15000 \times 15\% = 2250$ EGP.
 - The remaining bracket $2320 \times 20\% = 464$ EGP.
- **Annual Tax = 4,214 EGP.**
- **Monthly due tax = $4214 / 12 = 351.16$ EGP**

Exercise 3

1- A government employee will receive the following amounts per month for 2023:

basic salary of 7500 EGP (includes 1350 EGP added special allowance (exempted), 3600 EGP incentives, 360 transfer allowance against actual cost, 1500 non-added special allowance (exempted), 720 nature of work allowance, 3000 EGP additional wages, 90 additional social allowances (exempted).

2- If you know that:

- The employee pays a monthly 150 EGP subscription to a private insurance fund.
- The relative stamp tax due monthly is 25 EGP.
- A monthly subscription fee for social insurance is 12000 EGP (Minimum= 1700, Maximum= 10900).

Instructions: Calculate tax due:

Solution:

1- Determining the annual tax base:

Statement	Partial	Total
A- Basic salary = 7500×12		90000
B- Variable wages:		
Incentives (3600×12)	43200	
Transfer allowance (360×12)	4320	
Non-added special allowance (1500×12)	18000	
Allowance of nature work = 720×12	8640	
Additional wages (12×3000)	36000	
Additional Social Allowance (90×12)	1080	111240

Total Annual Revenue		201240
Deductions:		
A- Amounts exempted by special laws:		
Special Allowance (included in salary (1350×12)	16200	
Non-added special bonus	18000	
Social allowance	1080	
B- Allowances to meet actual expenses:	4320	
Transfer allowance		
C- Exempted amounts in accordance with the Tax Law, Article (13):	15000	68,988
Personal Exemption (Law 26 of 2020)	14388	
Social Insurance = $10900 \times 11\% \times 12$		
Annual Net Revenue		132.252
Deductions:		
1- Life insurance premiums and special fund subscription		
Actual Amount = (150×12) Article (13) = 1800	1800	
Maximum (19,838 or 10,000 whichever is less) = 10,000		
- Relative stamp tax 25×12	300	2100
Net taxable income		130.152
Tax base (to the nearest 10 pounds less)		130.150

2- Calculation of tax due:

- Exempted bracket 30,000 EGP.
- First bracket = $15000 \times 10\% = 1500$

- Second bracket = $15000 \times 15\% = 2250$
- Remaining bracket = $70150 \times 20\% = 14,030$
- **Annual tax due = 17,780 EGP.**
- **Tax due = $17,780 / 12 = 1481.6$ EGP**

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Exercise 4

1- A government employee received the following (amounts in pounds) from the first of January 2022:

- ✓ basic salary of 10,000 EGP (includes 3,000 special bonuses added).
- ✓ Production incentives 4500.
- ✓ actual transfer allowance of 1500.
- ✓ Allowance of work nature 2000.
- ✓ representation and reception allowance of 4000.
- ✓ additional social allowances 350.

2- If you know that:

- 1- He made two insurance policies, one for his wife and minor children with a monthly premium of 550 EGP and another for his father with a monthly premium of 300 EGP.
- 2- The stamp tax per year is 200 EGP.
- 3- A monthly subscription fee for social insurance is 15000 EGP (Minimum= 1400, Maximum= 9400).

Instructions: Calculate the tax due for the month of 1/2022.

Solution:

1- Determining the annual base of the tax:

	120,000	Annual basic salary
	54000	Production Incentives
	18000	Actual transfer allowance
	24000	Allowance of work nature
	48000	Allowance of representation and reception
	4200	Additional social allowance
268200		Total Earned by the Worker
		Deductions:
		Exemptions by special laws:
	36000	Added Special Allowance (3000×12)
	48000	Representation and reception allowance
	4200	Additional social allowance
		Allowances to meet actual costs:
	18000	Transfer allowances
		Exemptions according to the Tax Law:
	15,000	Personal exemption
	12408	Social insurance = $9400 \times 11\% \times 12 = 12408$
133,608		Total Deductions
134,592		Net Revenue
		Deductions:
	6600	1- Life insurance premiums and special fund subscription
		life insurance premiums of the taxpayer (550×12) = 6600
		Max (134,592 × 15% = 20,189 or 10000 whichever is less) = 10000.
6800	200	2- Stamp duty tax
127,792		Tax base
127,790		The tax base is rounded to the nearest 10 EGP less

2- Tax due:

- Exempted bracket 30,000 EGP.
- First bracket = $15000 \times 10\% = 1500$ EGP.
- Second bracket = $15000 \times 15\% = 2250$ EGP.
- Remaining bracket = $67,790 \times 20\% = 13,558$ EGP.
- **Annual Tax Due = 17,308 EGP.**
- **Tax due = $17,308 / 12 = 1442.33$ EGP.**

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Chapter 4

Tax on Commercial and Industrial Activity

Introduction:

The profits of commercial and industrial activity are regarded as a component of the income of natural persons, and the legislator has strived, within the framework of direct taxes, to broaden the scope of taxation on such activities. Chapter Two of Book Two of the Income Tax Law No. 91 of 2005 and its amendments determined Provisions of tax on the income of natural persons from commercial and industrial activity starting from Article (17) to Article (31).

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.

First: Conditions for applying the tax:

The following are the general prerequisites of the law governing the taxation of revenues derived from commercial and industrial activity:

1. Professionalism of the activity

This entails practicing the activity habitually and repeatedly, and it is not required that this repetition occurs during the same tax period, as it depends on the nature of the activity, such as in construction contracts, the execution of a contract may require more than one tax period. However, the legislator excludes from the requirement of professionalism the net profits of one transaction from any commercial or industrial activity. Such transaction is subject to tax under item (3) of Article (19) of the Law, provided that the existence of an intention to resell upon purchase and that transaction is with the intention of earning. Thus, it has been subjugated as it often makes a large profit.

On the other hand, the legislator does not require the availability of a certain eligibility or the existence of a stable and fixed place to practice the activity, but rather it is sufficient to practice the activity repeatedly to be subject to the tax (such as a real estate broker or a minor heir as a partner in a de facto company arising from the inheritance of a sole proprietorship).

In this regard, clause (4) of Article (19) of the Law stipulates that Profits from a transaction or transactions carried out by brokers and agents on the commission and, in general, all profit realized by any person

who is engaged in the brokerage business to purchase, sell or lease real property or any kind of goods, services or movable assets shall be subject to tax. The legislator based this provision on the basis that brokerage is regarded as a commercial business, even if it was performed just once or the person who charges for it is not a trader.

2. Independence:

To be subject to tax, a taxpayer must carry out a commercial or industrial activity independently, for his account and under his responsibility, without the cooperation of others, and to earn a profit for himself. Where the taxpayer must not have any dependency, otherwise he is subject to the supervision or direction of others under an employment contract; otherwise, the resulting revenue is considered a salary or a wage subject to payroll tax and the like.

For instance, if a person is hired to manage a business in exchange for a share of the profits, their income is deemed a salary; thus, it is not subject to taxes on commercial and industrial activities. In contrast, if it is agreed to carry out management duties in exchange for a share in the capital, what this person receives is considered a distribution of profits due to practicing the commercial activity independently. Therefore, it is subject to tax on legal persons' commercial and industrial activity.

Accordingly, this tax does not apply to partners in partnerships, except for partners in corporations de facto resulting from the inheritance of a sole proprietorship, where each person heir of this company shall be

treated as an individual taxpayer under Article (1) of the executive regulation of the Law.

In this context, the legislator clarified in Article (19) of the law this condition, as it stipulated that **Tax shall apply to the profits of commercial and industrial activity, including** Profits of commercial, industrial, mining, quarrying and petroleum establishments; Profits of artisans and small businesses; Profits realized from any commercial or industrial activity even if limited to one transaction; Profits from a transaction or transactions carried out by brokers and agents on commission; Profits by those engaged in the construction or purchase of real property with the intention of selling them professionally. This confirms the requirement for the taxpayer to work for himself and not for others.

3. Intent of making a profit:

The intention to achieve profits is a prerequisite for the tax to apply to the revenues of commercial and industrial activity, as imposing the tax requires the availability of the intention to earn by the taxpayer when practicing the activity. The legislator does not consider the nature and legitimacy of the taxpayer's activity but investigates the availability of the intention to sell when buying to make a profit.

For instance, if a person purchases a good for personal use and subsequently resells it for a profit, the profit is not taxable. Therefore, if a

taxpayer engages in non-profit activities, such as social, cultural, religious, or charity endeavors, they are not subject to tax.

The legislator has always tried to stipulate that the aim of practicing the activity is to earn a profit. Whereas, in the case of subjecting the profits of a single transaction to tax, despite overlooking the requirement of professionalism, the legislator emphasized the availability of the intention to earn, as in Article No. (25) of the executive regulations of Law No. No. 91 of 2005 clarified that the purchase must be for selling.

4. Practicing the activity through a sole proprietorship:

Revenues derived from commercial and industrial activities are included in taxable income if realized by a sole proprietorship as the legislator imposed the tax on the profits of commercial and industrial activities practiced through a sole proprietorship. In contrast, in the case of practicing these activities through one of the companies (corporations or partnerships), the profits of that company are subject to tax on the profits of legal persons, the provisions of which are stipulated in Book Three of Law 91 of 2005.

5. Making a profit in Egypt or abroad:

The tax applies to the profits of a sole proprietorship operating in Egypt that carries out a commercial or industrial activity, whether it is Egyptian, and its income is realized from operations inside or outside Egypt, as long as Egypt represents the center of its activity or a foreigner

sole proprietorship who carries out business in Egypt. A foreign establishment is deemed to be operating if it has a stable branch in Egypt (physical presence) or if it has representatives in Egypt who are subordinate to its commands and directives and carry out a regular commercial or industrial activity.

Article (6) of Law 91 of 2005 stipulates that an annual tax shall be imposed on the total net income of resident and non-resident natural persons in respect of their incomes earned in Egypt.

According to Article (17) of the Law, the profits of commercial and industrial activity are determined based on the revenue resulting from all commercial and industrial operations realized in Egypt, as well as the revenues achieved from abroad if Egypt is a center of commercial and industrial activity of the taxpayer.

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Second: Determining the Profits of Commercial and Industrial Activity:

Profits from commercial and industrial activities are determined by subtracting all deductible costs from their revenue. Article (17) stipulates that the profits of commercial and industrial activity shall be determined based on the revenue resulting from all commercial and industrial operations realized in Egypt, as well as the revenues realized from abroad if Egypt is a center of commercial and industrial activity of the taxpayer, including the profits resulting from the sale of the assets of the establishment stipulated in paragraphs (1), (2) and (4) of Article (25) of this The law, the profits realized from the compensation obtained by the taxpayer as a result of the destruction or seizure of any of these assets and securities, as well as the liquidation profits realized during the tax period, all after deducting all deductible costs.

Net profit is determined based on the income statement developed according to the Egyptian Accounting Standards. The tax base is determined by applying the provisions of this law to the net profit.

In this context, Article (24) of the executive regulation indicates that the determination of the net profit stipulated in the second paragraph of Article (17) of the Law shall be based on actual revenues and costs. The tax treatment of capital gains realized from the sale of assets stipulated in Clause (3) of Article (25) of the Law shall be in accordance with the provisions of Article (26) herein.

It should be stated here to clarify the distinction between accounting profit and tax profit as follows:

A- Net Accounting Profit:

To determine the net profits or losses for a certain period, the income statement is prepared under Egyptian accounting standards. The accounting profit or loss of the establishment is defined through two theories (exploitation – balance sheet) versus the source theory and the return theory in taxation. The concepts underlying each of these theories will be summarized as follows:

- 1. Exploitation theory (Source):** Profit is perceived as the difference between the revenues of the primary activity and the costs of acquiring those revenues, implying that profit is the consequence of only main exploitation.
- 2. Balance Sheet Theory (Return):** The profit is the excess of assets over liabilities at the end of the year. Consequently, the net profit comprises the profits that arise from main exploitation as well as the profits or losses that occur as a result of re-evaluating the assets and liabilities of the establishment at the end of the year compared to their actual value at the beginning of the year.

Clearly, the theory of exploitation takes the narrow concept of profit and confines it to the results of the normal exploitation of the enterprise. In contrast, the balance sheet theory takes the broad concept of profit, which includes, in addition to the results of normal exploitation, any other

profits that can be achieved due to the revaluation of the assets and liabilities of the enterprise. The determination of the results of operations from the accounting point of view is subject to the going concern principle. Therefore, conservatism should be considered when determining the results, and the following should be followed:

1. **Regarding revenues**, only achieved revenues-whether received or not-are included, while potential revenues are disregarded. Revenues that have a recurring and continuous nature, i.e., main revenues and subsidiary profits, are considered, as well as non-recurring profits (incidental or capitalism).
2. **In terms of costs**, losses that have already occurred and those that are anticipated are taken into consideration. These costs also include the cost of goods sold or services provided, depreciation for the period, and all period-related expenses, regardless of whether they were paid.

B- Net Tax Profit:

The tax lawmaker adopted a moderate stance and did not restrict the determination of taxable profit to normal exploitation solely.

Whereas the legislator indicated in Article 17 that profits are to be determined based on all commercial and industrial operations conducted by the firm. In addition to incidental profits and capital earnings resulting from the establishment selling one of its assets or receiving compensation for the loss or seizure of an asset.

While the legislator did not completely embrace balance sheet theory while exempting from taxation the profits resulting from a reevaluation of the establishment's assets and liabilities to determine its actual worth, these gains were exempt from taxation.

The law specifies two exceptions to the principle of imposing tax based on net profit, which are as follows:

- The amounts which individual firms and legal persons pay to any natural person as commission or brokerage, as long as it is not related to the carrying on of her/his profession are subject to tax at a rate of 20% without deducting any costs.
- Revenues on bonds issued by the Ministry of Finance in the favor of the Central Bank or other banks are subject to tax at the rate of 32%, without deducting any costs.

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Third: Taxable Commercial and Industrial Activities:

Article (19) stipulates that tax shall apply to the profits of commercial and industrial activity, including:

1- Profits of commercial, industrial, mining, quarrying, and petroleum establishments

In this context, Article (4) of the Commercial Law No. 17 of 1999 stipulates that: It is considered a commercial business:

- A. Purchase movables of any kind to sell or lease them by themselves or after preparing them in another form, as well as sell or rent them.
- B. Renting movables to lease them, as well as leasing these movables.
- C. Establishment of commercial companies.

Whereas Article (5) of the law added that: The following businesses are considered commercial if they are professionally practiced:

- A- Supply of goods and services.
- B- Industry.
- C- Land transport and inland water transport.
- D- Commercial agency and brokerage, whatever the nature of the broker's operations.
- E- Insurance of all kinds.
- F- Banking and exchange operations.
- G- Warehousing of goods, means of transport, crops, and others.

- H- The work of houses and offices operating in publishing, printing, photocopying, writing on typewriters, etc., translation, radio, television, press, news transmission, mail, communications, and advertising.
- I- Commercial exploitation of computer programs and satellite broadcasting.
- J- (j) Extractive natural resources operations, such as mines, quarries, oil and gas sources, etc.
- K- Poultry and livestock breeding projects and others to sell them.
- L- Real estate construction, restoration, modification, demolition or painting, and public works contracting.
- M-Constructing, buying, or renting real estate to sell or rent it in whole or part into apartments, rooms, administrative or commercial units, whether furnished or unfurnished.
- N- The work of tourism offices, export and import offices, customs release offices, employment offices, and auction shops.
- O- The work of hotels, restaurants, cafes, theaters, cinemas, circuses, and other public amusement parks.
- P- Distribution of water, gas or electricity, and other energy sources.

Article (6) also clarified that: It is also considered a commercial business every work related to commercial navigation, whether sea or air and in particular, the following:

- A. Building, repairing, and maintaining ships or aircraft.

- B. Buying, selling, leasing, or chartering ships or aircraft.
- C. Purchase of tools or materials for supplying ships or aircraft.
- D. Maritime and air transport.
- E. Loading or unloading operations.
- F. Employing navigators, pilots, or other personnel of ships or aircraft.

Finally, Article (7) pointed out that: A commercial business shall be any work that can be measured against the works mentioned in the previous articles due to similarity in qualities and objectives. This is because the Commercial Law defines the businesses above, for example, and not as a limitation.

Accordingly, the tax legislator did not specify what is meant by commercial establishments. Therefore, according to Commercial Law, whoever carries out any previous activities habitually and professionally is subject to tax. It is also noted that some of the activities clarified by the Commercial Law as commercial activities are by their nature considered industrial activities, such as the purchase of movables of any kind to sell or rent them after preparing them in another form, which is considered as manufacturing industries. The same applies to the construction of real estate, which is one of the industrial activities that Article (19) of Law 91 expressly subjected to tax on profits commercial and industrial activity item (7).

As for mine, quarrying, and petroleum establishments, they are by nature outside the scope of commercial establishments because they extract

minerals and petroleum from the ground. However, the legislator has expressly taxed their profits under this item. This is based on the premise that this is a general provision that applies to all extractive industries related to the exploitation of immovable money (and not movable ones represented in natural resources and require huge funds and highly qualified technical expertise).

2- Profits of artisans and small businesses

Craftsmen or artisans are persons who practice independent businesses or activities in which they rely mainly on their own skills and for their own interests without relying extensively on capital. Their work is often manual, although they depend on some simple machines. Examples of these craftsmen are carpenters, blacksmiths, engravers, etc.

It can be asserted that an artisan's major source of income is their labor and that their reliance on capital is minimal or, in many cases, nonexistent. Hence, the profits of these persons should have been taxed as part of the revenues of the free and non-commercial professions because they are more analogous to the self-employed than to the traders.

However, the legislator taxed them within the revenues of commercial and industrial activity because of the conditions that prevailed in the seventies, which led to these craftsmen exaggerating the prices of the services they provided and, in some cases, achieving profits that exceeded those of commercial and industrial businesses. In addition, they don't

require to acquire scientific, academic, and professional certificates to practice the profession or craft.

Since owners of crafts and small activities often do not hold regular accounting books, it is difficult to determine their income accurately for tax purposes. Consequently, article (66) of Law 91 stipulates Agencies which license the wholesale trade in vegetables, fruits, grains and other foodstuff, or agencies licensing the practice of handicrafts shall collect, upon renewing a license, an amount on account of tax from the person in whose name the renewed license is issued. Such agencies are prohibited from renewing the license until the said amount is collected. The amount shall be determined by a minister's decree at not more than 10% of the renewal fees.

