

**Questions and answers**  
**Related to the income tax draft law**  
**And the new philosophy on taxation**

## **Questions included in the questions and answers' Handbook**

- 1. What is the difference between the current and the new law ?**
- 2. What is the grace period for the implementation of the draft law and how will the transitional fiscal year be dealt with ?**
- 3. has the new law considered all social brackets ?**
- 4. Has the new Law considered the special situation for employees ?**
- 5. What happened to family allowances ?**
- 6. What is the employee's payable tax?**
- 7. why have exemptions on income incentives and remuneration exemptions been cancelled ?**
- 8. Why did accounts that had been published in the newspapers, revealed a possible losses for some incomes' comates of salaries and wanes?**
- 9. What about income paid from foreign sources ?**
- 10. how is taxation on partnership companies calculated ?**
- 11. what are the tax exemptions that will prevail in the new law ?**
- 12. Why have exemptions on educational institutions prevailed ?**
- 13. what is the position of cooperative societies and their unions from tax ?**
- 14. what about natural person' bank deposits ?**
- 15. how are securities dealings treated ?**
- 16. what are the tax exemptions on current companies ?**

- 17. what about established companies which receive no exemptions ?**
- 18. how has the relationship between the taxpayer and the tax authority developed ? how will the taxpayer benefit ?**
- 19. what are the investment benefits offered by the new law ?**
- 20. what about carrying losses forward ?**
- 21. how is depreciation handled in the new law ?**
- 22. how is the tax loss calculated versus permits ?**
- 23. how does the law handle the outstanding debt interests for legal person ?**
- 24. what about bad debts ?**
- 25. what about capital profits in mergers ? do they taxable ?**
- 26. What about evaluation of the in-kind shares in the partnership companies ? are they taxable?**
- 27. What is meant by changing the company's legal formation?**
- 28. What about handling the long-term contracts in construction operations ?**
- 29. What is meant by the real estate wealth revenues?**
- 30. How will taxation of Agriculture and revenues be treated ?**
- 31. What is the tax base for horticultural crops ?**
- 32. How are constructed real estate revenues determined?**
- 33. will taxes be incurred on dealings on constructed real estate or land ? and what is ?**
- 34. can revenues from real estate be determined according to actual**

revenues ?

35. are there tax exemption on revenues from agricultural activities ?
36. Who will need to keep accounting books ?
37. Are all taxpayers required to submit a tax return?
38. When will the tax return be submitted ?
39. does the concerned tax department has to approve the submitted tax return ?
40. what about auditing ? will there be an audit of submitted tax return ?
41. what guarantees that taxpayers' books are not disregarded ?
42. When will the tax return be examined ? is there a deadline for the tax authority to audit tax returns ?
43. what are the steps taken by taxpayers to appeal ?
44. What is the method applied in dealing with the taxpayer on overpaid amounts ?
45. Would the due tax be paid in installment?
46. What is meant by the advanced payments?
47. how can the taxpayer settle advanced payments ?
48. could the taxpayer change the advanced payment system?
49. What are the crimes stated by the law? What are thee penalties for those crimes ?
50. What about the chartered accountant (certified public accountant) who approved the wrong tax return?

- 51. What is the acceptable percentage of mistake in the tax return that will not be considered a tax evasion?**
- 52. What is the penalty for incorrect tax returns ?**
- 53. What is the crime for tax evasion. How is it defined?**
- 54. What is the penalty for Tax evasion?**
- 55. Is there is a possibility for the conciliation with the authority?**
- 56. The appeal committees regard the authority as an adversary and judge ; has the new law corrected the error ?**
- 57. How can an activity be determined and the consequent been closure with the tax authority ?**
- 58. What about relinquishing a business ?**
- 59. when will the new law be applied ?**

## **What is the difference between the current system and the new law ?**

The new tax law is radically different from the old taxation idea in good , spirit and procedure :

the mission of the new law calls for a shift in perception of economic surplus which originally succumbs to state control , and a re-distribution that surplus within the Financial community And among the social bracket to bring out sustainable growth .

The Law aims at re-establishing confidence between the taxpayer and the tax authority , encouraging voluntary compliance and self –assessment , applying sample testing and ensuring that records will not be depreciated without cause . in return , sample testing will be adhered to and severe punishment will be applied in cases of tax evasion; equivalent to the degree of trust allotted to the taxpayer

Simplifying examinations , assessment , taxing and collection of taxes in addition to simplifying the word formatting of the law to encourage compliance with clear understanding of the law and that formula will eventually introduce evolution of the Tax department .

