



Tax Accounting

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Get Started

2025

— جامعة مدينة السادات —

Chapter 4

Tax on commercial and Industrial activity



كلية التجارة

— جامعة مدينة السادات —

Example 5

❑ You have the following accounting information for one of the industrial establishments for the year ended 31/12/2023:

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.

Example 5

- EGP 22.000 donations (70% of which are paid to a government-supervised hospital, and the rest are donations to the local administration).
- EGP 19,000 advertising campaign for three years starting on 1/7/2023.
- EGP 20,000 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.

Example 5

- EGP 3,000 depreciation of a machine purchased at a rate of 10% for its investment in industrial production on 1/7/2023 (the book balance of the machines on 1/1/2023 is EGP 210,000, one of the machines was sold on 1/4/2023 for EGP 24,000).
- EGP 5,000 overhaul of a machine to increase its production capacity on 1/3/2023.
- EGP 6,000 depreciation of a car purchased for the use of the facility at a rate of 10% on 1/7/2023.

Example 5

- EGP 21,000 returns on the capital invested in the facility.
- EGP 24,000 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 1/1/2023 is 11%).
- EGP 7,000 penalties, half of which are due as a result of the contractual liability of the taxpayer and the rest due to an intentional misdemeanor.

Example 5

3- The revenues of the establishment include:

- **EGP 25,000 asset revaluation profits.**
- **EGP 6,000 returns on deposits and savings accounts in banks registered in Egypt.**

Required: Determine the income tax base and the tax due for 2023.

Solution

1- Donations and Subsidies:

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

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

Example 5

2- Advertising Campaign:

- The share in 2023 = $(19,000 / 3) * (6/12) = \text{EGP } 3,167.$
- The advertising campaign costs included in the income statement are EGP 19,000.
- If there is an increase in the costs listed in the P&L account for future years (deferred revenue expenses) = $19,000 - \text{EGP } 3,167 = \text{EGP } 15,833$ returned to the tax base (added to the net profit).

Solution

3- Bad debts EGP 20,000 :

$20,000 * 50\% = 10,000$ EGP (The entity has not taken any procedures to collect the debt (it is not a deductible cost and were included in the income statement from costs and therefore must be returned to the tax base by adding it to net profit

$20,000 * 50\% = 10,000$ EGP (The debt payment procedures have been more than 18 months, from deductible cost and were included in the income statement from costs.)

Example 5

4- Depreciation:

New Machine

- Cost of New machine = $3000 * (100 / 10) * (12 / 6) = \text{EGP } 60,000$.
- Accelerated depreciation value 30% = $\text{EGP } 60,000 * 30 \% = \text{EGP } 18,000$ (Of deductible costs).
- Depreciation basis for the new machine after excluding accelerated depreciation = $60,000 - 18,000 = \text{EGP } 42,000$.
- The cost of the purchased car = $6000 * (100 / 10) * (12 / 6) = \text{EGP } 120,000$.



Solution

Depreciation basis of fixed assets:

Book value at the beginning of the period

210,000

+ Additions:

The car

120,000

Overhaul of one of the machines

5000

New Machine

42,000

(-) Excludes:

Selling value of machines

(24,000)

Depreciation basis

353,000



Example 5

Tax depreciation = EGP 353,000 × 25% = EGP 88,250 (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:

Solution

Debit returns → 24,000 24 %

Double the credit rate → 22 % (11 % * 2)

Taxable debt returns → $100,000 * 22 \% = 22,000$

Exempted credit returns = EGP 6000.

Deductible debit returns = EGP 16,000.

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

Solution

7- Penalties 7,000 EGP:

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



Solution

Calculation of net taxable profit (tax base):

Net accounting profit	900,000
In addition:	
1- Annual salary of the owner of the establishment: 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

Solution

2- Donations paid to a hospital under government supervision: The costs must be deducted within 10% of the net tax profit and added temporarily until the net tax profit is reached

15,400

3- Donations to the government or local administration: one of the costs: that must be deducted and included from the costs in the income statement; therefore, the treatment is tax-sound.

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Solution

4- For the following years of the advertising campaign (deferred revenue expenses): It 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- The procedures for collecting and collecting the bad debts have been more than 18 months: of the costs are deductible and included in the income statement of costs; therefore, the treatment is tax-sound.

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Solution

6- The entity has not taken any measures to meet the debt: it 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).

3000

8- Depreciation of a purchased car: calculated in violation of tax legislation (added to net profit).

6000

Solution

9- Overhaul of one of the machines: 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.

5000

10- Returns on invested capital: 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

Solution

11- Increase in debit returns for loans used in the activity

8,000

12- Penalties for contractual liability (deductible costs included in the income statement of costs)

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13- Penalties for intentional misdemeanor: (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).

3500



Solution

Total additions	94,733
Total:	994,733
Deducted from:	
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

Solution

<ul style="list-style-type: none"> • Accelerated depreciation of the purchased industrial machine by 30% Article 27. 	(18,000)
<ul style="list-style-type: none"> • Tax depreciation of fixed assets at 25% of the depreciation basis Article 25, 26, and 27. 	(88,250)
<ul style="list-style-type: none"> • Returns on deposits in registered local banks. 	(6000)
Net tax profit before deduction of donations	857,483

Solution

<p>Deducts donations to publicized associations:</p> <p>Max = $857,483 \times (10/110) = 77,953$ EGP.</p> <p>Donations paid = 15,400 EGP.</p> <p>(Actual donations are deducted in full as they are within the tax limit of 10% of net tax profit)</p>	(15,400)
The tax base	842,083
The tax base to the nearest 10 pounds less.	842,080

Solution

2- Calculation of tax due:

Second Bracket	$200,000 \times 20 \% =$	40,000 EGP
Third Bracket	$200,000 \times 22.5 \% =$	45,000 EGP
Fourth Bracket	$442,080 \times 25 \% =$	110,520 EGP
Total Tax Due		195,520 EGP



Thank you.

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