In this context, Article (18) of the Law also stipulates that The tax accounting rules and the principles and procedures for collecting the tax on profits of small enterprises shall be issued by a Minister's decree. This shall not conflict with the provisions of The Small Enterprises Development Law promulgated by Law no. 141 of 2004 and shall be consistent with their nature and facilitate their tax treatment.

It is clear from this that the legislator has authorized the Minister of Finance to issue simple rules for the tax system of small enterprises that are compatible with their nature to encourage and motivate them to play their role in supporting the state's economic activities.

The Minister of Finance issued decree No. 54 of 2012 regarding the rules and principles for accounting for small enterprises and the procedures for collecting tax on their profits. The decree indicated that a small establishment is every legal person or sole proprietorship that carries out an economic activity (productive, service, or commercial) with a paid-in capital of one million pounds or less, and the number of employees does not exceed fifty workers. It did not refer to the value of fixed assets or profits.

3- Profits realized from any commercial or industrial activity, even if limited to one transaction. The Executive Regulation of this law shall indicate the rules of what is deemed a single transaction when applying the provisions of this clause.

The legislator no longer requires that the practice of commercial or industrial activity be professional or habitual to be subject to tax, given that some single transactions may result in such enormous profits that justice requires taxing them, as they have been subject to tax since Law No. 46 of 1978 and subsequent laws.

In applying the provisions of Clause [3] of Article (19) of the law, Article (25) of the executive regulations clarified that a single transaction is every purchase made by a resident taxpayer to sell movable assets that were not purchased for personal use, provided that the transaction is for a commercial or industrial purpose and the sale occurs within twelve months of the date of purchase.

Accordingly, the following requirements must be met for the profits of a single transaction to be subject to tax on the income of natural persons, namely:

- a) The transaction shall be conducted by a taxpayer residing in Egypt.
- b) The transaction is for sale and not for personal use.
- c) The transaction relates to movable assets (not real estate, otherwise, the profit is subject to the provisions of real estate wealth income).
- d) The transaction is for commercial or industrial purposes.
- e) The sale must be made within twelve months from the date of purchase.

It must be emphasized that what is subject to tax is the profits of the transaction and not its total value if all the previous requirements are met; otherwise, the profits of a single transaction are not subject to tax. In addition, the tax legislator was completely correct in stipulating explicitly that the profits of a single transaction be taxed so as not to allow the argument that the condition of professionalism is not met, subjecting the enormous profits that may be realized from such transactions even for one time during the year.

4- Profits from a transaction or transactions carried out by brokers and agents on commission, and in general, all profit realized by any person engaged in the brokerage business to purchase, sell or lease real property or any kind of goods, services, or movable assets.

It is apparent from this clause that the tax applies to the profits resulting from the brokerage business of buying, selling, and leasing with no other sort of contract. The sale, lease, or purchase includes any type of goods, services, or movable assets.

Brokerage is intended to bring the seller and buyer, or lessor and lessee, closer together. The broker does not conclude the contract in his name, but the commission agent can replace one of them or conclude the contract in his name in exchange for a commission. Insurance agents and commercial representatives who work for some companies and act on their behalf in concluding deals and managing commercial businesses are also considered among the agency's activities without being bound by an employment contract and thus have complete freedom to perform the duties.

The conditions that must be met for the tax to apply to the profits of this category can be summarized as follows:

- That there is a brokerage process, which entails bringing the seller and the buyer closer together to complete the contract between them and conclude the deal in exchange for financial fees (commission or brokerage) that may be a specific amount or a percentage of purchases, sales, profit, or other things, which broker receives from one or both parties.
- The brokerage process concerns purchasing, selling, or leasing without other contracts.

- The transaction relates to real estate, goods, services, or movable assets.
- The requirement of professionalism in brokerage operations should be met. However, the tax applies to the profits of non-professional brokers, as article (19) of the law confirms this, stating that the tax shall apply to all profit realized by any person engaged in the brokerage business.

The legislator has also stipulated in Article (57) of the law that the amounts which individual firms and legal persons pay to any natural person as commission or brokerage, as long as it is not related to the carrying on of her/his profession, are subject to tax. The payer of the commission or brokerage must withhold the amount of due tax and remit it to the competent Tax Office within the first fifteen days of the month following the month in which the commission or brokerage was paid at the rate stipulated in article 56 hereof, without deducting any costs.

Where such amounts are subject to tax according to the rate stipulated in Article (56) of the law, which is 20%, without any reduction, whether to meet costs or family burdens.

5- Profits from the leasing of a commercial or industrial shop, whether the lease includes all or part of its tangible or intangible elements, as well as profits from leasing mechanical and electrical

machinery, excluding farm tractors, irrigation machines and their accessories, and machinery and equipment used in agriculture.

The legislator stipulated that the subject of the lease should be a commercial or industrial shop (as real estate) and that the lease contract should include the exploitation of all or part of its tangible elements (machinery, equipment, or furniture) and intangible (trade name or trademarks) necessary to run of the shop. In the case of renting a shop devoid of these elements, it is not considered a commercial business; therefore, its revenues are liable to real estate wealth tax. Also, the legislator did not differentiate between leasing through the owner or the tenant; instead taxed all leasing operations, even if they were subcontracted. The tax generally levies on the net rental profits after deducting the expenses necessary to generate such revenues.

The legislator has taxed these profits within the commercial and industrial activity as establishments prepared by their owners and leased for commercial or industrial purposes. With that preparation, they have moved from the scope of normal exploitation to the scope of speculation and profit, such as the case of renting shops or spaces within commercial complexes or so-called commercial malls.

Regarding the rental of mechanical and electrical machines, Article (26) of the Executive Regulations clarifies that the mechanical and electrical machines stipulated in item [5] of Article (19) of the Law include

electronic, digital, and other machines. The tax applies to the profits derived from renting the machines mentioned above of all types, methods of operation (automatically, electrically, or electronically), the field of use (industrial, commercial, or agricultural), and whether they are in their place or moved to a different location to benefit from them. This is owing to the expensive price of purchasing these machines, which has led many businesses to opt to rent them instead.

The legislator has excluded from taxation profits from the rental of farm tractors, irrigation machines and their accessories, and machinery and equipment used in agriculture. This comes to encourage the expansion of agriculture using these machines and equipment.

6- Profits from all kinds of transportation activity

This is considered the introduction of a new addition of profit to be subject to tax under Law 91, as previous tax legislation did not explicitly stipulate those profits generated from transport activity of various types be subject to tax, whether by land, sea, river, air, or by train, whether it is the transportation of passengers, goods, or merchandise, individually or collectively. They are considered profits resulting from the conduct of commercial business, and according to the general principle, they are liable to tax on the income of natural persons regardless of the method employed.

In this regard, Article (69) of the Law stipulates that The Traffic Police Departments are prohibited from renewing or transferring the license of taxis or vehicles owned by any private sector person until they collect an amount on account of the tax due thereon. A decree shall be issued by the Minister for determining the amount, which will not exceed 10% of the fees prescribed by the Traffic Law promulgated by law no. 66 of 1973. The amount will be collected in one payment or in installments, according to the rules regulating the payment of the tax imposed on the vehicle according to the Traffic Law.

7- Profits by those engaged in the construction or purchase of real property with the intention of selling them professionally, whether the profits result from selling the property as a whole or divided into apartments, rooms, administrative or commercial units, or otherwise.

Where the legislator requires that a person purchase or construct real estate for himself and on his responsibility (independence), and the availability of the intention to sell and make a profit at the time of the purchase or construction, for these profits to be subject to tax. In addition, this activity should be professional and habitual, whether the whole or part of the property is sold. It is not required that the purchase, construction, and sale operations be repeated during the tax year to indicate the habit. Furthermore, this property must have been acquired

by the person through purchase or construction and not by any other means to be subject to taxation.

Consequently, the sale of gifted, inherited, constructed, or purchased property for the use is not subject to tax on commercial and industrial activity due to the absence of the previous conditions. Rather, it is liable to tax under the provisions of Article (42) as income from real estate wealth, which stipulates that a tax of 2.5% is imposed without any further reduction, on the gross revenues from the disposal of constructed real estate or lands within the cities' boundaries, whether the disposal commenced on the land parcel as it exists or after constructing buildings thereon, whether the disposal is inclusive of the entire real estate or part of it or a residential unit thereof or a unit for any other purpose, and whether the buildings were constructed on land owned by the taxpayer or by third parties.

It is worth noting that the taxable profit is computed under the Minister of Finance's Decree No. 167 of 1982 as follows:

- (1) Net profit = sale price of the property - the cost of the property.
- (2) The sale price is determined according to the real price of the property sold on the date of sale. The price stated in the sale contract is the basis for determining the taxable revenue unless the Tax Authority proves that this price does not represent the real price of the property.

- (3) The cost for built real estate or land purchased by taxpayers to sell them is determined as follows:

The cost of the property = the purchase price + the capital expenditure spent to acquire the property.

The purchase price shall be determined as follows:

A- The purchase price specified in the purchase contract.

B- If the disposal is on the part of the property, the purchase price of this part shall be calculated based on the equivalent of this part attributed to the property.

C- If the disposal involves a residential unit, the purchase price of this unit must include the amount that pertains to it from the purchase price of the land on which the property is constructed.

- (4) **The cost of real estate that taxpayers construct to sell them is determined as follows:**

The cost of the property equals the purchase price of the land on which the property is constructed plus the cost of the works accomplished until the completion of the construction of the property or the date of disposal.

The cost of the land on which the property is constructed shall be determined as follows:

- A. The cost of lands whose ownership has been transferred to the taxpayer by purchase shall be computed following the rules described in the preceding item (No. 3).
- B. If the taxpayer inherited the land on which the property was constructed, its value should be determined based on fair value under generally accepted accounting standards.
- C. If the land on which the real estate was built was gifted to the taxpayer without being purchased, its cost could be determined based on the value mentioned in the grant contract, if any, or the fair value, as applicable.
- D. The cost of land that has been transferred to the taxpayer by any other reason of ownership shall be calculated according to the fair value at the time of acquiring ownership.

It should be noted that the decisions to determine the prices of building lands issued by the real estate registry inquiry committees should be guided following the executive instructions in this regard.

8- Profits from land parceling operations, whether for sale or construction.

The legislator did not require that such business be practiced professionally to be liable to the tax; rather, the actual sale of the land is sufficient. The lands are also not required to be owned by purchase, gift, or inheritance, but the tax applies regardless of the reason for ownership.

Additionally, the intent to resell is not required when owning the land, as is the case when purchasing and constructing real estate to sell it.

On the other hand, the parceling process must precede the disposal of or building on the land; hence, if a piece of land is disposed of without parceling, the realized profit is not subject to tax. In addition, the land must be subdivided, provided with utilities, and paved to be eligible for construction. Finally, the tax applies to all forms of land disposal, including sale, assignment, gift, or bequest that transfers the ownership after its parceling.

It should be mentioned that the net profits of those who parcel and dispose of lands are determined in the light of Finance Minister Decree No. 167 of 1982, as follows:

(1) Determination of the taxpayer's realized net profits:

$$\text{Net profit} = \text{Land selling price} - \text{Land cost.}$$

(2) The sale price is based on the market value of the land at the time of the sale. The price stated in the sale contract, whether registered or unregistered, is deemed actual unless the Tax Authority proves that this price does not reflect the actual value of the land.

(3) The cost of lands to be parceled to dispose of them shall be defined as follows:

A- The cost of the parcelled lands shall be determined following the prior rules indicated in Clauses (3) and (4) governing the construction or purchase of real estate to sell it.

B- The cost of the streets area and other utilities shall be subtracted from the cost of the lands specified in the previous to determine the cost of the parcelled land and divide this cost by the total square meters designated for sale to determine the cost per square meter.

In addition, the cost, as stated above, should include the costs of paving streets and establishing other utilities, such as water, electricity, sewage, etc., per square meter. **These costs shall be determined as follows:**

- If the streets have been paved and other utilities have been established before selling any piece of land from the parceled lands, then the costs are determined based on the submitted documents after examination and approval by the competent tax office under the provisions of the ministerial decree. These costs are divided by the total square meters allocated for sale to determine the cost of utilities per square meter.
- If the streets have not been paved and other utilities have not been completed before the beginning of the sale, the costs are based on the value of what is implemented during each tax year. These costs are divided by the balance square meters allotted for sale at the end of the year to calculate the utility costs incurred during the year that belong to each square meter. Upon completion of paving streets or constructing other utilities in a subsequent year, the incurred cost during this year shall be determined and divided by the balance of

square meters balance at the end of the year to determine what pertains to a square meter of such cost, to be added to the square meter costs from utilities that were carried out during the previous year, and so on.

9- Profits from land reclamation or cultivation establishments, poultry farms or mechanical hatcheries projects, cattle and livestock farms of more than 20 head, and fish farms and fisheries projects.

Regarding the Profits from land reclamation or cultivation establishments: It is clear that the legislator used the term (or) to indicate that the tax may apply to the profits of land reclamation or land cultivation establishments only or to the earnings of establishments that practice both activities simultaneously.

To stimulate this activity to expand the agricultural area and boost agricultural yields, the legislature temporarily exempts the earnings of land reclamation and cultivation establishments under item (1) of Article (31) of the law, which stipulates that Profits of land reclamation or cultivation enterprises are tax exempted for ten years from the date of activity inception.

Concerning poultry farms or mechanical hatcheries projects, the legislator requires that poultry must be farmed or hatched mechanically for such profits to be taxed. Thus, if poultry rearing or hatching is carried out non-automated, it is not subject to taxation.

The legislator also decided to temporarily exempt the profits of poultry farms or mechanical hatcheries projects under Clause (2) of Article (31) of the law, as it stipulated that “the profits of poultry farming are tax exempted for a period of ten years from the date of activity inception.

Regarding cattle and livestock farms and fattening them, the legislator has subjected the profits of these projects to tax, as their revenues meet the criteria for being taxed. In addition, the activity of these projects has spread on a large scale since it generates massive profits for its owners through the collaboration of capital and labor to practice the activity professionally.

The profits of these projects are not subject to taxation until they have an obvious commercial nature and have a purpose beyond solely serving the owner's cultivation. Accordingly, Accordingly, the farmers' profits from raising or fattening cattle and livestock for their personal benefit or to serve their agriculture are not taxed within the limit of twenty heads to achieve justice and out of concern for the private advantage of the owners of these projects. The revenues of projects with more than twenty heads are liable to taxation, even if the extra heads are used for the private benefit of the project's owners.

The legislator has decided to temporarily exempt the profits of livestock projects exclusively under the second item of Article (31) of the law, which stipulates that livestock husbandry and fattening are tax exempted for a period of ten years from the date of activity inception.

As for the profits of fish farms and fisheries projects, the legislator has subjected them to tax, similar to poultry, livestock, and other projects. The legislator has decided to temporarily exempt fisheries, fish farming enterprises and fishing boats enterprises profits from being subject to tax for a period of ten years from the date of activity inception. This seeks to stimulate additional investment in these activities, considering the importance of these projects to economic growth and food security.

The tax also applies to profits from investing in or disposing of securities abroad.

This paragraph was added by Law No. 53 of 2014. This provision entails the taxation of profits to a natural person from investing in securities abroad, including dividends or bond interest, and profits realized from the disposal of such securities. For these profits to be subject to taxation, it is not necessary for a natural person to have a tax file or engage in commercial or industrial activity in Egypt, as this provision considers investing abroad to be an activity subject to taxation, regardless of whether the natural person practices this activity repeatedly and professionally or on an occasional basis. However, in light of Article (6) of the law, which clarified the scope of imposing tax on the income of natural persons, the profits from investing in securities abroad or disposing of them are not subject to tax in all cases, but they are taxed if they are realized by a taxpayer who has a commercial or industrial activity based in Egypt.

Forth: Taxable Revenues:

The legislator defined these revenues in tax Law 91, beginning from Article (22) and concluding with Article (30) and in the executive regulation of two articles (40) and (41).

Net tax profit is determined based on the net accounting profit disclosed in the income statement prepared under the Egyptian accounting standards and by applying the provisions of Law 91 of 2005, its executive regulation and their amendments. Article (22) of the Law stipulates that the taxable commercial and industrial net profit is determined on the basis of the gross profit after deducting all costs and expenses needed to realize such profits.

From the preceding, it can be deduced that the overall tax profit is computed as follows:

Net accounting profit from the income statement according to Egyptian accounting standards	xx
<u>Additions:</u>	xx
1- Taxable revenues that have not been included.	
2- Nondeductible Costs that have been included.	
<u>Deductions:</u>	(xx)
1- Non-taxable revenues that have been included.	
2- Deductible Costs that have not been included.	
Net Tax Profit (Tax Base)	xxx

Revenues included in the tax base are determined based on the comprehensive concept of revenue resulting from all commercial and industrial operations realized in Egypt, as well as revenues realized abroad if Egypt is a center of commercial and industrial activity of the taxpayer.

In this regard, article (17) of the Law stipulates that Profits from commercial and industrial activity shall be determined based on the revenue resulting from all commercial and industrial operations. This includes profits from the sale of a company's assets as stipulated in items (1), (2) and (4) of article (25) herein, profits realized from compensation received by a taxpayer because of depreciation or acquisition of any of such assets, as well as the liquidation proceeds realized during the tax period after allowing all deductible costs.

This clearly indicates that taxable revenues comprise profits from primary activity, capital gains, liquidation profits, revaluation profits, and any other taxable incidental income. The tax treatment of taxable revenues can be discussed as follows:

(1) Revenue from primary activity:

It means the revenues generated from the main commercial and industrial activity for which the establishment was established. Such revenues are characterized by their periodicity and continuity, as they are derived from production and sales operations in industrial establishments and the

purchase and resale of goods in commercial establishments, respectively. The profitability model for the main activity varies according to the nature of the activity, but it is ultimately determined by the amount of net sales that exceeds their cost, as follows:

- 1- **Service establishments:** It is determined by the difference between the revenues that these establishments earn from providing their services to others and the costs that they incur to provide these services.
- 2- **Commercial establishments:** It is calculated by deducting the product's cost from the net sales value.
- 3- **Industrial establishments:** It is identified by the difference between the net value of sales and its cost; however, the measurement of the cost of sales differentiates from commercial activity since both the value of production and the change in the value of inventory from finished goods are considered.