## **What is the grace period for applying the law, and how will the transitional fiscal year be dealt with ?**

The law has introduced a tax pardon which is a lifesaver in the new system, it is designed to exempt non-registered taxpayers during an established time frame from due tax amounts in the year preceding the implementation of the law, including the fines and penalties. the registration date marks the inclusion of the taxpayer in the system and the new comer will not answer to dispute prior to his registration date . the pardon will be cancelled if the taxpayer does not submit his tax return in the following three years.

## **Is the new law considerate of all social brackets?**

The question has been raised since the announcement by the government to issue the new income tax law. By definition, taxes are applicable on higher brackets to be redistributed through other fiscal policies such as subsidy, public expenditure on basic utilities, education, health ,etc, in the interest of all social brackets with emphasize on the poor and low-income individuals .

The new law imposes taxes on net incomes that exceed by far earnings of low-income individuals.

In other words, the income tax addresses high-income individuals and not the low-income ones who will indirectly benefit from this law. The cycle will entail on increase in economic growth, improved services, and benefit from public expenditure, subsidies, basic services and tax exemptions resulting from raising the exemption ceiling and expanding the tax base .

The proposed law is an attempt to lower the tax burden and support social equity. The new law calls for an equitable tax that can curb or eradicate tax evasion, expand the tax base and integrate all brackets within the tax community. It will allow a gradual increase in tax rates, widening social brackets and increasing privileges to wage earners.

### **The following reductions are proposed :**

<b>Current law</b>		<b>The proposed draft law</b>	
<b>Item</b>	<b>Price</b>	<b>Item</b>	<b>Price</b>
<b>LE 2000 for single individuals LE 2500 for married individuals LE 3000 for married with dependents</b>	<b>exempted</b>	<b>Up to LE 5000</b>	<b>Exempted</b>
<b>Personal exemption</b>	<b>2000</b>	<b>Personal exemption</b>	<b>2500</b>
<b>Wife handling</b>	<b>Single</b>	<b>Treatment of spouse</b>	<b>No difference</b>



<b>Tax rate Less than LB 50 thousands More than LB 50 thousands</b>	<b>20% 32%</b>	<b>Tax rate From 5001 up to LB 20 thousand From 20001 up to LB 40 thousand More than LB 40 thousand</b>	<b>10% 15% 20%</b>
<b>Resources development fees in excess of LE 18000</b>	<b>2%</b>	<b>Resources development fees</b>	<b>Nil</b>
<b>Special allowance (reaches 210% from the basic salary) Tax on income from third party</b>	<b>Exempte d</b>	<b>Special allowance (reaches 210% from the basic salary)</b>	<b>exempted</b>
<b>Tax on income from third party</b>	<b>20%</b>	<b>Tax on income from third party</b>	<b>10%</b>
<b>Life and social insurance premium, and private insurance funds.</b>	<b>10% exemptio n from salary at a maximu m of LE 1000</b>	<b>Life and social insurance premium, and private insurance funds.</b>	<b>15% exemption from net income or 2000 – which ever is less</b>

In an effort to establish social equity, the new tax law widens the tax brackets and lowers the tax rate.

The new system tags a 20% tax rate on a net income of L.E. 50,000 and 32% tax rate on any income in excess of that figure. A L.E. 20,000 net income is taxable at 10% other brackets are deal with in the same manner so that an income standing at 40% and above is taxed at 20% .

The law has pushed up the ceiling an exemptions on contributions to insurance fund memberships as well as life and health insurance premiums; a development which can lead to a growth in savings

On other hand slashing the tax rate from 42% to 20%,reforming customs and sales tax will increase individual funds ( witch will lead to stronger purchasing and inject more funds in the market .

The new law is on a mission to balance the social, economic & financial matters to assist in pushing up the development rate

## **Has the new law considered the employees' special situation**

Yes, the new law ascertained on employees' income increase and taxation fairness, by easing tax burden on taxpayers generally and employees particularly, and expanding the tax base as follows:

- . stating exempted stratum of LE 5000 annually for individual, with equality in between man and woman.
- . Increasing the employees personal exemption to 2500 instead of 2000 to become LE. 7500 yearly.
- . Reduce tax on taxpayers that are Subject to tax from other work parties rather than their original work to 10% instead of 20% in the recent law.
- . Continuity of benefiting the exemption given by private laws

The new law had also kept the existing advantageous of the recent law, that is for the tax on salaries and wages including private allowance stated since 1987, which is added to the basic salary every 5 year, and reached the ratio of 210% from the basic, besides exempting each of the following:

a- social insurance and saving premium, which are withheld according to the social insurance provisions, or other alternative systems.

b- Employees subscription in the private insurance funds accruing the law provision No. 45of 1975.

c- Life and health insurance premium committed by the taxpayer in his own interest or in favor of his wife or minor children.

That not exceeding 15% of net income or LE2000 which is less.

