Tax Accounting

- Definition of tax
- Characteristics of tax
- Tax rules
- Tax purposes
- Types of taxes

Definition of tax

A tax is fiscal amount levied by government authority upon individuals, companies, persons and economic entities, and a tax is imposed and collected for the purpose of raising revenue to be used for public purposes. Taxes are not payments for some special privilege granted or services Rendered to the taxpayer, but it levied and collected to cover the government Expenditure.

A tax could be viewed as an involuntary (enforced) contribution required by law to finance the functions of government such as: Health, education, Security, infrastructure and other services provided by Government and The amount of contribution extracted from the taxpayer is unrelated to any Privilege benefit or services received from the government agency imposing Tax.

Characteristics of tax:

1. A tax is a fiscal payment and that means a tax paid in the form of cash
2. The payment to government authority is required by law: tax is enforced by law and if a taxpayer doesn't pay the tax levied, there will be a punishment.
3. The purpose of payment is to provide revenues to be used for public or governmental purposes.
4. Special benefits, services and privileges are not received as a result of making the payment. The payment is not a fine or

A penalty that is imposed under other powers of government.

The difference between a tax and other amounts paid to government:

A tax, a fee, a fine and a penalty:

A tax: as defined before is amount paid to government as a contribution in Government expenditure and no special privilege

Or services received by taxpayer.

A fee: is amount paid to government against special service received by the Payer such as: license fee, identity document fees

A fine and a penalty*:* are amounts imposed by government to discourage behavior that harmful to the public interest and not to raise revenues to Finance the government expenditure.

Tax Rules

To be effective and to achieve its objectives, a tax has four rules

1- Equality: A tax should be based on the taxpayer's ability to pay and that Means those who have the same ability to pay to be taxed equally.

2- Certainty: A taxpayer should know when and how a tax is to be paid. In Addition, the taxpayer should be able to determine the amount of tax to be paid. A tax certainty is necessary for tax planning.

3- Convenience: A tax should be levied at the time it is most likely

To be convenient for the taxpayer to make the payment. The most Convenient time for taxpayers to make the payment is as they receive

Income and have the money available to pay the tax.

4- Economy:

A tax should have minimum compliance and administrative Costs. the costs Of compliance and administration should be kept at a minimum so that The amount that goes to government is as large as possible.

Tax Purposes or Goals: Government imposed taxes on individuals and Companies to achieve a group of goals:

1- Financial goals:

The main purpose of taxes is raise revenues to finance the public expenditure.

2- Economic goals: the government uses tax policies to encourage and discourage certain types of activity:

It encourages:

a- saving in the part of individual, by offering tax incentives such

b- Donations to public sector

c- Investments in special sectors through tax exemptions, fully or partially.

And it discourages: a- smoking: through the taxes placed on the product.

3- Social goals: Taxes are levied and collected from rich people and Redistributed to poor people in the form of public services.

Types of taxes:

There are many types of taxes, but the major types of taxes are:

a - Direct tax:

Direct tax is a tax levied on the income of a taxpayer and its impossible to transfer the tax from one taxpayer to another one.

The main types of direct tax are:

1- Personal income tax:

A personal income tax is a tax levied on the total income for the different Sources of an individual (with deductions, exemptions).

2- Corporate tax:

Corporate tax is a tax levied on the net profit generated by companies And corporations.

3- Rental income tax : A tax imposed on income from real estate.

4- Capital gains tax: A tax levied on the net profit resulting from sale of Capital assets.

b- Indirect tax:

Indirect tax is a tax levied on the consumer expenditure and that means Atax is not levied on the income, but it levied on the uses of income, and it's possible to transfer the tax from a taxpayer to another one. So when a person receives income, he pays direct tax, and when he spends the income to buy Goods and services, he pays indirect tax.

The types of indirect tax are:

1- Sales tax:

A sales tax is based on a flat percentage of the selling price of

A product or service. A sales tax is levied on a taxpayer´s consumption of goods and services. A sales tax usually collected by sellers and then paid to government. The government determines which goods and services are subject to the sale tax.

2- Value Added Tax (VAT):

VAT is a tax on consumer expenditure, and is thus classified as indirect Tax. It based on the supply of goods and services in Sudan

Capital Gains Tax

Capital gains tax is a tax levied on net profit realized from the disposal of Capital assets.

Taxable gains:

Capital gains subjected to tax are any gain realized from the disposal of:

1- Real estate: land and buildings.

2- Motor vehicles.

Expenses deducted from capital gains:

The law allows deducting the following expenses:

1- Original cost of capital assets.

2- Selling expenses such as: advocate fees, broker fees and advertisement.

3- Improvements costs.

4- Zakat paid by taxpayer.

5- Transferred capital losses:

The law allows transferring the capital losses incurred during previous years To be deducted from future realized capital, But maximum for three years.