There are a set of rules that the tax examiner must observe, which are as follows:

- 1- **Net sales:** To verify the actual net sales, it is required to ensure that the sales figure reflects the actual sales that occur during the fiscal year, and the same for the sales returns, by considering the following:
 - 1) **Applying the Accrual Principle:** Sales are recorded as soon as the sale has occurred, regardless of the collection of its value.

- 2) Verifying that a portion of the actual sales has not been omitted and that the sold goods have been delivered to customers.
- 3) **Withdrawals of the establishment's owner:** They are recorded at cost, meaning they are not included in sales. If this occurs, the difference between the selling price and the cost must be deducted from the net profit (except for liquidation cases).
- 4) Ensure that sales returns are not overvalued due to the omission of the commercial discount previously granted to consumers or the recording of fictitious or unreal returns.
- 5) **Consignment goods:** These goods are sent at invoice price (cost price 100% + profit margin) and are not recorded as sales unless sold. Otherwise, they must be included in the inventory at the end of the fiscal year.
- 6) **Goods sent to branches:** Here, the distinction is made between
 - **Internal branches:** the goods sent to them are not considered part of the sales unless the branch sells them, and if this does not occur, they are considered part of the inventory.
 - **External branches:** the goods delivered to them are included in the sales, regardless of whether the branch sells them.
- 7) **Sale of production waste:** It is deemed part of the sales, and the resulting revenue is subject to tax.

8) **Barter of goods for in-kind assets:** These goods are recorded as sales, and exchange must be made according to the market price or net fair value. If it generates a profit, it is subject to tax, but if it causes a loss, it is regarded as a cost that must be deducted.

2- Cost of sales

In commercial establishments, the cost of sales is computed by adding the value of net purchases (purchases - returns of purchases) to the change in inventory value (goods at the beginning of the period - goods at the end of the period). Thus, the cost of sales can be verified by the following:

a) Net Purchases:

The tax examiner must verify the accuracy of the number of purchases and returns recorded in the books and records. This is accomplished by ensuring the presence of invoices for these purchases and confirming their authenticity in terms of quantities and prices and their relation to the examined fiscal year, in addition to examining the addition notices received from the supplier that support purchase returns. The cost of purchases is represented in the purchase price indicated in the invoice in addition to all the expenses incurred by the establishment, including transportation, insurance, purchase commission, customs fees, and other expenses until the goods enter the warehouse. Regarding the determination of purchase expenses for tax purposes, the examiner should consider the following factors:

- Following the accrual basis when recording these expenses.

- Purchase expenses do not include expenses associated with acquiring fixed assets or goods used by the establishment owner.
- Customs taxes are included in the purchase price when importing from abroad, considering import rules.
- In purchasing inventory on credit, the difference between the on-credit price and the cash price is recorded as interest expense and amortized over the repayment period.

b) Change in inventory:

The tax examiner must verify the accuracy of the cost of goods at the beginning of the period and its conformance with what was tax-approved as the end-of-period inventory for the preceding period. It is also necessary to ascertain the authenticity of the inventory at the end of the period of the goods owned by the establishment and has not been disposed of until the date of preparing the financial statements, by considering two significant elements:

- 1) **Quantity:** Ensure that the inventory lists comprise all the goods owned by the establishment legally, including the goods that were purchased and did not enter the stores until the date of the inventory count, in addition to the exclusion of the value of goods sold to others but not yet delivered to them.
- 2) **Value:** Ensure that the pricing policy for goods is not changed.

All this is based on the inventory evaluation using cost or net selling value (selling price - selling expenses), whichever is less according to Egyptian Accounting Standard No. (2) for inventory. In contrast to what is indicated in the standard, the Tax Authority applies a cost-based evaluation criterion.

The tax examiner must conduct the relevant tax adjustments if the establishment moves from one policy to another within the same tax year or adopts a different evaluation policy than cost. This is to prevent manipulation of the net book profits and, hence, the tax base.

(2) Capital Gains from the Sale of the Establishment's Assets:

They are incidental and nonrecurring gains, such as those earned by the establishment from the sale of any of its fixed assets specified in Article (25) of the Law, which include the following:

- Clause (1): Building, establishment, ships, and aircrafts.
- Clause (2): Purchased intangible assets, including goodwill.
- Clause (4): land, works of art, monuments, jewelry and other assets which by nature are not depreciable.

Notably, the disposal may involve one of the previously specified or the entire establishment's assets; in both cases, the realized capital gains are subject to taxation. Such profits are computed by comparing the net selling price to the asset's net book value after subtracting the tax-approved depreciation from the asset's historical cost.

(3) Profits realized from compensation:

The taxpayer may receive compensation for depreciation or acquisition of any of such assets mentioned in Article (25) items (1, 2, 4). If the compensation value exceeds the asset's net book value, the difference is taxable income. In the event of compensation, capital gains are determined in the same manner as in the case of the sale of fixed assets.

(4) Profits from the revaluation of the assets and liabilities of the establishment:

In this regard, a distinction must be made between three cases that require a re-evaluation of the assets and liabilities of the establishment:

A- Valuation relative to market prices (identifying the establishment's actual worth):

The profits from that evaluation are only unrealized or estimated profits that are not subject to tax. Since these profits did not result in any real increase in the rights of the sole proprietorship's owner, they are not subject to tax.

B- Altering the establishment legal form:

The profits from that evaluation are deemed realized profits and are liable to tax due to changing the ownership structure. This is when an establishment offers its net assets as an in-kind share for joining or merging with another company.

C- Valuation to provide the assets as an in-kind share in the capital of a joint stock company:

Profits from such valuation are not subject to tax to encourage individual establishments to establish joint stock companies, as Article (20) of the Law stipulates that 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.

(5) Realized liquidation proceeds:

The tax applies to current and capital profits earned during the liquidation period. In this instance, it is indicated that if the liquidation period spans multiple tax periods, the liquidation proceeds are subject to tax during each tax period in which they are realized.

(6) Incidental or non-recurring revenue:

The revenues generated by the establishment from operations fall beyond the scope of its primary business but are indirectly tied to its assets and properties. Examples include the following:

1) Investment Income:

- **Revenues from real estate and farmland:**

It indicates revenues from renting real estate owned by the establishment to others. Such revenues are subject to tax as long as they result from built

real estate or agricultural lands included in the establishment's assets. Noting the deduction of the tax on buildings or agricultural lands within the expenses of the establishment under Clause (3) of Article (23) of the law to avoid double taxation.

- **Dividends for shares and equity quotas:** Dividends for stocks and quotas obtained by a natural person residing in Egypt from joint stock companies or partnerships, including companies established under the system of economic zones of a special nature. Except for dividends distributed in the form of free shares, whether these distributions occur in Egypt or abroad and regardless of how they occur.

The tax rate on dividends realized from a source inside Egypt during the year received by a resident natural person shall be (10%) without deducting any costs. This price shall be reduced to (5%) if the shareholding percentage in the distributing company exceeds (25%) of the capital or voting rights, provided that the period of possession of shares or quotas is not less than two years, without deducting any costs.

Noting that if the value of the securities portfolio or the volume of trades on it is less than 5 million, it is not included in the tax base. In contrast, if the increase is greater than 5 million, the value of the dividends will be added to the tax base and taxed at the rate stipulated in Article 8 of the law.

In the event that the dividends are obtained from a source outside Egypt, they are subject to tax at the rate specified in Article (8) of the law, with

the approval to deduct foreign tax paid abroad from the tax due on the taxpayer in Egypt, within the limits of the proportion of such dividends from the tax due on the taxpayer.

2) Grants and Subsidies:

Such as production subsidies and export subsidies that establishments receive from the government and local authority units to aid them in production, enable them to compete with foreign goods, or encourage them to provide their services. These grants and subsidies are included in the tax base based on the following:

- **Cash grant or subsidy:** It is subject to tax based on what was collected during the year.
- **In-kind grant or subsidy:** It is liable to tax based on the asset's market or fair value when acquired by the establishment.

3) Compensation and fines:

They are the funds the establishment receives from other parties as compensation for incurred damages, and the following compensation categories can be distinguished:

- **Compensation for losses from non-compliance with contracts or delay in implementation:** It is known as the penalty clause in contracts and is subject to taxation. The Tax Authority has determined that it constitutes revenue for the year it was collected.

- **Compensation for loss or damage to a company's fixed asset and seizure:** It is taxable as the aforementioned capital gains.
- **Compensation for the loss of current assets such as merchandise:** It is deemed revenue for tax purposes and is liable to taxation, even if it was utilized to replace the damaged current assets.

4) Collected Bad Debts:

These are debts written off in a prior year or years and then collected in the following year. They are taxable if the Tax Authority approved them as deductible costs in the year they were written off, as the last paragraph of Article (28) of the law clarified that if the debt, or part, is collected, the amount collected must be included in the firm's revenues in the year in which the collection took place.

5) Earned Discount:

This discount is considered revenue for the establishment, which it receives from its creditors or suppliers if its debts or obligations are paid before maturity. Therefore, this discount must be included as revenue in the income statement, and it is thus taxable revenue.

6) Foreign currency differences: A distinction must be made between:

A- Foreign currency differences from foreign currency transactions:

These are the differences that result from payment or collection occurring after the transaction date. If such differences are credited,

they are regarded as taxable revenues, but if they are debited, they are considered deductible costs.

B- Foreign currency differences from the translation of the financial statements prepared in a foreign currency: They are considered unrealized differences and are not included in net tax profit (revenue or expense).

7) Credit Sales Commission:

It refers to the commission obtained for distributing items to other businesses. It is considered among the taxable revenues, provided that it relates to sales achieved during the tax year subject to taxation.

8) Credit Returns:

It includes the returns obtained by the entity as a result of practicing its commercial and industrial activity, such as the proceeds of the sale by installments or the returns of delay on the debts of customers who are late in paying their debts due to the enterprise, or the interest of loans and advances granted by the enterprise. These returns are fully subject to tax.

On the other hand, there are credit returns unrelated to the company's activities, such as investing a portion of the company's funds in purchasing bonds issued by the Ministry of Finance in favor of the Central Bank or other banks. The returns of these bonds are subject to tax under Article (58) of the Law, which stipulates that subject to any tax exemptions stipulated in other laws, revenues on bonds issued by the Ministry of Finance in the favor of the Central Bank or other banks are

subject to tax at the rate of 32%, without deducting any costs. The payer or the recipient of such revenue is obliged to withhold the amount of due tax and remit it to the competent Tax Office within the first fifteen days of the month following the month in which the withholding took place.

9) Profits from selling securities:

They are the capital gains realized from the sole proprietorship's investment of its excess funds in purchasing securities such as stocks, bonds, investment instruments, and financing instruments. These profits are subject to tax as follows:

- 1- The value of taxable profits is equal to the sale or exchange price or any form of disposal of securities minus the acquisition cost after deducting the brokerage commission (the acquisition cost for bonus shares is determined by the market value of the share).
- 2- The tax rate applicable to such taxable capital gains is computed as follows:

- **Capital gains realized in Egypt:**

1. **It is subject to a 10% tax rate under two conditions:** the taxpayer must be a natural person residing in Egypt, and the securities must be listed on the stock exchange.
2. **It is liable to the progressive price** if a taxpayer is a natural person residing in Egypt and the securities are not listed on the stock exchange.

To prevent double taxation, the tax paid on capital gains of securities (whether listed or unlisted on the stock exchange) is deducted from the tax payable by the taxpayer within the limits of such gain.

- **Capital gains realized abroad:**

It is liable to tax at a progressive rate if the taxpayer resides in Egypt. To prevent double taxation, the foreign tax paid abroad on these capital gains shall be subtracted from the Egyptian tax owed by the taxpayer within the limitations of these profits.

Fourth: Long-term contract profits:

According to Article (21) of the Law, a long-term contract means a manufacturing, preparation or construction contract, or performance of associated services thereof, carried out by an establishment for third parties based on a fixed value, and the implementation shall take more than one tax period. Long-term contracts' profitability is measured under Article (21) of the Law and Egyptian Accounting Standard No. (8) as follows:

- **The taxable net income of an establishment** is determined, for all long-term contracts it is engaged in, based on what percentage of each contract is executed during the tax period (completion percentage).
- **The percentage of the part of each executed contract** is determined based on the actual cost of the works implemented until the end of the tax period, which is prorated to the contract's total estimated cost.

$$\text{Completion Percentage} = \frac{\text{Actual costs to date}}{\text{Total estimated costs of contract}} \times 100$$

- **The calculated contract profit** is determined by the difference between contract values and cost estimates.
- **The contract's estimated profit for each tax period** is determined by the percentage of the profit, estimated according to the previous paragraph, prorated to that executed during the tax period, provided that the contract profit is adjusted at the end of the tax period in which the contract was completed. Such profit shall be calculated on the actual revenues reduced by the actual costs after deducting the previously estimated profits.
- **If the statement of the tax period in which the contract was completed denotes a loss**, the loss shall be deducted from the profits of previous tax period(s) when the contract was implemented, providing that the deduction does not exceed the contract profit during the period. The tax must be re-calculated on this basis, and the taxpayer shall recover the excess that had been paid.
- If the loss from the contract execution exceeds the limits referred to in the previous paragraph, the residual losses shall be carried forward to the following years, according to the provisions of article (29) herein.

Fifth: Deductible Costs:

The taxable commercial and industrial net profit is determined on the basis of the gross profit after deducting all costs and expenses needed to realize such profits. The deductible costs and expenses must be:

- 1) Related to the commercial or industrial activity of the firm and essential for carrying out the activity.
- 2) Real and supported by documents, except for costs and expenses which customarily have no supporting documents.
- 3) Related to the tax year (in applying the accrual basis, except for costs and expenses approved by law or the tax authority according to the cash basis).
- 4) Revenue-based rather than capital-based.

Deductible costs can be divided into two primary categories:

5/1 Deductible costs under the law:

These costs and expenses are stipulated in Article (23) of the law as follows:

1- Interests on loans used in the activity, regardless of their value, after deducting the non-taxable or legally exempted credit interest:

They are the cost of borrowing used in the activity, whatever its value (i.e., excluding the value of the debit **interest** of loans not used in the activity), after deducting the non-taxable or legally exempted credit

interest under the first item of Article (23). Such interest shall be considered deductible under the following conditions:

- 1) Credit interest obtained by the establishment from other parties not subject to or exempted from tax must be subtracted from the debit interest.
- 2) The value of the interest paid should not exceed double the credit and discount rate declared by the Central Bank at the beginning of the calendar year in which the tax period ends.
- 3) Interest shall not be paid to non-taxable or tax-exempt natural persons.
- 4) Interests shall not be a financing and investment cost related to legally tax-exempt revenues.

The financing and investment cost means the amounts due or charged to the financial statements, including the interest paid or due on deposits, loans, advances, debts, and any form of debt financing, in addition to the general and administrative expenses incurred by the taxpayer due to practicing the activity, except for depreciation and allowances. The following factors should be considered when calculating the financing cost:

- **Allocation Method:** If borrowing these funds for investment is to generate legally exempt revenues, the cost of financing and investment is the interest paid in full on these funds.
- **Proportional division method:** If the sole purpose is not to obtain these funds to invest in generating legally exempt revenues, the

financing and investment cost related to the legally exempt revenues is determined equivalent to:

$$\text{Cost of financing and investment} \times \frac{\text{legally exempted revenue}}{\text{Total annual revenue}}$$

2- The normal depreciation of fixed assets:

Depreciation of the establishment's assets, as stipulated in Article (25) of this law, is one of the deductible expenses. Article (25) of the law defined how to compute the depreciation burden for all the establishment's assets, except for land, works of art, monuments, jewelry, and other assets, which by nature are not depreciable.

A- Buildings, establishments, ships, and aircrafts:

They are depreciated according to the law at a rate of (5%) of the cost of procuring, constructing, developing, renovating, or reconstructing for each tax period. In other words, these assets are depreciated using the straight-line method over 20 years for tax purposes.

B- Purchased intangible assets:

In applying the provision of Clause [2] of Article (25) of the law, Article (33) of the Executive Regulation defines purchased intangible assets as non-physical assets kept for use in production or the supply of goods or services, or for leasing to others, such as licenses, property rights, trade names, patents, copyrights, and motion picture films acquired by the establishment. **Any intangible assets purchased, including goodwill,** are depreciated at a rate of (10%) of the cost of procuring, developing, improving, or renewing for each tax period.

As for the internally generated intangible assets, they are depreciated at the same rate but taking into account the exclusion of the costs of establishing the intangible asset that was charged within the costs in previous years under Egyptian accounting standards.

C- Computers, information systems, software, and data storage equipment are depreciated for tax purposes at 50% of the depreciable base for each tax year.

D- All other assets (furniture, machinery, equipment, cars, etc.) are depreciated at 25% of the depreciable base for each tax year.

In applying the provisions of Article (25) hereof, Article (26) defines that the depreciable base means the book value of the assets as included in the opening balance sheet for the tax period. This base shall increase insomuch as the cost of the assets used and the cost of development, improvement, renewal, or reconstruction during the tax period. The base shall decrease insomuch as the annual depreciation amount, the value of the assets' selling proceeds, and the value of compensation received as a result of their loss or depreciation during the tax period.

If the depreciation base is negative, the sale value of the asset or the damages thereof shall be added to the taxpayer's commercial and industrial profits. However, if the depreciation base does not exceed ten thousand Egyptian Pounds, the entire depreciation base shall be treated as a due deductible cost.

Accordingly, the depreciation basis for the latter two asset categories can be computed as follows:

xxx	Book value of the assets as included in the opening balance sheet for the tax period
xx	+ Additions
	the cost of the assets used
	the cost of development, improvement, renewal, or reconstruction
(xx)	(-) Exclusions
	the annual depreciation amount
	the proceeds of selling the assets
	the compensation received as a result of their loss or depreciation
xxx	Depreciation basis (output)

Notably, donated assets of all kinds whose value is included in the reserves are not subject to tax, and donated assets are grants obtained from government agencies or others at no cost.

3- Accelerated depreciation of machinery and equipment:

Article (27) of the law stipulates that on the taxpayer's request, 30% of the cost of the machinery and equipment used in production may be deducted, whether they are new or used, at the beginning of each tax period during which such assets are used.

The depreciation base stipulated in Article (25) thereof shall be calculated for that period after deducting the said 30% amount.