## **What happened to the family burdens?**

The existing family burden in the recent law reflect a condition that requires reform to achieve more tax fairness, that it is distributed as follows: (LB 2000 for single, LB 2500 for married, 3000 for married and has dependents) these amounts had been unified, then increased to LB 5000 per person (which by it self exceed the previous limit by 47%, 67%, 150%) despite the taxpayers' social status or being a man or a woman.

### **That has many advantages:**

**First** assuring that the whole family will have more income, as the working wife will gain the same granted exemption giving to the husband, therefore both will get a higher income not taxable, it can be LB 10 thousand instead of five thousand, rather than salaries and wages, and LB 15 thousand instead of nine thousand for salaries and wages.

**Second** support in the Egyptian society has different meaning than the other societies because of the Egyptian society pattern of ethics, as every single person with an income is responsible of supporting his family (his father, mother, brothers and others), same as the married who support his family. So that supporting is not limited for marriage only but for other different cases in the Egyptian society.

**Third** the scientific studies proved that the percentage of the supporting women in the society about 22%, so it can be treated as single as it is in the recent law.

**Fourth** removing the recent complication resulting of assaying to determine the family burdens and the exemptions limits, as there are continues changes occurs in the social status of the taxpayer, without any actual economic reflection about the society.

## **What is the employees payable tax?**

The method of calculating the employees' income tax is summarized by calculating the total annual salary, then deducting the funds specialized pensions and private allowance (whether added to the basic salary or not), treatment expenses and insurance funds (percentage not exceeding 15% of net income or LB 2000 whichever less), to get the net income. Then deducting the exempted stratum, which the new law had increase it to L.E 5000, then the personal exemption LB 2500, then we will have the taxable income, which all the above mentioned tax stratum and rates will be applicable on it. That can be explained through the simple following equations:

Net annual income= total annual salary - (pension share + contribution of insurance fund+ contribution in medication funds+ special allowance).

Tax base = net annual income - (family exemption LB 5000 + personal exemption LB 2500)

The following schedule demonstrates some examples from the actual data that employees pay, according to the recent and tentative law, to explain the benefit stated in the new law for the incomes and the like:

**Comparative schedule for income tax between the new and the recent law**

<b>Total annual revenue</b>	<b>Recent Tax base</b>	<b>Recent tax</b>	<b>New tax base</b>	<b>New tax</b>	<b>Benefits percentage</b>
13052	5571	1114	4245	425	61.9
13221	4863	972	3835	384	60.6
13399	4660	932	4036	404	56.7
13599	4251	850	3750	375	55.9
13774	4418	884	4548	455	48.5
14058	4311	843	4407	441	47.7
14528	1731	246	1868	187	46
14916	3913	783	4392	429	45.2
15025	3949	590	3331	332	45.4
15259	4673	924	5136	514	45.0
16076	3418	684	3743	374	45.3
16374	6389	1280	7025	703	45.1
16535	5543	1109	6104	610	44.9
17364	4957	991	5536	554	44.2
17711	6436	1285	7084	708	44.9
18720	7073	1415	7804	870	44.8
19094	8050	1610	8887	889	44.8
19266	6476	1295	7437	744	42.6
20005	7634	1537	8982	898	41.2
21483	9677	1935	11451	1145	40.8

**From the pervious schedule some important matter arises:**

**First** despite convergence in incomes' level, such as 14528 ,14237, and 14058, but the tax base completely varies, because of remunerations and incentives that differ from person to another.

**Second** although at the first sight to the previous schedule .it appears that there is an increase in the tax base, but the taxpayers payable tax will be less than the recent tax, which lead to a higher income to employees.

**Third** the benefits percentage in low stratum is less than the high ones, so that the employees under the less stratum benefits more.

## **Why the granted exemptions for incomes from incentives and allowances was cancelled?**

The law project based on the unitary system of taxation of one income source, to ascertain tax justice, so that all stated exemption for incentives and allowances had been cancelled for the following reasons:

. Assuring justice, that it is not possible to treat two person working at the same place with the same income with different taxation treatment, just because the first's income so-called income, and the later is so-called other sources.

. this matter was substituted by increasing the exempted stratum to LE 5000 and the personal exemption to 2500, in addition to, decreasing tax rate from 20%, 32% on salaries and wages, to 10%, 15%, and 20%. It was explained in the pervious example the benefits of the income comate and the like, although the exemption was cancelled.



## **Why did accounts that had been published in the newspapers, revealed a possible losses for some incomes' comates of salaries and wanes?**

Unfortunately these accounts didn't consider the recent situation, the project law suggestion reveals clearly in the way of handling the recent incentives and allowances, that the recent law stated, exemption of work nature allowance, by maximum limit of LE480 annually, and a representation allowance's maximum limit of LE 2500, not exceeding the basic salary, also production incentives, maximum limit LB 3000 not exceeding the basic salary.