Computing capital gains:

Capital gains subjected to tax =

Market value of capital assets		xxx
Deduct:		
Original cost of capital asset	xxx	
Selling expenses	xxx	
Zakat	xxx	
Transferred capital losses	xxx	
Total deductions		(xxx)
Capital gains		xxx

Capital gains tax rates:

Capital gains tax is annual tax, annual tax rates are:

1- For real estate 5%

2- For motor vehicle 2.5%

Capital gains exemptions

The following are profits exempted from capital gains tax:

1- Any capital gain realized by federal government or state
2- 25% of selling price is exempted in case only one house or land acquired by a person from housing scheme.

3- Capital gains realized by religion, educational and social Institutions Such as: hospitals, schools, universities and voluntary

Examples*:*

1- Assia bought 700 k\m^2 of land for SDG640000 in August 2016. February She sold the land for SDG 1500 per square meter, and he incurred SDG 10000 as selling expenses and SDG 9000 as zakat. Required compute CGT

2- Suleiman purchased 600 k\m^2 of land for SDG 600000 in Feb- 1995. He sold it in May 2009 for SDG 900000 and incurred SDG 7200 as selling expenses.

Instructions:

Compute capital gains tax to be paid by Suleiman given that the market price of land at the date of sale was SDG 1750 per k\m^2 , and has capital losses incurred during 2007 amounted to SDD 3000 and during 2005 amounted to SDG 2000.

Rental Income Tax

Computation of rental income subjected to tax

Gross rental income	xxx
Less:	
Depreciation, repair & maintenance (35%)	xxx
Zakat	xxx
Cost of loan	xxx
Local rates	xxx

Own house rent	xxx
Cost of family	xxx
Total	(xxx)
Net rental income subjected to tax	xxx

Rates of rental income tax

There are two types of rates

1- Resident person and rental income generated inside and Outside Sudan:

Category	SDG	Tax rate
1st	3000	Zero
Next	3000	5%
Next	4000	10%
Excess		15%

2- Unresident person and rental income generated inside Sudan: unresident person pays rental income tax if the rental Income generated inside Sudan

Category	SDG	Tax rate
2 nd	3000	5%
Next	4000	10%
Excess		15%

Example: Assume that the net rental income for year 2009 was SDG 30000. Compute the rental income tax if the landlord is Resident and non-resident but the rental income generated inside

Sudan. Solution:

Resident:

Category	SDG	Tax rate		Tax
1st	3000	-------------		zero
Next	3000	5% =	3000 x 5%=	150

Category	SDG	Tax rate		Tax
Next	4000	10% =	4000 x 10% =	400
Excess		15% =	20000 x 15% =	3000
Total tax				3550

Non-resident :

Category	SDG	Tax rate		Tax
1st	3000	5%	= 3000 x 5% =	150
Next	4000	10%	= 4000 x 10% =	400
Excess		15%	= 23000 x 15% =	3450
Total tax				4000

Examples:

Asia owns a house in Khartoum North rented at the Beginning of year 2018 For SDG5000 per month. during 2018 she paid SDG 2000 as local rates to Khartoum local council which include SDG500 as building tax. she built her House with a bank loan against annual cost of borrowing SDG2000 per Annum. She rented a house for her own living for SDG 750 per month for The whole year 2018.

Required: Compute rental income tax for Mona for the year ended 31.12.2018.

2) Suleiman owns a house in Omdurman rented at the beginning of 2010 for SDG10000 per month. He paid SDG 3000 as local rates to Omdurman locality which includes SDG 700 as a building tax. He borrowed SDG 300000 against 10% annual interest to build his house. Suleiman rented a House for his own living in Khartoum for SDG1000 per month for the whole year of 2010. during the year 2010, Ahmed paid SDG450 for Zakat.

Required: Compute the rental income tax to be paid by

Ahmed for year 2010 if you have been informed that, the Tenant is Responsible for repair and maintenance.

Personal Income Tax

Personal income tax is a tax on what individuals make from their jobs, businesses and their savings and investments. It a tax based on employees salaries and wages in private and public sector. Concept of personal income

Personal income is a term used by Sudanese Tax System to describe Salaries and wages and other allowances, benefits in cash and benefits in kind which represent revenues or income from work performed by an Employee to employer in private or public sector.

In Sudan personal income tax is imposed on:

1- Resident persons if the income is generated inside Sudan.

2- Resident persons if the income is generated outside Sudan.

Characteristics of personal income tax

1- Personal income tax is a tax based on income resulting formwork

2- Personal income tax considers the personal situations of a taxpayer so the Tax is not based on the whole income and the law allows deducting the cost of obtaining the income.

3- Personal income tax is annual tax: Although personal income is deducted monthly, but it based on the annual income, and also the tax rate is specified on the annual income.