If the request mentioned above is not submitted, the depreciation rates stipulated in Articles (25) and (26) of this law shall be applied.

For the provisions of the two preceding paragraphs to apply, the taxpayer must maintain proper books and accounts.

Consequently, the requirements for the application of this article's provisions can be summarized as follows:

- Only industrial establishments are eligible for applying this provision.
- The accelerated depreciation applies exclusively to machinery and equipment.
- The machinery and equipment shall be used in production, whether they are new or used.
- The depreciation basis should be calculated after deducting the accelerated depreciation of 30%.
- It is allowed to deduct accelerated depreciation during the first tax period these assets are used.
- The taxpayer must maintain regular books and accounts.

4- Fees and Taxes:

Except for the tax on profits from commercial and industrial activity, all fees and taxes incurred by the establishment due to practicing the activity are deductible. Such deductible taxes and fees include real estate tax, stamp taxes, customs duties, and other costs.

5- Social Insurance Contributions:

Social insurance contributions by employers in favor of their employees and their own personal interest, which are paid to the National Authority

for Social Insurance, are considered deductible costs, provided they are paid during the year.

It should be emphasized that social insurance contributions in favor of the taxpayer are personal obligations unrelated to the establishment's activities. However, the legislator allowed them to be subtracted as deductible costs.

6- Amounts deducted annually for the account of the special saving or pension funds or others:

Amounts deducted annually by firms from their finances or profits for the account of the special saving or pension funds or others are considered deductible costs, whether these firms are established in accordance with the Private Insurance Funds Law no. 54 of 1975 or the Alternative Private Social Insurance Systems Law no. 64 of 1980, or according to a system that has its own special regulations or terms, provided that the amount deducted does not exceed (20%) of the total salaries and wages of their employees, and provided that the system has its own regulations or terms stipulating that the payments made by them under such a system serve as severance or pension, and that the funds of the system are separated or independent from the firm's funds and are invested for its own account.

Accordingly, the conditions that must be met to consider these amounts as deductible costs can be summarized as follows:

1. These funds must be governed by the provisions of the Private Insurance Funds Law No. (54) of 1975 or No. (64) of 1980.

2. The deducted amounts do not exceed 20% of the total salaries and wages of the employees.
3. This system's funds be independent of the establishment's money, as the following must be met:
 - The system should have a bank account separate from the establishment accounts.
 - That the system's funds be invested for its own interest.
 - The system should maintain independent books and accounts from those of the establishment.
 - The establishments that apply the system are bound by regulations or certain conditions stipulating that what the establishments provide is in exchange for severance allowances or pension.

7- Insurance premiums against the disability or death:

Insurance premiums taken out by the taxpayer against his disability or death, or to provide for a sum of money or annuity, are considered deductible costs provided that the amount of the premium is not more than 3000 pounds per annum.

8- Donations and subsidies:

Under Clauses Seven and Eight of Article (23) of the Law, the following expenses are deductible:

1. Donations to the government, Local Authority Units, and other public legal entities, whatever their value.

2. Donations and subsidies to Egyptian non-governmental organizations and foundations registered in accordance with the provisions of their respective regulatory laws, as well as to educational institutions and hospitals subject to governmental supervision, and Egyptian scientific research institutions, providing they do not exceed 10% of the taxpayer's annual net profit.

9- Financial penalties and indemnities:

Financial penalties and indemnities borne by the taxpayer resulting from his contractual liabilities are deductible costs. In contrast, fines incurred by the taxpayer for violating tax laws, compulsory pricing, catering, commercial fraud, and others are not considered deductible costs.

In this regard, the second item of Article (24) of the law affirms that Fines, financial penalties, and indemnities ruled against a taxpayer due to his or one of his affiliates' commission of an intentional felony or misdemeanor shall not be considered deductible costs.

10- Bad debts:

Article (28) of the Law stipulates that the deduction of bad debts excluded by the taxpayer from the firm's books and accounts may be permitted if he presents a report by an accountant enrolled on the Accountants and Auditors Register indicating the fulfillment of the following requirements:

1. That the firm keeps proper accounting records.
2. That the debt is associated with the firm's business.

3. That the amount of the debt has been previously included in the firm's accounts.
4. That the firm has taken serious actions to recover the debt but failed to collect it after 18 months of its due date. **Such serious actions to recover the debt include the following:**
 - a) Obtaining a writ for payment in cases where this is possible.
 - b) Issue of a judgment by a court of first instance obliging the debtor to pay the amount of the debt.
 - c) Claiming the amount of the debt during procedures of implementing a court judgment for the debtor's bankruptcy or concluding a conciliatory agreement preventive of bankruptcy.

If the debt, or part, is collected, the amount collected must be included in the firm's revenues in the year in which the collection took place.

11- Other general expenses (not supported by documents):

They are the expenses and costs that are not customarily documented by external documents and for which internal exchange vouchers or price lists are available, such as the following:

- Internal transportation expenses
- Buffet expenses for internal hospitality for the establishment's consumers.
- Cleaning expenses
- syndicate stamps necessary for the establishment's business.
- Regular maintenance expenses

- Newspapers and magazines published daily, weekly, or monthly, as necessary by the nature of the profession or activity.

Under Article (28) of the Executive Regulations, these costs, including tips, are deductible provided they do not exceed 7% of the total general and administrative expenses supported by documents.

12- Allowances and Reserves:

Different reserves and allowances shall not be considered deductible costs; sometimes, they shall be considered deductible as much as the provision has been used.

5/2- Costs that are customarily considered to be deductible:

- 1- **Establishment expenses:** It is one of the deferred revenue expenses or capital expenditures that are depreciated over three to five years, and these costs are deductible.
- 2- **Salaries and wages:** they are deductible costs, according to the following:
 - **Salaries of the taxpayer's relatives:** It is considered one of the costs that must be deducted, provided that it is in exchange for actual work and within the limits of a similar wage.
 - **Salary of the establishment owner:** It is not deemed as a deductible cost because the owner is not considered a salaried employee, and this is a concealed distribution of profit.

- **Employees' salaries, wages, and bonuses:** It is considered deductible cost, regardless of their amount.

3- **Debit commissions:** They are the amounts paid to non-employees in exchange for their work on behalf of the establishment. It is regarded as one of the costs that must be subtracted if it is related to the activity or to ensure its authenticity if it is not tied to the activity directly.

4- **Travel and transportation expenses:** It is one of the expenses that must be deducted after confirming their authenticity and their connection to the establishment's activities.

5- **Automobile expenses:** They are considered deductible costs, provided that their ownership is verified within the establishment's assets. If the vehicle is used for the taxpayer's business and personal purposes, two-thirds of its annual cost is deductible.

6- **Insurance expenses:** Non-refundable insurances, such as fire insurance premiums, theft, embezzlement, or workplace accidents, are included in the deductible expenses. In contrast, refundable insurance, such as rental insurance, is not deemed deductible.

7- **Promotion and advertising expenses:** These are costs incurred by the establishment to publicize and promote its activities, which can take numerous forms:

- **Periodic and reminder advertisements** are one of the costs that must be subtracted in the year they occur.

- **Advertising Campaigns:** It is one of the costs that must be deducted based on the period covered by the advertising campaign.
- 8- **Real estate rent:** which the establishment occupies, is considered one of the deductible costs.
- 9- **Allowed discount:** It is a deductible cost.
- 10- **Judicial expenses:** It is considered deductible cost under the following conditions:
 - Be related to the activity.
 - Not be associated with intentional wrongdoing.
- 11- **Theft and embezzlement losses** are considered deductible costs unless the taxpayer recovers them. It is required to be supported by official documents or papers, such as police reports and Public Prosecution investigations.
- 12- **Renovation, maintenance, and additions:**
 - Periodic restorations and repairs, such as glass panels or paint works, are among the costs that must be deducted.
 - Renovations and restorations of large sums, such as considerable modifications to the establishment's building, are capital expenditures, which are depreciated throughout 3: 5 years.
 - Additions that increase the asset's capacity or extend its useful life are considered capital expenditures charged to such asset and depreciated when applicable.

- Small additions that maintain the performance of an asset are considered deductible expenses.

FACULTY OF COMMERCE

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كلية التجارة

139

Sixth: Carry forward of Losses:

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.

This may be due to the fact that subjecting the current year's profits to tax before offsetting the losses carried over from the prior year or years implies taxing a portion of the capital. Thus the capital is not preserved, contrary to the tax's stable rules. **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.
- 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.

Article (29 replicated) stipulates that, as an exception to Article (29), capital losses incurred due to the disposal of securities may be deducted up to the amount of capital gains generated from the disposal of securities during the same tax period. If the loss is increased, it may be carried forward and deducted from capital gains made from the disposal of securities in subsequent years for up to three years.

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كلية التجارة

141

Seventh: 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:

7/1- 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.

7/2- 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.

- **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.

The third paragraph of Article (41) of the executive regulations stated that the exemption granted for beekeeping enterprises applies to establishments whose activity has not exceeded ten years from the date the law went into effect, within the limits of the remaining of this period. In contrast, enterprises that commence practicing in the activity after the date of the law's execution are exempt for the full duration.

- **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.

The first paragraph of Article (41) of the executive regulation indicates that the exemption for livestock husbandry and fattening extends to milk produced from these livestock, provided that the dairy trade activity is not practiced independently.

- **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.

The second paragraph of Article (41) of the executive regulation clarifies that the exemption prescribed for fishing boat enterprises applies to the profits resulting from the project for ten years from the date of activity inception, and the project means practicing the fishing activity, whether using one or more owned or rented boats. This exemption is restricted to realized profits from fishing activity.

- **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.

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.

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.

The tax exemption period is five years starting from the date of practicing the activity or production commencement, as the case may be. This exemption shall cease to apply if the establishment is assigned or its legal form is changed.

In all cases, this tax exemption solely applies to projects' profits derived from Social Fund for Development funding.

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.

The legislator strives from this exemption to raise the savings of individuals as crucial to finance investments to advance economic development.

Activities

Exercise 1

Al-Amal Shops for Trading is a sole proprietorship with a net profit of 1000,000 pounds extracted from the income statement prepared on 31/12/2022, 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.
- 3- General and administrative expenses are included in the income statement at EGP 4,000, and expenses not supported by documents are EGP 10,000.
- 4- The interest on bonds listed on the stock market is included in the income statement EGP 140,000.

Instructions:

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

Solution

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

Net accounting profit (from the income statement)	1000,000
Additions:	
Provision for doubtful debts	200,000
Excess of the permissible limit in general and administrative expenses not supported by documents	7,200
Sales not recorded in the books	80,000
Deductions:	
Interest on bonds listed on the stock market that are Exempted from tax	(140,000)
Net Tax Profit	1,147,200

2- Calculation of tax due:

First Bracket	$200,000 \times 20\% =$	40,000
Second Bracket	$200,000 \times 22.5\% =$	45,000
Third Bracket	$747,200 \times 25\% =$	186,800
Tax payable		271,800

Comments on the solution:

- 1- Provision for doubtful debts (200,000) is not considered a deductible cost. As long as it is included in the income statement, it shall be added to the accounting profit upon determining the tax base.

2- Administrative and general expenses not supported by documents are considered costs and must be deducted within 7% of the general administrative expenses supported by documents:

- The actual amount is 10,000 EGP.
- $\text{Max} = 40,000 \times 7\% = \text{EGP } 2800.$
- Excessing the maximum limit is not considered a tax-recognized cost = 7,200 pounds. Hence, it is added to the net accounting profit to determine the tax base.

3- Sales made before the end of the year and not recorded (80,000) are added to the net accounting profit when computing the tax base.

4- Interests on stock exchange-listed bonds are exempt from taxation.

01098291115 30407103300271

Exercise 2

The net profit of one of the sole proprietorships amounted to 1400,000 EGP submitted to the Tax Authority for the year 2022. The following was discovered by the tax examiner when reviewing the establishment books and records:

- The depreciation of fixed assets includes 66,800 EGP, and its statement is as follows:

Statement	Balance 1/1/2022	Additions during the year		rate	Depreciation	Balance 31/12/2022
		Value	Date			
Machinery	400,000	60,000	1/10	10%	42,000	418,000
furniture	120,000			10%	12,000	108,000
Cars	170,000			10%	12,800	147,200
Total	690,000	60,000			66,800	673,200

- During the year, one of the cars was sold for 10,000 pounds.

Instructions :

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

Solution

(1) Accelerated depreciation = $60,000 \times 30\% = 18,000$ EGP of deductible costs

(2) Depreciation basis of fixed assets:

Book value at the beginning of the period	690,000
+ Additions:	
Purchased Machine	42,000
(60,000-18,000)	
- Excludes:	
Value of the car sold	(10,000)
Depreciation basis	722,000

(3) Depreciation = $EGP\ 722,000 \times 25\% = EGP\ 180,500$ of deductible costs

(4) Calculation of the tax base:

Adjustments to Net Accounting Profit		Reasons for modification
1,400,000		Net Accounting Profit
	66,800	additions:
		1. <u>Depreciation of fixed assets:</u>
		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.
66,800		Total Additions
1,466,800		Total

	18,000	Deductions: 1. <u>Accelerated depreciation</u> of the purchased industrial machine by 30% Article 27. 2. <u>Tax depreciation of fixed assets at 25%</u> of the depreciation basis Article 25, 26, and 27.
	180,500	
(198,500)		Total Deductions
1,268,300		The tax base for 2022

(5) Second: Calculation of the tax due:

First Bracket	$1,200,000 \times 25\% =$	300,000
Second Bracket	$68,300 \times 27.5\% =$	18,782.5
Tax due		318,782.5

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Exercise 3

The net accounting profit of one of the sole proprietorships for the fiscal year ending 31/12/2022 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 salaries for the establishment's owner.
- 2- The depreciation of fixed assets is 48,000, and its statement is as follows:

statement	Balance 1/1/22	Additions during the year		rate	depreciation	Balance 31/12/2022
		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

- 3- The allowances item includes the following:
 - 3,000 provision for doubtful debts.
 - 18,000 Severance allowances.
- 4- Donations paid to one of the registered associations amounted to 15,000 pounds.

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

Solution

1- Calculate the tax depreciation value:

- Accelerated depreciation = $40,000 \times \frac{30}{100} = 12,000$ of deductible costs
- Depreciation basis for fixed assets:

450,000		First Period Balance 1/1/22
	28,000	Additions:
		1- Purchased Machine
		= 40,000 - 12,000 = 28,000
	20,000	2- Purchased car
48,000		Total additions
498,000		= Depreciation basis

- Fixed asset depreciation value = $498,000 \times \frac{25}{100} = 124,500$ EGP.

2- Determining the net tax profit:

350,000		Net Accounting Profit
		Additions:
	10,000	1- Salaries of the owner of the establishment: are not considered deductible costs and therefore are fully added to the net profit.
	48,000	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.
	3,000	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.
	2,000	4- Provision for Separation of Service Bonus: Maximum allowed = $(90,000 - 10,000) \times \frac{20}{100} = 16,000$ 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)
	15,000	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)
78,000		Total additions

428,000		Total
	12,000	Deductions: 1- Accelerated depreciation of 30% under Article 27 of the Tax Law.
	124,500	2- Depreciation of fixed assets at a rate of 25% under Articles 25, 26, and 27 of the Tax Law.
(136,500)		Total Deductions
291,500		Net tax profit before deduction of donations
(15,000)		Deducts donations to publicized associations: Max = $291,500 \times \frac{10}{110} = 26,500$ EGP. Donations paid = 15,000 EGP. (Actual donations are deducted in full as they are within the tax limit of 10% of net tax profit)
276,500		Net Tax Profit (Tax Base)

Second: Calculation of the tax due:

First Bracket	30,000	Exempt
Second Bracket	$15,000 \times 10\% =$	1500
Third Bracket	$15,000 \times 15\% =$	2250
Fourth Bracket	$140,000 \times 20\% =$	28,000
Fifth Bracket	$76,500 \times 22,5\% =$	17,212.5
Tax due		48,962.5

Exercise 4

- The net profit of one of the sole proprietorships amounted to 2400,000 EGP for the year 2022.
- When the tax examiner examines the books and accounts of the establishment, the following shall be found:
 - The salaries item includes 135,000 EGP of wages and annual salaries for employees, of which 15,000 EGP is the annual salary for the establishment's owner.
 - Fixed assets depreciation includes EGP 46,000, and its statement is as follows:

Statement	Balance 1/1/2022	Additions during the year		Rate	Depreciation	Balance 31/12/2022
		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

- Insurance premiums held by the taxpayer against his disability or death are 3500 pounds per year.
- The allowances item includes:
 - 4,000 EGP provision for doubtful debts.
 - 30,000 EGP end-of-service reward allowance.
- 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.
- 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.
- 7- The loss of dealing in securities listed on the Egyptian stock market amounted to EGP 9,500.

Instructions : Determine the income tax base and the tax due for 2022.

