Tax Accounting

→ Ch.1: Conceptual Framework For income Tax on Natural Persons

Q1: Define Tax and what are The characteristics of Tax?

Sol

- **Tax**: is defined as being Cash imposed and Collected by The state From individuals and Companys [establishment] in accordance with Certain rules and regulations with The aim of Covering [Financing] Public expenditures.

- **Characteristics of Tax**

1. Its Performed in Cash form by any accepted Payment method
2. It is bind on all TaxPayers unless There are legal exemptions.
3. It achieves several social and economic objectives That benefit all members of society.
4. It is applied according To some rules, Principles.

Q2: What are The Types of Tax?

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- The Types of Taxes divided into 4 groups:

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1

Direct Tax	Indirect Tax
→ If Person who bear its Charge or burden is The one who Pays The Tax Ex: Tax on salaries, like Tax on real estate wealth Tax on Profit of commerical activities	→ If Person who bear its charge or burden can Transfer and shift To another Person Ex: value added Tax "VAT" Custom Tax.

2

Qualitative Tax	unified Tax
→ Imposed on each kind of income as independent Tax separately.	→ Imposed on Total incomes at unified rate. → single Tax is imposed on Total income regardless of source of income.

Remark:

The Egyptian tax system is a unified tax system where a single tax is imposed on the total income of the taxpayer from all sources.

3

Personal Tax	InKind-Tax
→ If it consider The Personal circumstances of Tax Payer and allows some exemption [Takes Payment capability] Ex: Tax on salaries	→ If the Personal circumstances of Tax Payer is Not Taken into consideration and imposed without any deduction. Ex: VAT

4

Proportional Tax	Progressive Tax [Escalating]
→ Imposed at fixed rate on Taxable amount regardless its value Ex: Tax is imposed at fixed rate by 22.5%	→ The Tax rate increases with The increase of income and vice versa. Ex: Tax on salaries

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• Objectives of Tax

1 Social objectives

which achieve Social justice between individuals and Maintaining The general health by imposing more Taxes on health - damaging goods such as : cigarettes.

2 Economic objectives

1. Achieve economic balance Through Protecting National industry from Foreign Competition by imposing Taxes on imported goods at high Prices.
2. Encouraging foreign investments in Egypt by Providing Tax incentives
3. To redirect economic resources of The State Toward Certain investments Serve The National economy
4. To reduce The import luxury goods To increase Savings

3 Financing objectives

is important (critical) financial resource which is used To Cover Public expenditure in each financial year.

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→ Tax Rules

1 Transparency → it means that the Tax law and its executive regulations must provide Taxpayers will all information related to implementation of Tax:

1. Tax scope
2. Tax base
3. Method of Payment.
4. Place of Payment
5. Tax exemptions
6. Procedures and date for challenging estimated Tax.

2 Justice → The Most important of achieving Social Justice:

1. Equality in distribution of Tax burden to all individuals in accordance with established rules and Procedures
2. Each individual bears a Percentage of Tax Commensurate with his economic and social condition.
3. Redistribution of wealth between individuals for the benefit of the Poor in the form of economic and social services.
4. It is applied by the state through a set of legal legislations regulating it.
5. Exemption from the Tax for some of individuals to face the high Cost of living.

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3 Certainty → iT means That every TaxPayer is fully CerTain of The due Tax value, date and Method of Payment.

4 Relevance → iT means The Collection of Tax in a Timely manner for TaxPayers in a way That suits Their circumstances.

5 Regional → iT means That Tax is imposed on The income and revenues That are realized inside The Country. as for The income and revenues That are realized outside The Country are Not subject To Tax unless The main Center is inside The Country.

6 Annual → iT means That Tax is imposed on TaxPayers' revenue for a fiscal Period of one year.

Imp → In Egypt The Tax year is applied on The basis of a Calendar year starting from January and ending in December.