### **The error comes from many sides:**

**First** these accounts combines the three above mentioned exemptions in one basket, the amount become LB 5980, with no consideration to the exemption stated in the recent law, that the exemption should not exceed LB 4000, with consideration to all above mentioned ceilings of each item.

**Second** these amounts omitted completely that the exemption maximum equals the basic salary not the whole incentives amount, we know that the employees' basic salary is determined according to state's work law.

**Third** exemptions stated according to particular law such as social allowances and others are still valid in the new law.

As a result of not considering the pervious matters, the private accounts showed the employees' benefits from the new law.

## **What about individuals' incomes earned from outside Egypt?**

The law apply the tax regionalism principle for the normal individuals, so that the tax is only imposed on their net income realized inside Egypt, but for the resident juristic persons, the tax is imposed on total net income whether realized inside or outside Egypt.

And for the non-resident juristic persons, tax is imposed on profits realized in Egypt.

## **How will be the taxation for the partnership companies? And what is its tax rate?**

Since that the new project law concerned the Unitarian taxation for the one source income, and to apply the international standards, so that the partnership companies (Joint liability and simple shareholding companies), the same like shareholding companies, whatever is the legal structure being under, with a tax rate 20%. as these company deals with the same economic and financial basics and rules, the shareholding company deals with in the market, in addition to, the tax which is imposed on income from activity not on the company's legal structure. Besides that aiming to halt the big gap in the recent taxation system which was exploited in tax avoidance. So there is not scientific and logic justification to continue in differentiating among them just for the legal structure variation.

## **What are tax exemptions that remained in the new Law?**

The new law kept some recent exemption such as:

- Earnings of land reclamation or cultivation enterprises ,for ten year as of the date of activity initiation.
- Cultivated areas in the deserts, for ten years as of the land start's to be productive.
- Earnings of poultry, livestock raising and fattening, fisheries and fish farming enterprises; for five years as of the date of activity commenced.
- Educational centers under the state supervision or the public juristic person or the public sector or business public sector.
- Earning from authorship of the religious, scientific, cultural, and literature books & articles
- Profits of private insurance funds under the law no 45 of 1975.
- Private allowance and other privileges granted by private laws.

## **Why does the exemption decided for the educational center's remain?**

The reason of keeping the exemption stated for the educational centers, is that the project aim to encourage schools, educations centers and universities' establishment which is under the Ministries of Education and Higher Education supervision, to spread education and to eliminate burden on the state's public budget, also to facilitate providing services to all citizens. Especially that this exemption's terms requires from the concerned authority to conquer to the state supervision and to obtain license.

## **What are the cooperative committees and their unions' situation from tax?**

These committees and their unions are tax exempted, that will be within the non-trading or manufacturing activities, NGO, with social, scientific, cultural, and sportive activities, any other incomes rather than that will be taxable.

## **What about individuals' Bank Deposits?**

The law exempted the individuals' revenues from deposits and saving accounts at the banks that under the central bank supervision, also the post office saving funds.

## **What about securities' brokerage & dividends?**

The law exempted the brokerage revenues, dividends and shares listed in the Egyptian Stock Exchange, for normal persons, but is not allowed to deduct occurred or unrealized losses, also exempted the securities dividends issued by the central bank, besides the investment fund profits issued according to the capital law.



## **What about the recent established companies' tax exemption?**

The new law aimed to cancel the stated tax exemptions in the investment law, for the new projects, following the fairness taxation principle as well as, a complete persuasion that the tax exemption is not a actual motive for serious investment, and that was substituted by decreasing the customs tariff, represented in the customs reduction of the capital good and production requisites, in addition to, stating a tax deduction system for the payments of sales tax on capital goods, besides reducing income tax rate to 20%, all are positive motives more than the exemptions.

For the recent exemption, the new law stated its continuity for all due project up to the expiry date, that refers to many objective reasons, one of the most important is to maintain these companies stability, in other meaning these exemptions will be applicable only for the new projects.

## **What about established companies and didn't get exemptions?**

For companies that got the Public Investment Authority approval, before the new law application, will be exempted, that if it started production within three years form the date of the new law entry into force.