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Solution

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

2- Depreciation basis for fixed assets:

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

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

4- Calculation of the tax base:

Adjustments to Net Accounting Profit		Reasons for modification
2400,000		Net Accounting Profit
		additions:
	15,000	1- <u>Salaries of the owner of the establishment:</u> are not considered deductible costs but are considered the use of profit
	46,000	2- <u>Depreciation of fixed assets:</u> (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 Regulations and deducted from the net profit)

500	3- 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.
4,000	4- <u>Provision for doubtful debts:</u> It is not considered a deductible cost because it is a potential loss, not an actual loss Article 24.
6,000	5- <u>The amount of increase in the provision of severance allowance:</u> (The amounts deducted to the account of the special savings and savings funds, pension, and end-of-service gratuity allowance are considered deductible costs within 20% of the salaries and wages of the company's employees) <ul style="list-style-type: none"> • Allocated 30,000 • Max = $(135,000 - 15,000) \times 20\% = 24,000$ • Excess of the maximum limit (added to net profit) = 6,000
3,000	6- <u>Bad debts 3,000 months have passed since the maturity date:</u> 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.
-----	7- <u>Bad debts of 4,500 EGP 19 months from maturity:</u> (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- <u>Donations paid to the government are 5,000:</u> costs that must be deducted in full.
	7,000	9- <u>Donations paid to one of the legally registered NGOs:</u> The costs must be deducted within 10% of the net tax profit and added temporarily until the net tax profit is reached.
	9500	10- <u>Loss of dealing in securities:</u> It is considered one of the costs that must be deducted because the proceeds of dealing in securities listed in the stock exchange have become taxable at a rate of 10% on two conditions: that a beneficiary is a natural person residing in Egypt and that the securities are listed on the stock exchange. The resulting losses are, therefore, deductible costs.
91,000		Total additions
2,491,000		Total
	13,500	Deductions: 1- <u>Accelerated depreciation</u> of the purchased industrial machine by 30% (Article 27).
	115,375	2- <u>Tax depreciation</u> of fixed assets at 25% of the depreciation basis Article (25, 26, and 27).
128,875		Total Deductions
2,362,125		Net profit Adjusted profit before deduction of donations
		Deductions: 1- <u>Donations paid to one of the registered Egyptian NGOs:</u> (of the costs must be deducted because they are within 10% of the net tax profit)
7,000		

		<ul style="list-style-type: none"> • Donations 7,000 • Max = $182,625 \times (10 \div 110) = 16,602$
2,355,125		The tax base for 2022
2,355,120		The tax base for 2022 (rounded)

5- Calculation of the tax due:

First Bracket	$1,200,000 \times 25\% =$	300,000
Second Bracket	$1,155,120 \times 27.5\% =$	317,658
Tax due		617,658

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كلية التجارة

162

Exercise 5

You have the following accounting information for one of the industrial establishments for the year ended 31/12/2022:

- 1- Net profit for the year EGP 900,000 from the income statement prepared under Egyptian accounting standards.
- 2- Establishments expenses include:
 - 29,000 salaries, of which 7,000 are for the taxpayer in exchange for management.
 - 22,000 EGP donations (70% of which are paid to a government-supervised hospital, and the rest are donations to the local administration).
 - 19,000 EGP advertising campaign for three years starting on 1/7/2022.
 - 20,000 EGP Bad debts, Half of which the claim procedures started more than 18 months ago, and the establishment could not collect them, and the rest, the establishments, did not take the required procedures to execute them.
 - 3,000 EGP depreciation of a machine purchased at a rate of 10% for its investment in industrial production on 1/7/2022 (the book balance of the machines on 1/1/2022 is 210,000 EGP, one of the machines was sold on 1/4/2022 for 24,000 EGP).
 - 5,000 EGP overhaul of a machine to increase its production capacity on 1/3/2022.
 - 6,000 EGP depreciation of a car purchased for the use of the facility at a rate of 10% on 1/7/2022.

- 21,000 EGP returns on the capital invested in the facility.
- 24,000 EGP returns on loans used in the activity at a rate of 24%, and loans amount to 100,000 EGP (the credit and discount rate announced by the Central Bank on 1/1/2022 is 11%).
- 7,000 EGP penalties, half of which are due as a result of the contractual liability of the taxpayer and the rest due to an intentional misdemeanor.

3- The revenues of the establishment include:

- 25,000 EGP asset revaluation profits.
- 8,000 EGP returns of bonds restricted in the stock market.
- EGP 6,000 returns on deposits and savings accounts in banks registered in Egypt.

Instructions: Calculate the tax due for the year ended 31/12/2022.

01098291115 30407103300271

Solution

1- Donations and Subsidies:

For local administration = $22,000 \times \frac{30}{100} = 6,600$ EGP (of costs deductible and included in the books and therefore the treatment is tax-sound .

For a government-supervised hospital = $22,000 \times \frac{70}{100} = 15,400$. of the costs deductible within 10% of the net tax profit (temporarily added to the net profit).

2- Advertising Campaign:

- As for 2009 = $\frac{19,000}{3} \times \frac{6}{12} = 3,167$ EGP
- The advertising campaign costs included in the income statement are 19,000 EGP.
- If there is an increase in the costs listed in the P&L account for future years (deferred revenue expenses) = $19,000 - 3,167$ EGP = 15,833 returned to the tax base (added to the net profit).

3- Bad debts 20,000 EGP.

$$20,000 \times \frac{50}{100} = 10,000 \text{ EGP}$$

(The entity has not taken any procedures to collect and collect the debt (it is not a deductible cost and is included in the income statement from costs and therefore must be returned to the tax base by adding it to the net profit))

$$20,000 \times \frac{50}{100} = 10,000 \text{ EGP (DH)}$$

The debt payment procedures have been more than 18 months (of deductible costs and included in the income statement from costs and therefore the treatment is tax-sound))

4- Depreciation:

New Machine:

- Cost of New machine = $3,000 \times \frac{100}{10} \times \frac{12}{6} = 60,000 \text{ EGP}$.
- Accelerated depreciation value 30% = $60,000 \times \frac{30}{100} = 18,000 \text{ EGP}$. of deductible costs)
- Depreciation basis for the new machine after excluding accelerated depreciation = $60,000 - 18,000 = 42,000 \text{ EGP}$.

The cost of the purchased car = $6,000 \times \frac{100}{10} \times \frac{12}{6} = 120,000 \text{ EGP}$.

The depreciation calculation of 25% is as follows according to the depreciation basis for machinery and cars:

Book value at the beginning of the period		210,000
+ Additions:		
1- Overhaul of one of the machines.	5,000	
2- The new machine.	42,000	
3- The car	120,000	
(-) Excludes:		167,000
Selling value of machines		(24,000)
Depreciation basis		353,000

- Tax depreciation based on depreciation = depreciation basis $\times \frac{25}{100} =$

$$353,000 \times \frac{25}{100} = 88,250 \text{ (of deductible costs).}$$

5- Debit returns (from deductible costs as long as they are necessary for the practice of the activity and within double (double) the credit rate declared by the Central Bank after deducting the exempted credit returns:

- Accounting receivables $\longrightarrow 24,000 \times 24\%$.
- Double the credit rate $\longrightarrow 22\%$.
- Taxable debt returns = $\longrightarrow 100,000 \times \frac{22}{100} = 22,000$

1- Exempted credit returns (6000)

= Deductible debit returns = 16,000 EGP.

- Hence, there is an increase in costs of = $24,000 - 16,000 = 8,000$ (added to the net profit).

6- Penalties 7,000 EGP:

- Penalties for contractual liability = 3,500 (deductible costs)
- Penalties for intentional misdemeanor = 3,500 (not deductible costs)

First: Calculation of net tax profit:

Net Accounting Profit		900,000
Additions:		
1- <u>The taxpayer's salary:</u> It is not one of the costs that must be deducted and included in the income statement of costs; therefore, it must be returned to the tax base (added to the net profit).	7,000	
2- <u>Donations paid to a hospital under government supervision: of the</u> costs to be deducted, but within 10% of the net tax profit, and therefore <u>temporarily added</u> to the net accounting profit until the calculation of the net taxable profit.	15,400	
3- <u>Donations to the government or local administration: one of the costs</u> that must be deducted and included from the costs in the income statement; therefore, the treatment is tax-sound.	-----	
4- <u>For the following years of the advertising campaign (deferred revenue expenses): It</u> is not considered a deductible cost and has been included in the costs in the income statement and, therefore, must be refunded to the tax base (added to the net profit).	15,833	
5- <u>The procedures for collecting and collecting the bad debts have been more than 18 months: of the costs</u> are deductible and included in the income statement of costs; therefore, the treatment is tax-sound.	-----	

6- <u>The entity has not taken any measures to meet the debt: it</u> is not considered a deductible cost. It has been included in the income statement and must be returned to the tax base (added to the net profit).	10,000	
7- Depreciation of a purchased machine calculated in violation of tax legislation (added to the net profit).	3,000	
8- Depreciation of a purchased car calculated in violation of tax legislation (added to net profit).	6,000	
9- Overhaul of one of the machines (T. Capital): It is not a deductible cost, but it is cleared to fixed assets and is calculated as tax depreciation according to the depreciation basis and has been included from the costs in the income statement and therefore must be returned to the net profit.	5,000	
10- <u>Returns on invested capital:</u> It is not considered a deductible cost and has been included among the costs in the list of costs and therefore is returned to the tax base (added to the net profit).	21,000	
11- Increase in debit returns for loans used in the activity.	16,000	
12- Penalties for contractual liability (deductible costs included in the income statement of costs.	-----	
13- <u>Penalties for intentional misdemeanor:</u> (not deductible costs and included in the income statement of costs and therefore must be returned to the tax base (added to the net profit).	3,500	
Total Additions		102,733

Total		1,002,733
Deductions:		
1- Revaluation of assets: It is not considered taxable income because it is an unreal book profit and has been included in the revenues in the income statement and therefore deducted from the net profit.	25,000	
2- Depreciation:		
• Accelerated depreciation 30% :	18,000	
• Depreciation is based on 25% depreciation.	88,250	
Total Deductions		(131,250)
Net tax profit before deduction of donations		871,483
Deduction of donations:		
• Maximum donation discount = $863,483 \times \frac{10}{110}$ 7 8,498 EGP.		(15,400)
• Paid donations included in income statement = 15,400.		
• If donations within 10% of net tax profit are fully deducted from the net profit.		
Exempted credit returns shall be deducted:		
• Proceeds on exchange-listed bonds (subject to 10% tax).	8,000	
• Returns on deposits in registered local banks.	6,000	(14,000)
Net taxable profit		842,083
Tax base (net tax profit)		842,080

Second: Calculation of the tax due:

First Bracket	$60,000 \times 15\% =$	9,000
Second Bracket	$140,000 \times 20\% =$	28,000
Third Bracket	$200,000 \times 22,5\%$	45,000
Fourth Bracket	$442,080 \times 25\%$	110,520
Tax payable without dividends of shares and bonds restricted		192. 520
+ Tax on returns on restricted shares and bonds 10%	$8,000 \times 10\% =$	800
Total Tax Due		193,320

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171

Chapter 5

Professional or non-commercial activity

Introduction:

Non-commercial activities are those that do not fall under the scope of commercial and industrial businesses and where the labor component is the basis for revenue generation, such as the customs clearance profession. While professional activities, such as medicine, law, engineering, accounting, and auditing, require a specific academic qualification and practical experience.

The revenues of professional or non-commercial activities differ from salaries and the like in that the taxpayer undertakes the activity or profession independently and for his account, whereas salaries are subject to a dependency relationship under the employment contract.

This chapter addresses the requirements regarding determining the taxable income from non-commercial or professional activities. The tax legislator stipulated these provisions in Chapter Four of Book Two, beginning with Articles (32) to (36), as well as Chapter Two of Book Five in Articles (70 and 71) of Law No. 91 of 2005, as well as from Articles (43) to (47) of the executive regulations of the law. The tax treatment of the revenue of these activities will be addressed through the following:

First: Requirements for tax application:

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

1. Independent practice of the profession or activity:

The profession or activity must be practiced autonomously, for the taxpayers' account, for their interest, and under their responsibility, assuming all profession-related risks, reaping the profit, and incurring the loss. In situations where the taxpayer is neither a salaried employee nor has a dependant or employment relationship with others under an employment contract, as is the case with salaries tax and the like.

For example, a doctor who practices his activity in a hospital without having a dependency relationship with his employer is subject to tax on the professional or non-commercial activity. If he has an employment relationship with the hospital, the amount received will be the same as salary and wages since he does not engage in his activity independently for his benefit.

2. The profession or activity's primary dependence on the labor element:

The legislator indicated that the taxpayer has a profession, that labor is the primary factor in generating revenue and engaging in professional or noncommercial activity, and that the taxpayer is not a craftsman (where capital is the primary source of income with the dependence on physical

labor). This does not imply that capital is unnecessary in the practice of professional activity because despite technological advancement and the use of capital in the form of devices and tools in professions such as dentistry, medical analyses, and radiology, technical and professional expertise remains the foundation for the use of these advanced devices and tools. This is the definitive distinction between non-commercial or professional activity and commercial or industrial activity.

3. The actual practice of the profession for financial benefit (frequent and habitual activity):

In the sense that the taxpayer must engage in the profession to be subject to the tax. It is not sufficient to obtain the required license from competent administrative bodies. For instance, an accountant whose name is registered on the registry of accountants and auditors but who does not practice the profession is not subject to the tax. The Tax Authority can confirm that the taxpayer is engaged in the profession by referring to the data in the contracts registry and the notifications it receives voluntarily from the authorities after verifying their authenticity and using other methods.

Furthermore, the profession must be regularly and repeatedly practiced, and it cannot be an incidental or temporary activity. In general, there is no defined number of repetitions to assess whether or not an activity is repetitive or habitual. In addition, the intent to gain or profit must be present when the profession or activity is being practiced.

Suppose this purpose is not to exist and is replaced by another goal, such as providing free services such as spreading science and culture or charitable works. In that case, such activities are not subject to tax even if they generate some revenues, due to the absence of the intention to make profits. For instance, if a doctor provides free medical care to the poor, this activity is not subject to taxation, even if some revenue is derived from donations and subsidies from wealthy individuals.

4. Practicing in the profession or activity in Egypt (Egypt is the main center for engaging in the activity):

The legislator subjected the net profits resulting from the professional or non-commercial activity practiced in Egypt, regardless of the nationality and residency of the owner, whether Egyptian or foreign. This is under the principle of regionalism or the state's economic dependency inside its borders, regardless of whether the taxpayer resides in Egypt or overseas, provided that the service provider or beneficiary has a permanent establishment in Egypt. Here, two cases can be distinguished:

- **Resident** (for more than 183 continuous or intermittent days within twelve months): Where revenue earned from professional activity in Egypt is taxed at rates as is the case for Egyptian taxpayers (political affiliation).
- **Non-resident**: where the income from professional activity that this taxpayer achieves in Egypt falls under the scope of the general law

revenues that are subject to tax under the provisions of the law, but at a proportional price without deducting any costs based on the total revenue.

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 assignment in full or in part of the office of the profession's practice or any receipts from the closure of the office. The determination of net revenues is those revenues from various operations according to the provisions of this law, after deducting all costs and expenses necessary for carrying out the profession, including asset depreciation, in accordance with the simplified accounting principles issued by a decree from the Minister.

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 year or the prior or subsequent year(s).

Likewise, deductible costs and expenses are recorded on a cash basis as a general rule if the taxpayer maintains regular books and records, except for certain expense items, such as the depreciation of fixed assets, which

are computed on an accrual basis during the years of benefiting from these assets in conducting the activity.

The tax applies to the net revenues generated during a full (Gregorian) tax year and not to the profits of each operation separately, with the tax being applied in some cases for less than a year, such as cases of starting the activity, ending the exemption period, or ceasing the practice of the profession due to the taxpayer's death or cessation of work during the year.

Thus, the next part will focus on the revenues included in the tax base and the costs and expenses that must be subtracted from these revenues.

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 is 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.**

The legislator adds the term activity to the previous item to be all-inclusive so that the outcome of each activity is subject to tax under the provisions of the revenues of noncommercial professions, even if it does not reach the level of the profession.

The profession means the work that a person practices by himself, is considered his profession, and requires frequent practice. In contrast, activity refers to making any effort that does not amount to becoming a profession and does not come close to being casual or temporary work.

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.

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. It does not alter the essence of these works that the owners purchase tools and machines to produce them, such as papers, paintings, and stones for carving. These tools and machinery are regarded as secondary literary or artistic production components.

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. As Article (6) stipulates that an annual tax shall be imposed on the total net income of resident and non-resident natural persons in respect of their incomes earned in Egypt. The total net income comprises the following sources:

- 1- Salaries and the like;
- 2- Commercial or industrial activity;
- 3- Professional or non-commercial activity;
- 4- Real estate.

Therefore, the provisions of the tax on non-commercial professions apply to any profession or activity other than those that predominantly use the work element only, such as salaries and the like, or those that primarily use the capital element only, such as real estate wealth, or those that predominantly use both elements together (labor and capital), such as commercial and industrial activity.

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.

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Fourth: Deductible Costs:

The final paragraph of Article (33) of the law stipulates that the determination of net revenues is those revenues from various operations according to the provisions of this law, after deducting all costs and expenses necessary for carrying out the profession, including asset depreciation in accordance with the simplified accounting principles issued by a decree from the Minister.

In addition, 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%.

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. Such expenses include gratuities, internal transportation expenses, buffet expenses for internal hospitality for the establishment's clients, cleaning expenses, regular and union stamps, and routine maintenance costs.

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:

This refers to the rent paid for the rented places allocated for the practice of the profession on an accrual basis, as it is due as long as the place is utilized. Nonetheless, if the place is owned, implicit rent is not calculated according to Article (46), which states that the provision of Article (39) of this law does not apply to real estate that is included in the assets of the establishment or company in determining the taxable revenue realized from renting real estate or a portion thereof under the provisions of the Civil Law based on the actual rent, less 50 % for all costs and expenses. All expenses related to the owned real estate used in practicing professional activity (depreciation, real estate tax, maintenance expenses, etc.) will be deducted as practice expenses.

If the profession is practiced through the taxpayer's private residence, a proportion of the rent is calculated as part of the expenses of practicing the profession equal to the proportion of the part of the housing designated for practicing the profession, based on the rental value or rent of the same, depending on whether or not the property is subject to real estate taxes.

- 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.
- 3- General expenses include electricity, water, gas, telephone, telegraph, etc.
- 4- The expenses of establishing the office, which includes the expenses of decoration, preparation, and equipment of 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 books and academic 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. This is under 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.

Notably, the same deductions cannot be applied to other income stipulated in article 6 of this law. The legislator may have permitted these donations to be deducted from the net revenue to encourage taxpayers to donate to these bodies and institutions.

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.

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.

There is no doubt that this exemption is considered an incentive for authors, scholars, and writers to enrich society with literature and translations, to spread science and culture among members of society, and as a contribution from the state to lowering the prices of these works so that they are available to citizens at the lowest possible price. Consequently, the exemption is restricted to the authorship and translation activity only, but it is taxable if this extends to the audio or visual presentation.

Based on the preceding and under the Tax Authority's instructions, the amounts the radio newsletter writer receives are taxable according to the provisions of salaries and wages (if he is an employee of the radio). In contrast, this exemption applies to amounts a non-radio and television

employee receives for commenting on public events or expressing an opinion in the specialized economic, social, scientific, and cultural domains.

As for the profits of interpretation, they are subject to tax because it is a direct interpretation and not a translation of books or articles.

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.

Article (47) of the executive regulations confirmed that to benefit from the tax exemption outlined in this clause of the law, the regulations and prices set by universities and institutes must be adhered to. In contrast, the revenue is subject to taxation if this condition is violated.

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. They shall not be liable to tax until the beginning of the month following the lapse of the aforementioned exemption period added to which is the training period required by the profession's practice law, public service period, military

service, or reserve service period if it is subsequent to the date the practice commenced. 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.