Tax Accounting

→ Ch. 2 :- Tax on Salaries and The like

. Salaries Tax is applied To The following Persons

1. Residents inside Egypt as Permanently for Their revenue for Their work.
2. Foreigners work in Egypt :

a Person who spend more than 183 days in Egypt separate or Connected will be Treated as egyptian employees

[Resident]

a Person who spend less than or equal 183 days will be regarded as Non-resident, will Not subject To Tax Salaries but will be subject To certain Tax rate without any exemptions.

[Non-resident]

3. Board of directors members in Public & Private business Sector who are Not shareholders.

4. Board of directors and managers in Corporations for Their admin work who are Not shareholders.

Kamal NosTaG

• Characteristics of Tax on Salaries & like

1. Applied on the revenue from the work.
2. Its Personal Tax imposed on Natural Persons
3. Its cut from the Source.
4. Based on accural basis.

• Rate of Salary Tax

1. Till 600,000 :

40,000	15,000	15,000	130,000	200,000	200,000
exempted	* 10%	* 15%	* 20%	* 22.5%	* 25%

2. 600,000 up To 700,000 :

55,000	15000	130,000	200,000	300,000
* 10%	* 15%	* 20%	* 22.5%	* 25%

3. 700,000 up To 800,000 :

70,000	130,000	200,000	400,000
* 15%	* 20%	* 22.5%	* 25%

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4 800,000 - 900,000:

200,000	200,000	500,000
*	*	*
20%	22.5%	25%

5 900,000 - 1,200,000:

400,000	800,000
*	*
22.5%	25%

6 over 1,200,000

1,200,000	More than 1,200,000
*	*
25%	27.5%

Example 1:

An employee's tax base of 2020 is 80,000 pounds; we can compute salaries tax as follows:

Sol

80,000

40,000	15000	15000	10,000
exempted	*	*	*
	10%	15%	20%
	1500	2250	2000

∴ Total annual Tax due = 1500 + 2250 + 2000 = 5750

Monthly Tax = $\frac{5750}{12}$ = 479.167

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Example

An employee's tax base of 2020 is **630,000** pounds; we can compute salaries tax as follows:

Sol

630,000

55,000	15000	130,000	200,000	230,000
*	*	*	*	*
10%	15%	20%	22.5%	25%
5,500	2,250	26,000	45,000	57,500

∴ Total annual Tax due = 5,500 + 2,250 + 26000 + 45000 + 57,500

= 136,250

∴ Monthly Tax = $\frac{136,250}{12}$ = 11,354.167

Example

An employee's tax base of 2020 is **860,000** pounds; we can compute salaries tax as follows:

Sol

860,000

200,000	200,000	460,000
*	*	*
20%	22.5%	25%
40,000	45,000	115,000

∴ Total annual Tax due = 40,000 + 45000 + 115,000 = 200,000

Monthly Tax = $\frac{200,000}{12}$ = 16,666.67

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Taxable Items

1 Salaries → is The amount Paid To The employees in return for Their work and usually Paid Monthly. iT includes:

(a) Salaries for work done inside egypT

(B) Salaries for work done outside egypT as far as They Paid from egypTian Sources such as: employees of egypTian embassies in other Countries.

(C) Salaries for work done inside egypT are Paid foreign Sources such as: employees working in Multinational Companies

→ There are Some exempTed Salaries Not applied To This Type of Tax

Salary of The owner of a Company or salary of Partners in Partnership

Exercise

1. one employee work in EZZ sTeeL → Taxable To salaries
2. one employee work in Johnson & Johnson EgypT → Taxable To Salaries
3. one employee work in Saudi Embassy → Taxable To Salaries
4. one employee work in Vodafone branch london → NoT Taxable To salaries in egypT.

2 Periodic rewards "remunerations" → It Means an amount is given for additional work over his work.

It must be Periodically & Permanent.

Ex: Extra work hours, bonus, Teaching rewards, Supervision rewards, all are subject To Tax on Salaries **EXCEPT** leaving Service "work"

3 Benefits → iT includes

a Cash Benefits: incentives, Commission, grants, overTime all are subject To Tax on Salaries **EXCEPT** grant for Heirs of The died employee during The work Time or at The retirement.