## **What are the development side in the relation between taxpayer and the tax authority? how would the taxpayer benefit from?**

There are many advantageous the most important are the following:

- . Consider that the submitted tax return actual, until the opposite is occurred.
- . Roaring books, document, and cost items is not allowed, without referring to real document at the authority
- . Applying the sample examination system with objective basis in selecting the tax return that will be examined.
- . The taxpayer has the right to modify or correct the tax return, within a stated period as the date of the legal period for submitting the original tax return, terminated.
- . The taxpayer has the right to reimburse the extra amounts in the due tax, also has the right to have returnee for payments of these amount delay, at the date stated in the law.
- . Create new easy system for "advanced payments" allow taxpayer to pay installment for the account of the due tax, in addition to, getting exemption from the "deduction for account of the tax system", when committed with this system

## **What are the benefits that the new law gives for investments?**

- . The new law granted many investment benefits as follows:
  - . Reducing the tax rate from 42% to 20%, and to keep all the agriculture activities exemption.
  - . Simplifying the tax assessment and collection procedures, appealing and objection procedures.
  - . Encouraging investment development and expansion, by providing deduction 30 % on amounts invested in machines and equipment that is used in production, whether it is new or used, and that will be at beginning of the taxation period its used in.
  - . Determining the deductible costs with no possibly of mistake or duplication
  - . Facilitating the deduction system and creating a new optional system for the advanced payment as an alterative.
  - . Enhancing and clarifying the taxation treatment in cases of merging, obsession, reassessment.

## **What about carried forward losses?**

The new law allowed carrying forward losses for juristic and normal person, for a five fiscal years.

## **How will the new law handle depreciation?**

In order to avoid existing problem occurred because of the different basics used to determine the company assets' depreciations, in a way that gives the tax officer chances to accept or refuse according to personal judgment, therefore the new law stated new system to calculate depreciation as follows:

- 5% for building, ships, and airplanes.
- 10% cost of purchasing or developing or enhancing any incorporeal assets including institution's celebrity.
- 50% on electronic machines and database devices.
- 25% on any other activity's assets, from the depreciation base for each taxation year.

A 30% deduction from the invested amount in purchasing equipments, machines, new or uses, for investment at the first the taxation period these assets will be used within. With a quick vision on these rates we found that the law organized these depreciation, in a way assists the institution to reimburse its investment speedily, so that improve in systems and machines to convey with new technologies globally, there for increase productivity, as well as the competitive ability for the local product.

## **What are the taxation basis for licenses adverse?**

The licenses adverse will be calculated among the institution incorporeal assets which are depreciated by 10% within each taxation period.

## **How did the law deal with the juristic person's due debt interest?**

The law allowed deduction of the juristic persons' paid debt interest, on obtained loans and imprests, not exceeding four folds the liabilities, as it is in the global convention that it is applied in the developed and developing countries alike, in addition to, that it is a trial to avoid the tax evasion breaches that occurred by making fake contracts or exaggerating in borrowing, in order to benefits from deduction of debt service cost from the tax base, so it is better to determine a ceiling and to grant the institution transfer period to reach the required rate to allow the deduction as follows:

1:8 for taxation year 2005

1:7 for taxation year 2006

1:6 for taxation year 2007

1:5 for taxation year 2008

1:4 for taxation year 2009



## **What about bad debts?**

The new law was clear in this matter, that it allowed bad debts deduction that if the following stipulation was applicable:

- . To refrain to the institution's activity
- . The institution had done all legal collective procedures and failed in collection.
- . The institution had omitted the debt from its books and registries
- . The amount adverse to the debt has been listed in the institution accounts as well as any receivable of this debt in the collection year.

## **What about the capital profit at merging? Is it taxable?**

the capital profits realized from changing the company's legal structure, like merging with another company by exchanging shares, not including in the profit and loss statement, therefore it not taxable, if the assets and liabilities are registered by the book value at the time of changing the legal structure.

## **What about evaluation of the in-kind share in the partnership companies is it taxable?**

The tax is not applicable on profits resulting from revaluation of individual institution when proposing as in-kind share in a partnership company's capital, that if it is registered shares, and to be frozen for five years.

## **What is meant by changing the corporate legal structure?**

It means doing any of the following:

- Merger of two or more companies, by exchanging shares
- Divide the company into two or more.
- Transforming a partnership company into a share-holding company or the opposite.
- purchase or acquisition of 50% or more of shares or assets and liabilities of other company.

## **What is meant by long-term contract in contracting?**

The long-term contract in the contracting and constructing sector, requires a particular taxation treatment, for its different nature, so that the law stated profits percentages based on a ratio of contracts' finalized work, during the taxation period, with a possibility of loss deduction from the profits of the previous period without exceeding it.

## **What is meant by the real estate wealth's revenues?**

The law mean by the real estate wealth's revenues, revenues of, agriculture land, constructed building, and furnished apartment.

## **How will the agricultural land revenues be determined?**

The agricultural land revenues is determined by the rental value taken as a base for setting the tax levied according to the rules stipulated in law No. 113 of 1939 concerning agriculture land tax, after deducting 20% for all costs and expenses.