For the exemption to be valid, the taxpayer must practice the profession individually, without partnership with others, unless they are also tax-exempt.

It is noted from the previous that the taxpayer practicing the profession or activity is obligated to pay tax on the excess of 50,000 pounds during the exemption period. This exemption encourages small taxpayers who engage in professional or non-commercial activity to afford the enormous costs associated with founding and preparing to carry out the activity.

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190

Activities

Exercise 1

The following data have been provided for one of the law firms for the year 2022 (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 his desk furniture - 400 advertising revenue installed on the front of his office - 1,400 salaries and annual wages for office workers - 2,400 car expenses used in private affairs and professional affairs - 1,920 registration fees in lawyers association - 960 depreciation of furniture and machinery - 440 Books and legal periodicals - 6,800 Travel expenses to Kuwait to provide consultations – 800 for purchasing stationery - 180 buffet expenses - 160 gratuities - 880 water and electricity - 7,000 donations to one of the local administration units - 120 premium of monthly life insurance for the benefit of his wife and minor children.

Note that:

The balance of stationery on 1/1/2022 (January 1) is 240 EGP, and the remaining on 31/12/2022 (end of December) is 340 EGP.

Instructions:

Determining the base and amount of tax on the revenues of non-commercial professions, 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.

$$= 240 + 800 - 340 = 700 \text{ L.E.}$$

First: Determining the tax base:

		<u>Taxable Revenues:</u>
88,000		1- Cases Fees: because it is revenue that occurs because of the practice of the profession in Egypt Article (66).
30,000		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.
----		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)
1600		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).
400		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).
120,000		Total Revenue

		Deducted from it (total expenses)
		1- Administrative and general expenses supported by documents:
	1,400	▪ Salaries and wages of employees
	1,920	▪ Registration fees in the syndicate
	960	▪ Depreciation of furniture and equipment: calculated according to accounting standards or rules determined by the competent minister according to the nature of each profession.
	440	▪ Legal books and periodicals: related to the activity.
	6,800	▪ Travel expenses to Kuwait to provide consultations: It is considered one of the costs necessary to practice the profession in Egypt and outside it.
	700	▪ Depreciation of stationery
	880	▪ Water & Electricity Expenses
	13,100	Total expenses supported by documents.
		2- Costs and expenses not supported by documents:
		1,600 car expenses ($2400 \times (2 \div 3)$).
		180 buffet expenses
		160 Tips
		1,940
	917	• Max = $13,100 \times 7\% = 917$ EGP.
		(The maximum limit has been deducted because the actual expenses are greater than the maximum allowed 7% of the administrative and general expenses supported by documents)
	(14,017)	Total expenses
	105,983	Net annual income before deduction of donations
		Deduction:
	(7,000)	▪ Donation for one of the local administration units (from the costs deductible within the limits of the annual net revenue, and it was fully deducted as the net revenue is 39,259 and the donation is 7,000 EGP within the limits of net revenue).

(1,440)	Deduction: <ul style="list-style-type: none"> 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)
97,543	Tax base
97,540	Tax base rounded to the nearest 10 EGP less

Second: Calculation of Tax Due:

- First Bracket 30,000 EGP exempted.
- Second Bracket $15000 \times 10\% = 1,500$ EGP.
- Third Bracket $15,000 \times 15\% = 2,250$ EGP.
- Fourth Bracket $37,540 \times 20\% = 7,508$ EGP.

Total tax due = 11,258 EGP per year

Exercise 2

Instructions:

Determining the base and amount of tax on the revenues of non-commercial professions if the taxpayer doesn't maintain regular accounts and books, with explanation (the same previous example).

First: Determining the tax base:

	<u>Taxable Revenues:</u>
88,000	1- Cases Fees: because it is revenue that occurs because of the practice of the profession in Egypt (article: 66).
30,000	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.
----	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)
1600	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).
400	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).
120,000	Total Revenue
(12,000)	Deducted from: 10% of the total revenue against all costs because the taxpayer does not keep regular books and accounts. $120000 \times 10\% = 4,600 \text{ L.E..}$
108,000	Net annual income before deduction of donations

(7,000)		Deducted from: <ul style="list-style-type: none"> • Donation for one of the local administration units (from the costs deductible within the limits of the annual net revenue, and it was fully deducted as the net revenue is 39,259 and the donation is 7,000 EGP within the limits of net revenue).
101,000		Tax base

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%.

Second: Calculation of the tax due:

- First Bracket 30,000 EGP exempted.
- Second Bracket $15000 \times 10\% = 1500$ EGP.
- Third Bracket $15,000 \times 15\% = 2,250$ EGP.
- Fourth Bracket $41,000 \times 20\% = 8200$ EGP

Total tax due = 11,950 EGP.

Exercise 3

One of the accounting firms in Egypt provided the following data for the year 2022 (Figures in Egyptian Pound):

100,000 fees for auditing companies - 20,000 fees for providing tax consultations - 5,000 rewards for articles published in a scientific journal - 7,000 fees for designing tax systems - 1,000 selling profits part of his office furniture - 15,000 fees for providing consultations in the Sultanate of Oman - 6,000 fees of providing consultations about the feasibility of projects - 16,000 salaries and wages - 500 registration fees in the commercial syndicate - 250 books and accounting periodicals - 4,000 travel expenses for the Sultanate of Oman to provide consultations - 600 price of stationery - 200 buffet expenses - 120 gratuities - 650 water and lighting - 1,000 transfers - 4,500 donations for a hospital under government supervision - 400 monthly life insurance premium for the benefit of his wife and minor children.

Instructions:

Determine the base and amount of tax on the revenues of non-commercial professions imposed on books without explanation if the taxpayer keeps regular books and accounts supported by documents, noting that:

- 1- The stationery balance on 1/1 is 200 EGP, whereas, on 31/12, the balance is 300 EGP.
- 2- The cost of office furniture and equipment is 45,000 EGP, and the accumulated depreciation is 15,000 EGP.

3- The book value of the computers is 10,000 EGP.

Solution

1- Depreciation of furniture and equipment = (Cost – accumulated depreciation) × 25% = (45,000 - 15,000) × 25% = 7,500 EGP.

2- Depreciation of computers = 10,000 × 50% = 5,000 EGP.

3- Depreciation of stationery = Beginning balance + Cost of purchases – Ending balance. = 200 + 600 - 300 = 500 EGP.

First: Determining the tax base:

	Taxable Revenues:
100,000	1- Fees of companies auditing
20,000	2- Fees of providing tax consultations
-----	3- Rewards for publishing articles
7,000	4- Fees of designing tax systems
1,000	5- Selling profits part of the office furniture
15,000	6- Fees for providing financial consultations in the Sultanate of Oman
6,000	7- Fees of providing consultations on the feasibility of projects.
149,000	Total Revenue
	Deducted from it (total expenses):
	1- Administrative and general expenses supported by documents:
16,000	✓ Salaries and wages.
500	✓ Registration fees in the Syndicate.
7,500	✓ Depreciation of furniture and equipment.
5,000	✓ Depreciation of computers.
250	✓ Books and accounting periodicals.

	4,000 500 650	<ul style="list-style-type: none"> ✓ Travel expenses to Oman ✓ Depreciation of stationery. ✓ Water and lighting expenses.
34,400		Total expenses supported by documents
		2- Costs and expenses not supported by documents:
		1,000 internal transfers.
		200 buffet expenses.
		120 gratuities.
1,320		1,320 = Total unsupported disbursements.
		<ul style="list-style-type: none"> • Maximum allowed = expenses supported by documents $\times 7\% = 34400 \times 7\% = 2,408$ EGP.
		(costs that aren't supported by documents are fully deducted as they are within a maximum limit of 7% of expenses supported)
(35,720)		Total expenses
113,280		Net annual income before deduction of donations
(4,500)		Deduction of donations: Donations for one of the hospitals under governmental supervision up to 10% of the annual net revenue <ul style="list-style-type: none"> • Max = $113,280 \times 10\% = 11,328$ EGP. • Actual donation = 4,500 (fully deducted as it is within 10% of net revenue)
108,780		Net income after donations
(3,000)		Deductions: Life insurance premiums for the benefit of his minor children: <ul style="list-style-type: none"> • Maximum = 3,000 EGP. • Actual amount = $400 \times 12 = 4,800$ EGP.
		(To be deducted whichever is less)
105,780		Tax base

Second: Tax due:

- First Bracket 30,000 EGP exempted.
- Second Bracket $15000 \times 10\% = 1500$ EGP.
- Third Bracket $15,000 \times 15\% = 2,250$ EGP.
- Fourth Bracket $45,780 \times 20\% = 9156$ EGP

Total tax due = 12,906 EGP per year.

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Exercise 4

Data of an accounting firm for 2022 (figures in Egyptian Pounds) provided for you.

120.000 fees for auditing works - 18.000 fees for providing accounting consultations in Saudi Arabia - 3.000 rewards for articles published in a scientific journal - 700 profits from selling part of his office furniture - 620 advertising revenue installed on the front of his office - 1.500 salaries and monthly wages for office workers - 1.200 syndicate subscriptions - 400 depreciation of furniture and machinery - 200 books and accounting periodicals - 3.000 travel expenses to Saudi Arabia for providing consultations - 1.000 price of stationery - 700 buffet expenses and gratuities - 500 water and lighting - 2.400 donations to the local unit in Gharbaoui in Beheira Governorate.

Instructions:

Determine the base and amount of tax on the revenues of non-commercial professions, noting that the balance of stationery at the end of December 2022 is 600 pounds:

Solution

- Depreciation of stationery = Beginning Bal. + Cost of Purchases – Ending Bal. = zero + 1.000-600 = 400 EGP.

First: Determining the tax base:

		Taxable Revenues:
120,000		1- Fees of auditing works.
18,000		2- Fees of providing accounting consultations in Saudi Arabia.
-----		3- Rewards for articles published.
700		4- Selling profits part of his office furniture.
620		5- Advertisement revenue installed in the front of his office.
139.320		Total Revenues
		Deducted from it (total expenses):
		<u>Administrative and general expenses supported by documents:</u>
18,000	✓	Salaries and wages.
1.200	✓	Syndicate subscriptions.
400	✓	Depreciation of furniture and machinery.
200	✓	Books and accounting periodicals.
3,000	✓	Travel expenses to Saudi Arabia.
400	✓	Depreciation of stationery items.
500	✓	Water and lighting expenses.
23.700		Total expenses supported by documents
		<u>Costs and expenses not supported by documents:</u>
		700 = Total unsupported expenses (buffet and gratuities).
700		<ul style="list-style-type: none"> • Maximum allowed = expenses supported by documents $\times 7\% = 23.700 \times 7\% = 1.659$

(24,400)	(unsupported costs are fully deducted as they are within a maximum of 7% of supported expenses) Total expenses
114.920	Net annual income before deduction of donations
(2.400)	Deduct donations: Donations for the local unit in Gharbaoui in Beheira. Article 34: Donations and subsidies paid to the Government, local administration units, and public legal persons shall be deducted from net revenues, provided they do not exceed the net annual revenue.
112.520	Net revenue after donations

Second: Tax due:

- First Bracket 30,000 EGP exempted.
- Second Bracket $15000 \times 10\% = 1,500$ EGP.
- Third Bracket $15,000 \times 15\% = 2,250$ EGP.
- Fourth Bracket $52,520 \times 20\% = 10,504$ EGP

Total tax due = 14,254 per year.

Section Three

Tax on Profits of Legal Persons

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Chapter 6

Scope and rate of the Tax

Introduction:

The 2005 Income Tax Law No. 91 introduced a tax on the profits of legal persons, which was not contained in earlier tax legislation. Whereas Law 157 of 1981, amended by Law 187 of 1993, differentiated between corporations and partnerships. The corporations were taxed for their profits as legal persons. In contrast, each partner in a partnership is taxed for their share in its profits and is subject to unified income tax on natural persons since the partner in such companies is a natural person. In most instances, this is inconsistent with facts, as the partners in such companies are legal, not natural persons.

Law No. 91 of 2005, in contrast to the previous tax systems, subjected all types of companies, regardless of their diverse purposes and legal forms, to tax on the profits of legal persons. In this instance, the company's profits are taxed, not the partners' profits.

Articles (47) to (50) addressed the scope of the tax on the profit of legal persons, the subjected and exempted entities and companies, and the tax rate as follows:

First: The scope of the tax:

Article (47) of Law 91 stipulates, "An annual tax shall be levied on the net aggregate profits of legal persons whatever their objectives".

Therefore, when imposing this tax, the legislator adopts the concept of comprehensive profit for all revenue items, whether from the primary activity (operating profit) or any secondary activities (capital or occasional profits), such as selling an asset and renting one of the company's warehouses or credit returns on bank deposits. This is after all expenses associated with these revenues have been deducted. The tax shall apply to:

- Legal persons residing in Egypt, with respect to all profits, whether realized in Egypt or abroad, with exception of the Agency of National Service Projects of the Ministry of Defense.
- Non-resident legal persons, with respect to the profits through a permanent establishment in Egypt.

For instance, if Arab Contractors Corporation executed contracts for the construction of real estate in and outside of Egypt, all profits from these contracts would be subject to tax on the profits of legal persons.

This is a departure from the principle of territoriality, as the resident legal person's profits from activities conducted outside of Egypt are liable to taxation. In addition, the profits of non-resident persons realized through a permanent establishment in Egypt were subject to tax.

In this context, A legal person is deemed a resident of Egypt in any of the following cases (Article 2):

- a) If established according to Egyptian law
- b) If its main or effective managing headquarters is in Egypt
- c) If it's a corporation in which the state or any state-owned legal person holds more than 50% of its capital

Generally, a legal person is considered a resident if its effective head office is in Egypt. In this regard, Article 3 of the executive regulations stipulates that Egypt is considered a center of actual administration if at least two of the following conditions are met:

- 1- If Egypt is where the daily administration decisions are taken.
- 2- If Egypt is the location where the meetings of the board of directors or managers are held.
- 3- If Egypt is where at least 50% of the board members or managers reside.
- 4- If Egypt is where the partners or shareholders reside, whose shares exceed half of the capital or voting rights.

Furthermore, according to the provisions of Article (4), a permanent establishment, in applying the provisions of this law, means each fixed business place through which some or all works of projects of a non-resident in Egypt is carried out. This particularly includes:

- a) A place of management
- b) A branch

- c) A building used as a sales outlet
- d) An office
- e) A factory
- f) A workshop
- g) A mine, oil field, natural gas well, quarry, or any other place for extracting natural resources, including timber or any other product from forests
- h) A farm or plantation
- i) A building site, construction project, assembly, preparations, or supervisory activities related to any of these

There shall be deemed as a permanent establishment a person working for an affiliated project who has the authority to conclude and ratify contracts in the name of the project unless such person's activity is restricted to the procurement of commodities or goods for the project.

Consequently, the profits of a non-resident person realized through any of the forms of permanent establishment referred to above are subject to tax, following the principle of territoriality or economic dependency that all profits achieved as a result of any activities that are practiced within the country must be subject to tax, taking into account the provisions of international tax agreements.

Second: Legal persons subject to tax and exempt persons:

The law has defined the persons that are treated as legal persons as follows (Article 48):

1- Capital associations and partnerships whatever the law they are subject to, as well as corporations de facto.

Capital associations include joint stock companies, companies limited by shares, and companies with limited liability. On the other hand, partnerships comprise general partnerships and limited partnerships.

Article (1) of the law defines the de facto corporation as a company established by natural persons without fulfilling the establishment or notarization procedures, except for cases resulting from the inheritance of a sole proprietorship.

Consequently, the tax legislator considered de facto corporations not resulting from the inheritance of a sole proprietorship a legal person and subjected them to this tax. In contrast, de facto corporations resulting from the inheritance of a sole proprietorship (the heirs) are subject to tax on the income of natural persons, following the provisions of Article (1) of the executive regulations of this law.

2- Cooperatives and their unions, taking into consideration exemptions stipulated by law.

According to Article (1) of the first book of the Cooperative Societies Law No. 317 of 1956, every association established by persons in their

capacity as producers or consumers on the following bases is considered a cooperative association:

1. The association shall consist of an unlimited number of shares, and each person shall have the right to subscribe to them and assign them to another person under the provisions of this law and the system of each association. However, its capital may consist of quotas as indicated by the association's statute.
2. Each General Assembly member shall have one vote, regardless of the number of owned shares.
3. The interest rate on the capital shares cannot exceed 6% of their par value.
4. Distribute the net profit that may be distributed to each member in proportion to his dealings with the association.

Furthermore, Article (2) of this law stipulates that the cooperative association shall be established of not less than ten individuals. Following its by-laws, it may accept other cooperative societies and non-profit organizations into its membership.

3-Public authorities and other public legal persons in relation to activity exercised by them that is subject to tax, without prejudice to exemptions provided in the laws establishing them.

In general, the authority is an entity with a public legal personality that was founded to manage a public utility based on a public interest or service or to conduct economic activity. Authorities in Egypt are divided

into five types: public sector bodies, which are represented by the National Authority for Military Production, independent bodies, which include the National Press Authority and the National Elections Authority; regulatory bodies, which include the Administrative Control Authority and the Egyptian Financial Supervisory Authority, in addition to public economic bodies.

These authorities primarily carry out non-profit activities; therefore, they are not subject to tax unless they deviate from this purpose and engage in profit-seeking economic activities, taking into account the exemptions stipulated in the laws of their foundation.

4-Banks, companies, and foreign firms, even if their head offices are based abroad and their branches are in Egypt.

5-Units established by the local authority with respect to their activity that is subject to tax.

On the other hand, the law exempted, in Article (47), the Agency of National Service Projects of the Ministry of Defense from being subject to tax. In addition, the following exemptions apply to the entities and establishments stipulated in Article (50):

1- Ministries and government bodies.

2- Non-governmental organizations and institutions established under the provisions of the Non-governmental Organizations and Institutions law promulgated by law no. 84 of 2002, within the limits of the purpose for which they were established.

- 3- Non-profit making bodies that carry out activities of a social, scientific, sports, or cultural nature as long as those activities are not of a commercial, industrial, or professional nature.
- 4- Profits of private insurance funds subject to the provisions of law no. 54 of 1975.