B In-Kind benefits:

* **Group Benefits**: for all employees Necessary for work such as: Housing, uniform, Transportation, Meal all of This is **Exempted.**

* **Individuals Benefits**: for Certain employees

- **Mobiles Phones** → Some entities give Their employees Mobiles Phones To be used for work, The law determined The In-Kind benefits **20%** will be subject To Tax.

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Example: the value of the calls invoice or a mobile gave to one of the employees is 5.000 L.E. what is the Value of in-kind benefit for this employee taxed?

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Value of Benefits = 20% * 5000 = 1000 LE (Taxed)

• Transportation → An employee can use the car of the work for his personal use. The law determine the value of employee benefit by **20%** from operating expenses of car such as:
- Fuel & oil.
- Maintenance.
- insurance expense.

ignore depreciation and value of car if exist

Example: The value of the fuel and maintenance invoice for a car owned by a company is 15.000 L.E and the car is used by one of the employee, what is the value of in-kind benefit

Sol

value of Benefits = 20% * 15,000 = 3000 LE (Taxed)

Example (1):

A car owned by a company is given to an employee. The annual operating cash costs (fuel, insurance and periodical maintenance) were L.E 1,200. The annual depreciation of this car is L.E 9,000.

Required: Calculate the value of the monthly taxable variable in-kind benefit.

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value of Benefits = 20% * 1200 = 240 LE (Taxed) ÷ 12 = 20 LE

Example (2):

A car owned by a company is given to an employee. The car monthly operating costs are as follows:

- **Fuel L.E 1,000**
- **Periodical Maintenance L.E 600**
- **Insurance L.E 300**
- **Oil L.E 100**
- **Depreciation L.E 500**

Required: Calculate the value of the monthly taxable variable in-kind benefit.

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value of Benefits = 20% * [1000 + 600 + 300 + 100] = 400 LE (Taxed)

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• **Housing** → Some entities provide one of its employees special housing benefit. **Ex**: Penthouse So, The value of in-Kind benefit [Rental value of house − The amount Paid by Company]

Example: The company give one of its Managers a penthouse in which the rent of this unit is 10,000 L.E but the company discounted only 2000 L.E from the employee salary, what is the value of the benefit for this employee?

Sol

value of benefits = 10,000 − 2000 = 8000 LE (Taxed)

• **Loans To employees** → Some employees may Need To get some loans, The law determined The value of The inKind benefits by 7% as what The employee get in excess of his Salaries over The Previous six months.

Rule = [loan amount − Salary for 6 months] [7% − interest rate]

Note: if any bracket is Zero or −ve → No benefits

Example:

One employee get a loan from his company, if you know that the total amount the employee get over the past six months is 30,000 LE, what is the value of benefit in the following cases:

1- 20,000 with return 7%
2- 40,000 with no return
3- 40,000 with return 4%
4- 40,000 with return 8%.

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1 [20,000 - 30,000][7% - 7%] = No Benefits

2 [40,000 - 30,000][7% - 0%] = 700 LE

3 [40,000 - 30,000][7% - 4%] = 300 LE

4 [40,000 - 30,000][7% - 8%] = No Benefits

• Insurance Policies made by The employee for his life or family

If Employer "Company" Pay Part of The installment so The inKind Benefits is equal To This Part Paid by employer.

Example: the value of installments for the life insurance policy for one of the employee is 4000 L.E per year and the company paid 600 L.E for the employee as apart of his installment, what is the value of benefit?

Sol

The value of benefits = 600 LE (Taxed)

• Give The employees The Company shares at value less Than FMV

The value of benefits determined by The difference between The fair Market value of shares and The value of shares given To employees

Note: in some Cases The entity may have some restrictions as Not exchange iT before one year → So No benefits before This restrictions Finished.

Example: The entity grant one of it's mangers some shares on September 2020 which have market value 1000 L.E and accounted for the manager @ 900 L.E and restricted the exchange for this shares not before one year to be sold. what is the value of benefit?

Sol

- The value of benefits = 1000 - 900 = 100 LE

and it applied on September 2021 (Taxed) and No benefits before this date.

End of ch. 2 Part (1)

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