## **what is the taxation accounting basis for the horticultural corps?**

Revenues from producing horticultural corps from productive orchards are determined on areas exceeding three feddans; and on an area exceeding one feddan for the ornamental, medicinal and aromatic plants, and nurseries, regardless of the area planted, unless those nurseries were to the rental value taken as a basis for setting the tax levied according to the rules stipulated in law NO. (113) of 1939 for the land tax. That if the holder of the nursery plants was a tenant. But if the holder of the nursery plants was the landlord himself, the revenues shall be determined on the basis of two folds the rental value aforementioned.

In all cases a deduction of 20% from revenues for all costs.



## **How will the constructed real estates' revenues be determined?**

The constructed real estates revenues are determined on the basis of gross rental value taken as a basis for assessing the tax levied by Law No. 65 of 1954, after discounting 20% for all costs.

except renting revenues under the "stated period system", in the places that the Minister of Finance determines, that tax is determined based on actual rent discounted from it 40% for all cost

tax is applicable on renting revenues of any furnished private residence or part of it either it is for residency or to perform any commercial, manufacturer activity or any other activity.

The tax is determined based on the actual rental value deducted from it 40% for cost.

**Is there tax on the dispose of the constructed buildings or land?  
And what it is?**

A tax of 2.5% is levied, without any deduction, on gross revenues accrued from the disposal of building or lands existing inside city boundaries, whether such disposal was carried out on the land parcel as it exists or after constructing buildings thereon, whether such disposal was inclusive of the entire real estate or part of it or a residential unit thereof or a unit for any other purpose.

The actions of an heir in real estate acquired as they are by inheritance from his testator are excluded from actions liable to this particular tax. Same applies when the property is offered as an in-kind contribution to the capital of a joint stock company, on condition that the equivalent shares shall not be disposed of for five years.

## **Is it possible to determine the income of real estate wealth according to the actual revenue?**

The taxpayer may request that taxable income of real estate wealth stipulated in this law is to be calculated on the basis of actual revenue, provided that his request includes all his agricultural land and constructed real estate.

the request must be submitted during the period set for the submission of annual returns, and the taxpayer must be keeping regular books fulfilling the requirements stipulated in the Executive Regulation of this present Law.

## **Is there exemption on agriculture land revenues?**

The following revenues shall be tax exempt:

- 1- Agricultural activity revenues unless provided for in this present law
- 2- Revenues accrued from revenues areas planted in the desert land for a period of ten years starting from the date the land is considered productive.

## **Who will be required to keep permanent books and registries?**

The taxpayer, practicing a commercial, manufacturing, industrial, handicraft activities, required to keep regulated books and registries in the following cases:

- . if his or her! invested capital exceeded LB 50 thousand
- . if his or her! annual figure of works "turnover" exceeded L.E 250 thousand
- . if his or her! net annual profit exceeded LB 20 thousand

Therefore the law exempted the small enterprises owners to keep books, that the Minister of Finance will issue simple regulation for these activities' accounting basis, in a way to concur with its nature and facilitate its taxation, in addition to, application of the recent agreement which according to it the tax base is determined.

## **Are all the taxpayers obliged to submit tax return?**

The answer is no, the tax payer shall be exempted from submitting tax return if his income was limited to salaries and of like nature, and his income was limited to real estate revenues on the exempted stratum according to the law provision, also if his income from above mentioned not exceeding the stated exempted stratum.

## **When the tax return is submitted?**

The tax return shall be submitted in the following dates:

- . before the 1<sup>st</sup> of April of every year following the end of the tax period of the previous year with regard to natural persons
- . before the 1<sup>st</sup> of May with regard to juristic persons

## **Will the tax Authority be obliged to accept the tax return immediately after its submission?**

The law based on a new philosophy that refers mainly to the mutual confidence between the taxpayer and the authority, as the authority is confident that the taxpayer will be honest in declaring his actual income, and on the other hand, the taxpayer by his turn is confident that the authority will treat him fairly, so that the submitted tax return will be the base to tax assessment as main principle, there for the authority is obliged to accept the tax return under the taxpayer responsibility, and the taxpayer is committed to pay due tax according to the tax return as the date of submission.



## **When will be the examination ? will there be a tax return examination at time of submission?**

The tax authority don't examine the tax return at time of submission, it is only auditing operation for the listed accounting transaction, without examining the document and the like.

The authority will examine the tax payer by taking a sample, the rules and standard of which shall be specified, a decree to be issued by Minister to Finance. In addition to, the elements previously examined shall not be re-audited unless substantial evidences requiring re-examination were collected. Besides simplifying tax assessment and examination procedures by one notice form instead of two, entering he taxpayer data into computer, and other managerial and administrative reform that the Ministry of Finance is performing in this matter.

## **What assures undestroyed taxpayer books?**

The Authority is obliged to accept the tax return as submitted from the tax payer, assuming that books, registries, document, of his, are as clear and regulated according to the right accounting bases. The authority may not depend on the regular books and record of the taxpayer or underestimate them, unless the authority proved, by supportive document it produces, that they were incorrect.