In this context, the private insurance fund is defined as every system in any association, syndicate, body, or individuals who have one profession or work or any other social relationship that consists of other than capital and whose purpose, according to its articles of association, is to provide compensation, financial benefits, or periodic salaries or specific pensions to its members or beneficiaries in one of the following situations:

- (A) The marriage of the member and his offspring, the attainment of a specific age, or the member's or his dependents' demise.
- (B) Retirement or loss of livelihood.
- (C) Inability to work as a result of a disease or injury.
- (D) Any further purposes approved by the Egyptian Insurance Supervisory Authority.

The fund's financial resources consist of the following:

- (1) Member Subscriptions.
- (2) The contribution of the state or the entity to which the fund is affiliated.
- (3) Return on investment of the fund's money.

- (4) Any additional resources approved by the fund's board of directors.
- 5- International organizations, technical cooperation bodies, and their representatives, for which international agreements provide their exemption from tax.
- 6- Profits and dividends of investment funds established according to the Capital Market Law promulgated by law no. 95 of 1992, whose investment in securities and other debt instruments is not less than (80%), dividends of holding investment funds whose investments are restricted to the mentioned investment funds, the dividends obtained by these funds after adding (10%) of the value of these dividends to the taxable base in exchange for non-deductible costs, return on investment in cash investment funds, the revenue of bonds registered in the official schedules at the stock exchange excluding treasury bonds, and the profits of investment funds whose exclusive investment activity is in cash only.
- 7- Returns received by legal persons on securities and certificates of deposit issued by the Central Bank of Egypt or revenues from transactions involving them, with an exception from provision of Article 56 of this law.
- 8- Dividends received by the parent or holding company from resident and non-resident subsidiaries after adding 10% of the value of these dividends to the parent or holding company's taxable base in exchange for non-deductible costs, provided that:

- a) The shareholding of the parent or holding company shall not be less than (25%) of the subsidiary's capital or voting rights.
- b) The parent or holding company's possession of this percentage shall be for at least two years, or it shall be committed to holding this percentage for two years from the date of acquisition of shares or voting rights.

9- Profits of land reclamation and cultivation companies for ten years from the date of starting the business or of starting production as applicable according to the rules to be determined by the Executive Regulation of this law.

In this regard, Article (56) of the Executive Regulations stipulates that the date of starting the business or of starting production for land reclamation or cultivation companies, stipulated in Article (50) of the Law, shall be determined as follows:

- 1) If the corporation engages in land reclamation or cultivation for the benefit of other parties, the exemption period begins on the date the first contract for either activity is signed.
- 2) If the corporation engages in reclamation or cultivation for its own account and sells the reclaimed or cultivated lands, the exemption period begins on the date of the sale of the first reclaimed or cultivated parcel.
- 3) If the company engages in reclamation, cultivation, or cultivation for its own account and has cultivated the land, the exemption period begins on the date the land is deemed productive by a decision issued

by the Minister of Finance in agreement with the Minister of Agriculture or according to the records of the competent Directorate of Agriculture, as applicable.

10- Profits of companies engaged in poultry production, bee breeding, cattle breeding, and fattening pens and the companies of fisheries and fish farms for ten years from the date of exercising the activity.

Article (57) of the executive regulation clarified that, in applying the provisions of Article (50) of the law, the exemption stipulated for bee breeding companies applies to companies that have not yet completed ten years since the beginning of their activity before the date of the law's enforcement, within the limits of what is left of this period. As for companies that begin practicing the activity after the law's effective date, they are exempt for the full duration of the exemption.

11- Exemptions under Investment Law No. 72 of 2014:

The new Investment Law No. 72 of 2017 provides investment incentives granted to investment projects established after its enactment. These incentives are a deduction from the taxable net profit, as follows:

- (50%) deduction from the investment costs of Sector (A): It includes the geographical areas most in need of development according to the investment map and based on the data and statistics issued by the Central Agency for Public Mobilization and Statistics, and according to the distribution of investment activities in those areas as indicated in the executive regulations of this law.

- (30%) deduction from the investment costs of Sector (B): It includes the rest of the Republic, according to the distribution of investment activities, for the following investment projects:
 - Labor-intensive projects under the rules stipulated in the executive regulations of this law.
 - Small and medium-sized enterprises.
 - Projects that rely on or generate new and renewable energy.
 - National and strategic projects determined by a decree of the Supreme Council.
 - Tourism projects specified by a decree of the Supreme Council.
 - Electricity production and distribution projects that are determined by a decree of the Prime Minister based on a joint proposal from the competent minister, the minister concerned with electricity affairs, and the minister of finance.
 - Projects whose production is exported outside the geographical territory of the Arab Republic of Egypt.
 - The automotive industry and its supporting industries.
 - The industries of wood, furniture, packing, and chemicals.
 - Manufacture of antibiotics, tumor medications, and cosmetics.
 - Food industries, crops, and agricultural waste recycling.
 - The industries of engineering, metal, textile, and leather.

In all cases, the investment incentive should not exceed (80%) of the paid-up capital until the date of commencing the activity, under the provisions of the Income Tax Law promulgated by Law No. 91 of 2005, and the deduction period should not exceed seven years from the date of inception the activity.

For example, if the investment costs of one of the new projects of Sector (A) are 20 million pounds, and the paid capital is 15 million pounds until the activity commences. This project will benefit from an incentive of 50% of the investment costs, i.e., 10 million pounds, because it did not exceed 80% of the paid capital, which amounts to 12 million pounds (15 million x 80%). Whereas if the investment costs were 30 million pounds. This project will only benefit from 12 million pounds as an incentive within the limits of 80% of the paid capital (15 million x 80%).

This incentive is deducted from the annual profits of the taxable project up to a maximum of seven years. Thereafter, It is not permissible to carry over for any subsequent year.

The executive regulation of this law indicates the concept of investment cost, the geographical scope of sectors (A) and (B), the conditions and rules for granting special incentives, and the sub-investment activities included in the aforementioned Prime Minister's decree upon its issuance. New activities may be added to benefit special incentives by a decree of the Supreme Council.

In addition, Article 12 of Investment Law No. 72 of 2017 set the following conditions that must be met for investment projects to benefit from the incentives outlined in Article (11) of this law:

- That a new company or establishment be founded to establish the investment project; therefore, existing projects do not benefit from the incentive.
- The company or establishment must be founded within a maximum period of three years from the date of enforcement of the executive regulations of this law. This period may be extended once by a decree of the Council of Ministers and on the proposal of the competent minister. Consequently, the projects established after this period will not benefit from the incentive unless this period is extended.
- The company or establishment maintains proper accounts, and if it operates in more than one region, it may benefit from the percentage specified for each region, provided that each region has separate accounts.
- None of the shareholders, partners, or firm owners have provided, contributed, or used the tangible assets of an existing company or establishment at the time of the enforcement of the provisions of this law or liquidated that company or establishment within the period specified in item (2) of this Article to establish a new investment project that benefits from the aforementioned incentive. Violation of this shall result in the revocation of the aforementioned incentive and the obligation of the company or establishment to pay all tax dues.

Expansion of existing investment projects may benefit from the incentives stipulated in Article (11) of this law. The expansions in the provision of this article mean the increase of the used capital by adding new assets that lead to an increase in the project's production capacity, all under the rules and conditions specified by a decree of the Council of Ministers.

Without prejudice to the provisions of Clause (8) of this Article, the deduction of any tax exemption stipulated in this law or any other law may not result in carrying forward the losses to subsequent years.

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219

Third: The tax rate on profits of legal persons:

Article (49) stipulates the tax base is rounded to the nearest lower ten pounds, and it shall be subject to tax at the rate of 22.5% of the net annual profits, With the exception to:

- The profits of Suez Canal Authority, the Egyptian General Petroleum Corporation, and the Central Bank are subject to tax at the rate of 40%,
- The profits of oil and gas exploration and production companies are subject to tax at the rate of 40.55%.

Law 53 of 2014 added Article (49), which stipulates that capital gains resulting from dealing in securities listed on the Egyptian Stock Exchange realized from a source from Egypt, shall be subject to tax at a rate of 10% of the net capital gains without deducting any costs.

Chapter 7

Determining Taxable Income

Introduction:

Under Article (51), net taxable income is determined according to the provisions applicable to the profits of commercial and industrial activity mentioned in Section Three of Book Two of this law, where no special provision regarding them is included in this part.

In this regard, Article (17) states that profits from commercial and industrial activity shall be determined based on the revenue resulting from all commercial and industrial operations. This includes profits from the sale of a company's assets as stipulated in items (1), (2) and (4) of article (25) herein, profits realized from compensation received by a taxpayer because of depreciation or acquisition of any of such assets, as well as the liquidation proceeds realized during the tax period after allowing all deductible costs.

It also added that net profit is determined based on the income statement developed according to the Egyptian Accounting Standards. The tax base is determined by applying the provisions of this law to the net profit.

The following is a thorough explanation of the most significant revenue items resulting from the commercial and industrial activity of legal persons, whether from the primary recurring activities (such as sales

revenue) or from non-recurring incidental activities (capital revenues as a result of selling some assets). This is as follows:

First: Net Revenues of the Primary Activity (Gross Profit):

It refers to the revenues generated from the company's core activity, such as providing services or selling products, after deducting sales returns or allowances. Industrial establishments generate such revenues through production and sales, commercial establishments by purchasing and selling goods, and service establishments through providing services.

Revenue from the primary activity is determined based on gross profit (loss), which is calculated by the excess of net sales (the difference between the total sales value and the value of sales returns and allowances) over the cost of sales. Since the taxable net profit depends on the gross profit, the most significant elements influencing it will be explained as follows:

1/1- Net Sales:

There are many forms of sales, including cash, on credit, consignment goods, installment sales, or withdrawals of goods at the selling price. Goods withdrawals are recorded as purchases at the purchase price or sales at the selling price. Nonetheless, they are recognized for tax purposes as withdrawals of products at the purchase price only, which means they are not considered part of sales and generate no revenue for the corporation.

When preparing the tax return for the establishment, it must be verified that the net sales figure reflects the actual sales minus the sales returns that occurred during the fiscal year. This can be proven by conducting a documentary examination of a sample of sales invoices and ensuring that the company did not exclude a portion of its sales and did not record it in the general journal with the intent of reducing its sales and, consequently, its net profit for tax evasion purposes, in addition to verifying that sold items were delivered to clients and excluded from warehouse records and books.

1/2- Sales to related parties:

Under Article (30), If related persons have set conditions for their commercial or financial transactions other than those operative among non-related persons, either to reduce the tax base or to shift the tax burden from a taxable person to an exempt or non-taxable one, the Authority is entitled to determine the taxable profit on the basis of the neutral price.

In this regard, Article (1) defines a related person as any person related to a taxpayer in a way that affects the determination of the tax base, including:

- 1- Husband, wife, descendants, and ascendants
- 2- A corporation and the person who directly or indirectly holds therein at least 50% of the number or value of shares, or voting rights
- 3- Partnerships, active partners, and silent partners

4- Any two or more companies in which another person holds at least 50% of the number or value of shares or voting rights in each

In the same context, Article (1) also defines the concept of a neutral price as the price upon which two or more unrelated persons deal, determined according to market forces and transaction conditions.

Furthermore, Article (39) of the executive regulation of the law indicated that the neutral price, stipulated in Article (30) of the law, is determined according to one of the following methods:

- **The Comparable Uncontrolled Price (CUP) Method:**

This technique determines the price of the good or service between related parties based on the price of the good or service if the transaction occurred between the company and unrelated parties. The comparison is based on the price of a similar good or service. The following factors are considered: the legal conditions to which each contractual party is binding, market conditions, and the transaction terms.

- **The total cost plus profit margin:**

This method determines the price of the good or service between related parties according to the total cost plus a certain percentage as a profit margin for the selling company or service provider, provided that the profit margin is determined based on the profit margin received by the taxpayer in his transactions with independent parties or the profit margin received by another party in other similar transactions.

- **Resale price method:**

The price of the good or service is determined between the related parties according to this method based on the price of the good or service according to the resale price to an unrelated third party after deducting a percentage that represents the profit margin suitable for the intermediary party based on the margin obtained by the seller himself through his transactions with independent parties. It can also be determined based on the margin received by the independent taxpayer in a similar transaction.

- **The Profit Split Method**

- **The Transactional Net Margin Method**

Moreover, Article (40) of the executive regulations emphasized that the taxpayer, in determining the neutral price, may apply any of the methods stipulated in the previous article depending on the nature of the financial or commercial transaction and the circumstances of the transaction. If none of these methods can be applied, the taxpayer may use any other proper technique, provided that records and documents demonstrating the method's appropriateness are maintained. It is also permissible for the authority and taxpayer to agree in advance on the approach to determine the neutral price when dealing with related parties.

1/3- The cost of the goods sold:

It is calculated by adding the value of the goods at the beginning of the period to the value of net purchases (the difference between the total value of purchases and the value of purchase returns) and then subtracting the

value of the goods at the end of the period. This can be formulated as follows:

Gross profit = net sales (sales - sales returns) (-) Cost of sales: inventory at the beginning of the period + net purchases (purchases - returns of purchases) - inventory at the end of the period.

It is worth mentioning that the value of goods at the beginning of the period should be compared to their value at the end of the preceding period to confirm that no error was made in carrying forward the value of goods from the previous period's balance sheet.

Second: Other Revenue (Incidental):

It refers to those revenues that the establishment achieves from carrying out operations that do not fall within its main activity, such as capital gains, grants, compensations, subsidies, rental revenues for real estate owned by the establishment, foreign exchange profits, securities returns, sub-leasing revenues, commissions, interest on deferral invoices, bad debts collected, and so on.

It is the regular, recurring periodic revenue related to the period for which the calculation is applied; it is represented in the total profits achieved by the company, whether commercial or industrial; and it falls within the scope of the company's primary activity, according to the accrual principle.

2/1- Capital gains and liquidation profits:

It reflects the profits realized from selling a fixed asset at a price greater than its book value after subtracting the previous depreciation approved by the competent tax authority up until the date of sale, in addition to the profits resulting from the company obtaining compensation due to the loss or seizure of a fixed asset. Lastly, it may be represented in the profits of the revaluation of the company's assets, which the company may undertake for one of the following reasons:

- a) A significant change in the value of assets, whether an increase or a decline.
- b) Restructuring the business with the intent of adjusting the various sources of funding.
- c) Merger of companies, either by combining the company with another existing company or by forming a new company comprised of the two companies.

It should be noted if the revaluation was a book transaction intended to display the assets at their real value without subsequent sale or disposal of the assets. Hence, the profits derived from this transaction are unrealized profits and are exempt from taxation under this law.

As amended by Law No. 76 of 2017, Article(53) stipulates that capital gains resulting from revaluation are taxable in the case of a change in the legal form of the legal person. A legal person has the right to defer

taxation, provided that assets and liabilities are recorded at their book value at the time of legal form change to determine the tax, depreciation is calculated on the assets, and provisions and reserves are carried forward under the applicable rules before making this change. It is considered a change of the legal form of the legal person, in particular, the following:

1. Merger of two or more resident companies.
2. Dividing a resident company into two or more resident companies.
3. Transformation of a partnership into a corporation or of one corporation into another.
4. Transformation of a legal person into a corporation.

To defer being subject to tax, the shares or quotas resulting from the change in the legal form shall not be disposed of within the three years following the date of the change in the legal form. The deferred tax shall be due if there is another change in the legal form of the legal person or if it lapses for any of the reasons for the lapse.

2/2- Compensation Profits:

Companies are compensated for losses sustained as a result of the depreciation or acquisition of any of the assets specified in Clauses (1), (2), and (4) of Article 25 of this Law. Profits from such compensation are determined by comparing the amount of compensation to the net book value of the fixed assets (the historical cost of the asset minus the balance of fixed asset depreciation up to the date of depreciation or acquisitions)

plus any removal costs. Profits realized from compensation are considered taxable in the year of collection.

2/3- Returns on Securities:

Revenues generated from the company's investments in securities, stocks, and shares of other companies. It refers to the returns obtained by the corporation as a result of investing a portion of its funds in securities, and such returns are as follows:

- (a) Profits and dividends of investment funds.
- (b) The yield of bonds registered in the official schedules at the stock exchange.
- (c) Returns on securities issued by the Central Bank of Egypt.
- (d) Dividends, profits, and shares, which resident legal persons receive for their participation in other resident legal persons.

Consequently, these earnings may result from trading in securities or the dividends acquired by legal persons from their investments in other legal entities. The tax treatment of this revenue can be illustrated as follows:

The proceeds of dealing in securities:

Law No. 53 of 2014 added Article (49), which stipulates that “As an exception to the provision of Article (49) of this law, capital gains resulting from dealing in securities listed on the Egyptian Stock Exchange

realized from a source from Egypt are subject to tax at the rate of (10%) of net capital gains without deducting any costs.

However, the imposition of a tax on the returns of trading in securities registered with the Egyptian Stock Exchange negatively impacted the Egyptian market's activity. It caused many investors trading in securities to leave the Egyptian market. This ultimately resulted in the suspension of taxes on trading returns.

Consequently, the provision of Article (50) continued exempts Returns received by resident legal persons for their investments in securities registered on the Egyptian stock exchange market, with the loss resulting from such transactions not to be deducted or carried over to subsequent years.

Dividends resulting from the investment of resident legal persons:

Article (56 bis) stipulates that dividend distributions made by capital companies or partnerships, including companies established under the economic zones regime of a special nature for a non-resident natural person and a resident and non-resident legal person, shall be subject to tax at the rate of (10%) without deducting any costs, including the profits of non-resident legal persons realized through a permanent establishment in Egypt, except for distributions that take place in the form of free shares. If the securities are listed on the Egyptian Stock Exchange, the dividends are taxed at a rate of 5 % without deduction for costs.

The entities conducting the transaction are obligated to withhold the tax and transfer it to the central administration for withholding and collection under the tax account at the Authority within a maximum of five working days from the beginning of the month following the month in which the tax was collected, using the specified form.

In this context, Article (50) exempts dividends of investment funds in securities established under the aforementioned capital market law whose investment in securities and other debt instruments is at least (80%) and distributions of investment holding funds whose investments are limited to The aforementioned investment funds and dividends obtained by these funds after adding (10%) of the value of these dividends to the taxable base in exchange for non-deductible costs, the return on investment in cash investment funds, and the revenue of bonds registered in the official schedules at the stock exchange without treasury bonds and the profits of investment funds whose activity is limited to investing in cash only.