**What will tax return be examined? And till when the authority can demand tax return examination?**

The tax should be assessed on the profits evidenced by in the tax return submitted by the taxpayer, the authority can conduct or adjust the tax assessment within five years starting from expiry of the stated legal period of taxation period.

## **How can objection on the authority's assessment be done?**

The taxpayer liable to the tax on salaries and wages may, within thirty days from the date of receipt of the taxable income, object to amounts deducted from the account of the tax by submitting an application to the entity that undertook the deduction.

This entity shall dispatch the application together with its response to the concerned directorate within thirty day from the date of receipt of applying.

## **How will be the taxpayer who paid amounts exceeding the due tax be treated?**

If it become evident to the authority that the taxpayer is entitled to refund of all, or part of, taxes and the other amounts paid without a legitimate claim, it shall be obliged to reimburse those taxes and amounts within forty five days from the date of the taxpayer's application for reimbursement; or otherwise it shall incur a dependent charge, based on the credit and discount rate declared by the Central Bank on the first of January preceding the tax accrual date, discounted by 2%.

.By the power of the Law, clearances shall be applied to the amounts paid-up in excess by the taxpayer for any tax levied by this law and the amounts due under any tax law enforced by the authority and transferred to the treasury.

## **Is the due tax can be paid on installment?**

Tax shall be effected on installment not exceeding the number of tax years over which the tax was due.

The right to the installment scheme shall be rescinded on default of payment of any installment. The Head of the authority, or whoever he authorizes, upon an application submitted by taxpayer, if general or private circumstances prompted to the taxpayer prevent him of tax collection, so that it didn't exceed his taxation number of years.

## **What is the meaning of the advanced payment?**

The law has invented the advanced payment system as an alternative to the deduction and addition recent system.

The system of advanced payments, in the application of this law, shall be interpreted as the taxpayer undertaking to pay an amount for the account of the tax due for a given tax period at a rate of 60% of the most recent tax declared by the taxpayer, and shall be obliged to pay the percentage stipulated in three equal installment, in a date no later than July, October, and January from each calendar year.

The number of advanced installments may be reduced when the remaining period after lodging the request, was found to be less than twelve month.

## **How settlement will be done to the advanced payment by the end of the taxation period?**

The amount paid in accordance with this system shall be timely settled on submitted the annual tax return. The taxpayer is obliged to pay the remaining amount of the due tax as stated in the tax return, after deducting the advance payment made, and adding to it an annual interest calculated according to the credit and discount rate declared by the Central Bank, having deducted 2%.



## **Can the taxpayer change his advanced pavements' system?**

The taxpayer may opt to change his choice for the system of advance payment and return to the system of deduction for the account of the tax, in the two following condition:

1-The taxpayer should have applied the system of payment at least

2-the taxpayer must submit an application to the concerned tax directorate within at least ninety days before the beginning of the tax year as of which he opts to retreat from the system of advance payments.

3-the taxpayer has paid all the stated, due advances

The taxpayer shall be exempted from the application of the advance payments' system in either of the two following cases:

1- incurring tax losses for two successive years.

2- Changing the legal form of the establishment or company to a partner ship or shareholding companies.

## **What are the stated crimes in the law? What are its penalties?**

The new law is based on a new philosophy and a comprehensive vision that depends on reducing society and individuals' burden and distributed it fairly. It has also brought facilities on tax assessment and collection system, therefore enhancing rules of mutual confidence between the authority and the taxpayer, the law also stated a tax exemption structure and conciliation, all are matters will help to start a new stage. Differ completely than what exit recently between the authority and the taxpayer.

Within this frame as well as keeping the society and public budget rights, the law has emphasized on crimes penalty, and doubled the fine if the same crime was committed within three years, and the fine will be four folds if the dissent was recommitted within five years as of the date of the dissent. That will be in following cases:

- 1- Refraining from submitting the notification of activity commencement in the legal set date.
- 2- Refraining from submitting the tax return in the legal set date
- 3- Refraining from submitting the deduction report in the legal set date
- 4- Refraining from submitting the real estate report in the legal set date
- 5- Refraining of withhold, deduct, collect or pay the tax in the legal set date.

## **What about the certified public accountant who approved a incorrect tax return?**

The certified public accountant is punished by imprisonment and a fine not less than LB ten thousand and not exceeding LB one hundred thousand, for certifying a tax return or the related supportive document or voucher:

1- Concealing information perused in the course of performing his function, which information might not b elicited from the documents he attested to, so long as disclosure thereof was necessary for those document to reveal the reality of the taxpayer's activity.

2- Concealing information he may have come across in the course of performing his function relating to any change or adjustment in the books, accounts, registers or documents which could wrongfully reduce profits or augment losses.