2/4- Earned discount:

It is represented in the revenues obtained from creditors or suppliers if the establishment pays its debts or obligations before the due date. Such a discount is included in the revenue side of the income statement prepared for the financial period, and therefore it will be added to the taxable base.

2/5 Government subsidies and grants: Which the establishment may receive from the government or local Authority Units to support it in increasing production, enhance the competitiveness of its products with

foreign goods, or encourage it to provide services related to the masses. These subsidies and grants are regarded as incidental revenues and are included in the tax base. In this regard, the tax examiner must verify that the amount paid represents a subsidy or grant, not a loan or advance to the establishment that must be repaid later.

2/6- Collected bad debts:

These are amounts collected from debts written off in a prior year or years, and the Tax Authority approved them as bad debts in the year they occurred. As Article (28) states that Deduction of bad debts excluded by the taxpayer from the firm's books and accounts may be permitted if he presents a report by an accountant enrolled on the Accountants and Auditors Register indicating the fulfillment of the following requirements:

- That the firm keeps proper accounting records.
- That the debt is associated with the firm's business.
- That the amount of the debt has been previously included in the firm's accounts.
- That the firm has taken serious actions to recover the debt but failed to collect it after 18 months of its due date.

Serious actions to recover the debt include the following:

- a- Obtaining a writ for payment in cases where this is possible.

- b- Issue of a judgment by a court of first instance obliging the debtor to pay the amount of the debt.
- c- Claiming the amount of the debt during procedures of implementing a court judgment for the debtor's bankruptcy or concluding a conciliatory agreement preventive of bankruptcy.

If the debt, or part, is collected, the amount collected must be included in the firm's revenues in the year in which the collection took place.

2/7- Credit sales commission or brokerage:

It is the result of the establishment selling goods and products of another establishment or engaging in brokerage operations in exchange for a commission that is typically based on a certain percentage of the price of the sold goods, as in the case of consignment goods. Therefore, such commissions associated with the fiscal year must be included in the income statement as one of the incidental revenue items that are added to the taxable base.

2/8- Credit Returns: It means the interest that the establishment receives from others as a result of investments, such as interest on bonds and interest on deposits, or as a result of lending to others, such as interest on debts and loans or as a result of selling by installments or those interests in exchange for others delaying the payment of their debts or dues. The

tax treatment of these returns as incidental revenue depends on whether or not they are related to the activity, as follows:

- **Credit returns related to the main activity of the establishment:**
such as interest on installment sales and delay interest. Such interest is included in the taxable income.

- **Credit returns unrelated to the establishment's main activity:**

They are returns from investing a portion of its funds in financial investments outside its main activity, such as interest on bank deposits, bonds, and securities. It is emphasized that the tax treatment of these revenues varied, as they are neither subject nor exempted in all cases.

In this context, Article (50) exempts the revenue of bonds registered in the official schedules at the stock exchange without treasury bonds (item 7), as well as returns received by legal persons on securities issued by the Central Bank of Egypt or revenues from transactions involving them; with an exception from provision of Article 56 of this law (Item 9).

While Article (50) does not exempt returns on deposits and savings accounts earned by legal persons from banks registered in the Arab Republic of Egypt. This indicates that the legislator intended for these returns to be subject to tax on the profits of legal persons, as opposed to the tax on the income of natural persons. Article (31) exempted from taxation the interest received by natural persons from their

deposits and savings accounts in banks registered in the Arab Republic of Egypt. Since the law does not exempt returns from deposits and savings accounts earned by legal persons, these returns are liable to taxation.

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Chapter 8

Deductible Costs

The deductible costs and expenses are determined under the provisions applicable to commercial and industrial activity profits in cases where no special provision is provided. For any expenditures to qualify as tax-deductible costs and expenses, the following conditions must be met:

1- It must be related to and essential for carrying out the activity:

The costs and expenses that must be deducted to determine the net taxable profit do not include every amount spent unless it is essential to carry out the activity, maintain the productive capacity of the assets, or generate revenues. Thus, a partner's personal expenses, such as life insurance premiums, interest on loans granted by the business in his favor, and personal withdrawals, are not deductible.

2- The cost must be real and occur:

Potential expenses are not included in the costs and expenses that must be deducted to compute the net taxable profit. Therefore, the reserves formed by the firm to hedge prospective losses cannot be deducted. Additionally, re-evaluation losses that are not accompanied by a change in the legal form of the establishment are not deductible.

It is sufficient for a cost to be incurred under the accrual basis used to determine the net taxable profit to be recognized and considered

deductible. However, the legislation permits the deduction of certain non-real expenses, such as the 30% depreciation of new or used machines and equipment purchased or manufactured for use in production during the first tax period in which the machines are used.

3- The cost must be related to the realization of the taxable profit: it is sufficient for the taxpayer to incur these expenses to obtain a taxable profit, even if no actual profit is realized as a result of these expenses. The law excluded certain expenses and did not permit them to be deducted unless the establishment generated a profit, such as donations and subsidies paid to registered Egyptian NGOs, which may not be deducted if the establishment has incurred a loss.

4- The cost must be supported by documents: these documents must be correct and reliable and subject to examination and review to ensure their authenticity, except for costs and expenses which customarily have no supporting documents, such expenses may be deducted to the extent of 7% of the total general and administrative expenses supported by the documents.

5- That the cost should be related to the fiscal year subject to tax: according to the accounting accrual basis and the rule of independence of tax years, it is permitted to deduct all expenses and costs related to the accounting period, whether they were paid in the same period or previous or subsequent periods.

The following indicates the most significant costs and expenses recognized by the tax legislator as expenses that must be deducted from taxable revenues to determine the net taxable profit or taxable base.

First: Deductible costs and expenses:

The following costs and expenses are deductible:

1. Debit Returns:

Article (58) of the executive regulation clarified that the debit returns include all amounts incurred by the legal person in return for obtaining loans and advances of any sort, bonds, and bills. Loans and advances encompass bonds and any form of debt financing through securities with a fixed or variable return. The tax treatment of these returns varies according to the following:

1/1 Debit interest paid by banks, insurance companies, as well as those companies engaged in financing activity that are to be determined according to a ministerial decree, which are:

- Securitization companies.
- Leasing companies.
- Factoring companies.
- Consumer finance companies.
- Companies providing consumer financing services.

The debit returns paid by the aforementioned legal persons are among the costs and expenses that must be deducted, whatever their amount, under the provisions of Article (52).

1/2- Debit returns paid by other legal persons other than the preceding. Under the following conditions, these returns are deemed tax-deductible costs:

- Interests on loans used in the activity, regardless of their value, after deducting the non-taxable or legally exempted credit interest (Article 23).
- Interest paid on loans should not exceed double the credit and discount rate declared by the Central Bank at the beginning of the calendar year in which the tax period ends (Article 24).
- Interest on loans and debts of different types should not be paid to non-taxable or tax-exempt natural persons (Article 24).
- Loans and advances should not exceed four times the average equity rights according to the financial statements prepared following Egyptian accounting standards (Article 52).

Article (58) of the executive regulations of the law clarified that equity rights, in applying the provision of the clause referred to in the previous paragraph, means the paid-in capital plus reserves and retained profits and minus carried forward losses, provided that the revaluation differences carried over to the reserves are excluded if it is not taxable. If there are

carried forward losses, they are subtracted from retained earnings and reserves only. The percentage is computed based on the total loans and advances proportional to the residual equity after deducting carryover losses and with a minimum amount of paid-in capital.

In this context, Article (59) of the executive regulation indicated that considering the provisions of Article (7) and Clause [1] of Article (52) of the law, the average equity rights are computed using the following formula:

$$(\text{equity at the beginning of the fiscal year} + \text{equity at the end of the fiscal year}) \div 2$$

In applying the provision of the same article, the following formula is used to calculate the average of loans and advances:

$$(\text{Balance of loans and advances at the beginning of the period} + \text{Balance of loans and advances at the end of the period}) \div 2$$

Bearing in mind that good loans and loans that have non-taxable returns and loans that have a grace period for paying returns only until the end of this period are excluded from the loans and advances obtained by the legal person when comparing the percentage of the average loans and advances to the average equity rights under the provision of this article.

2. Depreciation:

It is defined as the gradual decrease in depreciable asset values due to use, technical obsolescence, or the passage of time. Thus, depreciation is

considered one of the costs necessary to generate the net profit of the activity.

In Article No. (25), (26), (27) of Law 91 of 2005, as well as Articles (33), (34), (35) of the executive regulation of the law, the tax legislator addressed how to calculate the approved depreciation for tax purposes, including how to determine the depreciable value, the depreciation rates of depreciable assets, and the method for calculating the depreciation premium.

Consequently, the accounting depreciation included in the income statement is not recognized and is added back to the accounting profits in the tax return, provided that the approved depreciation is calculated and deducted under the rules specified in the above-mentioned legal articles to determine the taxable profit.

In applying the provisions of Article (25) hereof, Article (26) indicates that the depreciable base means the book value of the assets as included in the opening balance sheet for the tax period. This base shall increase insomuch as the cost of the assets used and the cost of development, improvement, renewal, or reconstruction during the tax period. The base shall decrease insomuch as the annual depreciation amount, the value of the proceeds of selling the assets, and the value of compensation received as a result of their loss or depreciation during the tax period.

Furthermore, Article (34) of the executive regulation indicated how to determine the depreciable value, as it stipulated:

(1) The depreciable value is determined based on the balance of each group of assets at the beginning of the period plus the purchases of assets and all additions during the year, such as the cost of transporting and installing the asset and overhauls that extend the useful life of the asset, minus the value of asset disposals or compensation. This account balance is addressed as follows:

(A) If the depreciable value is negative, such value shall be added to the profits of the activity.

(B) If the depreciation value does not exceed ten thousand Egyptian Pounds, it shall be treated as a due deductible cost in the same year.

(C) If the balance exceeds ten thousand pounds, depreciation is calculated for each group according to the percentages specified in Clause[3] of Article(25), without regard to the period of use of the group's assets. Regardless of its value, the remaining balance is carried forward to the next tax period as a depreciable basis.

(2) It is not permissible to deviate from the depreciation rates specified in Article (25) of the Law to calculate the tax. Article (25) addressed the tax depreciation rates of the establishment's assets as follows:

- 1- (5%) of the cost of procuring, constructing, developing, renovating, or reconstructing any building, establishment, ships, and aircrafts for each tax period.
- 2- (10%) of the cost of procuring, developing, improving, or renewing any of intangible assets purchased, including goodwill, for each tax period.
- 3- The following two categories of assets are to be depreciated according to the Depreciable Base System at the rates corresponding to each:
 - (a) For computers, information systems, software, and data storage equipment, 50% of the depreciable base for each tax year.
 - (b) For all other assets, 25% of the depreciable base for each tax year.
- 4- No depreciation shall be calculated for land, works of art, monuments, jewelry and other assets which by nature are not depreciable.

In addition, Article (27) of the law addresses so-called accelerated depreciation, as it stipulates that based on the taxpayer's request, 30% of the cost of the machinery and equipment used in production may be deducted, whether they are new or used, at the beginning of each tax period during which such assets are used. The depreciation base stipulated in Article (25) thereof, shall be calculated for that period after the deduction of the said 30% amount.

If such an application is not submitted, the depreciation rates specified in Articles (25 and 26) of this law shall be applied.

For the provisions of the two preceding paragraphs to apply, the taxpayer must maintain proper books and accounts.

This implies that the following are requirements for calculating accelerated depreciation:

- It should be calculated only for machinery and equipment, not other assets.
- The machinery and equipment should be employed in production.
- It is not required that the machinery and equipment be purchased new.
- Accelerated depreciation is computed during the first period of usage for the asset.
- The taxpayer must maintain regular books and accounts.

3. Fees and Taxes:

The legislator stipulated that fees and taxes should be considered among the costs and expenses that must be deducted and that they should not be from the taxes paid by the establishment under Law No. 91 of 2005, under Clause (3) of Article (23), which stipulates that Fees and taxes paid by the firm are deductible, except for the tax paid by the taxpayer according to this law. For instance, real estate taxes on properties owned by the establishment and in which it carries out its activities, customs taxes on

raw materials and imported goods, production fees, stamp duties, vehicle fees, and value-added tax).

4. Social Insurance Contributions:

Clause (4) of Article (23) stipulated that among the costs and expenses that must be deducted are social insurance contributions by employers in favor of their employees and their own personal interest, which are paid to the National Authority for Social Insurance.

However, social insurance contributions paid by workers are not considered one of the costs and expenses that must be deducted because they are a burden on workers and are deducted from their monthly salaries.

5. Amounts deducted for the account of special funds:

Clause (5) of Article (23) stipulates that it is considered a deductible cost the amounts deducted annually by firms from their finances or profits for the account of the special saving or pension funds or others are considered deductible costs, whether these firms are established in accordance with the Private Insurance Funds Law no. 54 of 1975 or the Alternative Private Social Insurance Systems Law no. 64 of 1980, or according to a system that has its own special regulations or terms, provided that the amount deducted does not exceed (20%) of the total salaries and wages of their employees, and provided that the system has its own regulations or terms stipulating that the payments made by them under such a system serve as

severance or pension, and that the funds of the system are separated or independent from the firm's funds and are invested for its own account.

6. Insurance premiums:

Clause (6) of Article (23) stipulates that it is considered a deductible cost the insurance premiums taken out by the taxpayer against his disability or death, or to provide for a sum of money or annuity, provided that the amount of the premium is not more than 3000 pounds per annum.

7. Donations and subsidies:

Donations to the government, Local Authority Units, and other public legal entities, whatever their value, are considered deductible under the provisions of Clause (7) of Article (23).

Likewise, among the deductible costs are donations and subsidies to Egyptian non-governmental organizations and foundations registered in accordance with the provisions of their respective regulatory laws, as well as to educational institutions and hospitals subject to governmental supervision, and Egyptian scientific research institutions, providing they do not exceed 10% of the taxpayer's annual net profit, under item (8) from the exact article.

8. Financial penalties and indemnities:

Clause (9) of Article (23) clarified that the financial penalties and indemnities borne by the taxpayer resulting from his contractual liabilities are among the costs and expenses that must be deducted.

9. Allocations:

Under the principle of prudence, allocations must be formed to face the risks of uncertainty when determining the value of some items to be included in the financial statements. On the contrary, Clause (2) of Article (52) of the law stipulates that amounts that are set aside for the purpose of forming or funding different types of allocations are not deductible costs, with the exception of the following:

- 1- 80% of the provisions for loans that banks are committed to form according to the rules of the preparation and presentation of financial statements and the assessment principles issued by the Central Bank.
- 2- Technical provisions which insurance companies are obliged to form in applying the provisions of the Supervising and Monitoring Insurance Law in Egypt promulgated by law no. 10 of 1981.

In this regard, Article (60) of the Executive Regulation stipulates that the following rules must be followed when determining the allocations that are considered among the costs that must be deducted in applying the provisions of Paragraph (a) of Clause [2] of Article (52) of the Law:

1. The allocations formed during the year are determined in line with the rules published by the Central Bank for preparing financial statements, and 80% of them are included in deductible expenses.
2. The amount used from the loan provisions to cover the bad debts during the year is determined. If this amount of these provisions exceeds the

80% charged within the deductible costs, this excess is deducted from the previously taxable provisions. In general, the aforementioned increase is subtracted from the allocations that were not previously subject to tax first.

3. The amount collected from previously written-off loans is added to the taxable base if these loans were previously approved as bad debts before the law's enactment. As for loans processed under the provisions of the law, 80% of the amount collected from them shall be added to the tax base.

In applying the provisions of Clause [2] of Article (52) of the law, the value of the set-aside interests is added to the taxable base, and what is collected from the marginal interests and what is written off is subtracted from the set-aside interests; however, it is not permitted to add the marginal interests to the taxable base.

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Second: Non-deductible costs and expenses:

Under the provisions of Article (52) of the law, the following are not deductible costs:

- 1- Debit interest paid by legal persons stipulated in Article 47 hereof on loans and advances they have obtained and that are more than four times the average of equity rights according to the financial statements prepared according to the Egyptian accounting standards. This provision does not apply to banks and insurance companies as well as those companies engaged in financing activity that are to be determined according to a ministerial decree.
- 2- Amounts that are set aside for the purpose of forming or funding different types of allocations, with the exception of the following:
 - (a) 80% of the provisions for loans that banks are committed to form according to the rules of the preparation and presentation of financial statements and the assessment principles issued by the Central Bank.
 - (b) Technical provisions which insurance companies are obliged to form in applying the provisions of the Supervising and Monitoring Insurance Law in Egypt promulgated by law no. 10 of 1981.
- 3- Distributed shares of profits and dividends and attendance fees paid to shareholders for attending the general assembly.

- 4- Membership remuneration and allowances received by Chairmen and members of the boards of directors.
- 5- Employees' profit shares, which are distributed according to law.
- 6- Other costs stipulated in Article 24 of this law.

Third: Deducting foreign tax and carrying forward losses:

A- Foreign Tax:

- The foreign tax paid by a resident company on its profits abroad shall be deducted from the tax due according to the provisions of this law, provided that the relevant supporting documents are presented.
- The deduction mentioned in the first clause may not exceed the tax payable in Egypt that may have been due with respect to the profits from works performed abroad.
- Profits realized abroad are included in the tax base when calculating the tax due in Egypt.
- A loss incurred abroad cannot be deducted from the tax base in Egypt for the same tax period or any subsequent period.
- Profits earned in each country should be treated separately from those earned in other nations. The activity losses in one country cannot be subtracted from the profits of activity in another country.
- The foreign tax deduction system relates to the earnings of operations, branches, distributions, and the proceeds of trading in securities gained

by resident corporations in exchange for their interests in enterprises abroad, royalties, rents, and proceeds obtained from loans granted overseas.

B- Carrying forward losses:

The provisions governing the carryover of losses relating to natural persons shall be applied to legal persons, taking the following into account:

- The provision of Article 29 does not apply to a loss suffered by a company in the tax period and the previous periods if a change occurs to its capital ownership by a percentage of more than 50% of stocks, shares, or voting rights, provided that it is accompanied with a change in activity.
- The preceding paragraph may only be applied by joint stock companies and companies limited by shares provided that their shares are not be offered for circulation on the Egyptian stock exchange market.
- Neither A change in the legal form of a legal person nor a change in the ownership of its capital shall be considered if it is proved that such change was intended to avoid tax obligations.