**What is the proportional possible error in the tax return and not considered tax evasion? and how much will be the fine in case of incorrect tax return?**

If the taxpayer included into the tax return the amount of tax at a value lesser than that of the finally-assessed tax, he shall be punished by the fine as follows:

- 1- 10% of the due tax on the amount that was excluded, if it were equivalent to 10%-20% of the tax legally-due;
- 2- 25% of the tax due on the amount that was excluded, if it were equivalent to more than 20%-50% of the tax legally-due;
- 3- 50% of the tax due on the amount that was excluded, if it were equivalent to more than 50%-75% of the tax legally-due;
- 4- 100% of the tax due on the amount that was excluded, if it were equivalent to more than 70% of the tax legally-due.

## **What about the tax evasion crime? How it is defined?**

The taxpayer is considered evasive from tax payment when resorts to any of the following methods:

- 1- Submitting the annual tax return using, knowingly, fabricated books, records, accounts, or document; or including data in conflict with those stated in the books, records, accounts, or documents he concealed.
- 2- Submitting the annual tax return, claiming no-existence of books, registers, accounts, or document; while including therein data in conflict with those stated in the books, records, accounts, or documents he concealed.
- 3- Intentionally destroying the records or documents, with relevance to the tax, before the time set for the tax debt prescription falls due;
- 4- Fabricating or changing purchase or sale invoices or other documents to cause Authority to conclude that he accrued less profits or incurred higher losses;
- 5- Concealing an activity, or part thereof, which is liable to taxation.

## **What is tax evasion penalty?**

It was normal to exaggerate in the tax evasion penalty, specially after all benefit that the law has granted to taxpayer, so that imprisonment is a must, that in case of conciliation rejection according to the article 139 of the law, every evasive taxpayer will be imprisonment for 6 month and not exceeding 5years and fine equivalent to the amount of tax unpaid in accordance with this law or by either of two penalties.

In all cases the evasion crime is considered against trustfulness and honesty, in a way excluding the convict from handling public position, and losing confidence and esteem.

The legislator had also punished by the same penalty the accomplice in the crime who encourage, agreed, or helped the taxpayer in tax evasion, shall be held accountable jointly with the taxpayer in the obligation to pay the taxes being evaded and the fines set in regard.

## **Is there a possibility to reconcile with the Tax Authority?**

The Minister, or whoever he authorizes, may approve a conciliation with respect to the crimes stipulated in this article at any stage of the trial before an irreversible verdict is issued, in return for payment of the due amounts in addition to damages equivalent double folds this amounts with minimum limit of LB 200 thousand, that if the due tax amount is LE 50 thousands or more, and a minimum limit of LB 100 thousands if the amount is less than LE 50 thousands.

**The recent appeal committee sessions make the authority as the opponent and the judge at the same time, has the new law handled that?**

Yes that was considered, that the new law stipulated the appeal committee indecency from the tax authority, that it will be under the minister supervision, who by its turn issues decision to determine its location and scope of work, and assuring a fair representation to the business organization and business men from a side, and the authority from other side, thereon the head will be from the workers outside the authority.



## **How will be the activity terminated?**

### **And how the relationship with the authority can be ended?**

The taxpayer who opts to relinquish the activity, has to request the authority to determine his tax position until the date of relinquishment, provided that he had submitted the tax declaration he is obliged to submit up to the last taxation year.

If the taxpayer has total or partial ceased to function, the actual profits accrued shall be included in the tax base until the date of activity cessation. Partial cessation means that the taxpayer terminates some aspects of his activity or closes down one or more branches where the activity is practiced.

The taxpayer should notify the concerned authority within 30 days as the date of termination otherwise the profit will be calculated about one whole taxation year. If the establishment ceased to operate because of the demise of its proprietor or if the latter has passed away within the thirty day-period specified for the abovementioned notification, his heirs are obliged to notify the authority the activity's cessation within 60 days from the date of the passing away of their testator and to present the tax return within ninety days from that date.

## **What about establishment's relinquishment?**

If the even of relinquishing all, or part of, an establishment, the relinquisher is obliged to notify the concerned tax directorate of such relinquishment within thirty days from the date of its occurrence; or otherwise the profits shall be calculated for one whole tax year.

The relinquisher is also obliged, within sixty days from the date of relinquishment, to present an independent tax return indication the outcomes of operation at the relinquished establishment together with the documents and data necessary for the assessment of profits accrued up to the date of the relinquishment, provided that such data are incorporated into the relinquisher' s annual tax return.

The relinquisher may request the concerned tax directorate to furnish him with statement of the tax due on the relinquished establishment. The directorate is obliged to furnish him with the required statement by registered, recommended mail within ninety days from the date of application or else he shall be considered solvent of the tax required and shall only be liable to the amounts specified in that statement.