4-Personal income tax deducted from the source of income and deducted by Employers from employees´ salaries and wages, and Employees receive the Net salary or wage. The maximum date to pay the tax is the 15^{th} of the next Month.

Taxable income:

The taxable income is the total salary or wage of employee minus

Deductions allowed by law.

The total salary or wage consists of:

1. Basic salary or wage
2. Increments and allowances
3. Benefits in cash: such as: overtime, bonus and grants
4. Benefits in kind: such as: car, rent and lodging.

1- Increments and Allowances: are divided into three groups:

a- Fully taxable increments and allowances.

b- Fully exempted increments and allowances

c- Partially exempted increments and allowances

a- Fully taxable**:** Fully taxable increments and allowances are

Any of allowances that not mentioned in circular of tax exemption

Should subject to personal income tax

b- Fully exempted increments and allowances:

Fully exempted allowances are deducted from salary or wage when Calculating the taxable income. The fully exempted

Allowances include the following:

1- Deduction of current retirement of social insurance or pension In private Sector social security or insurance is deducted from monthly salary, While in public sector pension is deducted Social security or pension fund is 8% and calculated from basic salary and allowances without exemptions

From monthly salary of employees

2- Exchange a part of retirement:

Sometimes employees exchange apart of their pension into cash in this case the monthly salary increases while the monthly pension decreases, so the part of exchanged pension is fully exempted from tax

3- Remuneration of service: According to working act if an employee works for 10 years, he receives remuneration income, and remuneration income is fully exempted .

4- Salary of warning: (one month salary)

5- Compensation of termination of service: salary of 6 months

6- Fixed amount allowance of envoys

7- Books allowance for university teaching staff and researchers in scientific Fields.

8- Investigation allowance for police officer.

9- Security allowance for national security forces.

10- Stand-by allowance for military forces.

The above allowances are fully exempted in public and private sector.

c- Partially exempted allowances:

Partially exempted allowances in private and public sector are:

Partially exempted allowances

Allowance	Private sector	Public sector
1- Cost of living allowance(cola)	Maximum exempted SDG 74.95 per month	As pre established circular
2- Transport allowance between house and work office	Maximum exempted SDG36 per month	As pre established circular
3- **Mileage allowance** for employee who has private transportation (registered by his name)	Maximum exempted SDG50 per month	As pre established circular

Category	SDG	Tax rate
1st	757.5	Exempted
Next	10	5%
Next	20	10%
Excess than SDG20		15%

Examples:

Use the following information to compute the personal income tax:

Taxable income is: 1- SDG750 2- SDG1000 3- SDG18000

Solutions:

1- Taxable income is SDG750 and its less than SDG 757.5, so it Exempted from income tax, and that means tax is zero.

2- Taxable income SDG1000

Category	SDG	Tax rate		Tax
1^{st}	757.5	Exempted		---
Next	10	5%	= 10 x 5% =	.5
Next	20	10%	= 20 x 10% =	2
Excess than 20		15% =	*212.5 x 15% =	31.875
Income tax =				34.375

* 1000 – 757.5 – 10 – 20 = 212.5

3- Taxable income SDG18000

Category	SDG	Tax rate		Tax
1^{st}	757.5	Exempted		---
Next	10	5%	= 10 x 5% =	.5
Next	20	10%	= 20 x 10% =	2
Category	SDG	Tax rate		Tax
Excess than 20		15% =	* 17212.5 x 15% =	2581.875
Income tax				2584.375

* 18000 – 757.5 – 10 – 20 = 17212.5

Other allowances:

1- Social allowance: for married employees and its fully taxable.

2- Medical allowance: is fully taxable.

3- Children allowance: is fully taxable

4- Cost of family burden is fully exempted and its SDG100 per annum and for every wife and child.

For example: an employee

Married and has 2 children. Compute cost of family burden?

Cost of family burden = 100/12 x 3 = SDG25.

2- Basic salary method

Basic salary	xxx
Add: Increments and allowances:	
Fully taxable allowances	xxx
Partially exempted allowances	xxx
Add: Benefits in kind:	
Lodging	xxx
Cost of workers, water, phone, elect	xxx
Add: Benefits in cash:	
Grants, incentives, over time, bonus, commissions	
part time payment, director remuneration, …..	xxx
Gross salary before pension or social insurance	xxx
Deduct: Social insurance or pension(8%)*	(xxx)
Cost of family burden*	(xxx)
Net salary subjected to PIT	xxx

Notices:

1-Social insurance or pension*: Computed from basic salary plus fixed allowances without exemptions.

2- Cost of family burden*: Is SDG100 per annum for every wife and child.

Personal income tax

Examples:

1) The following information relates to an employee monthly salary in private sector in Khartoum for the month of November 2019:

1- He gets basic salary SDG 1500

2- He also gets the following allowances:

a- transport allowance SDG 150

b- Cost of living allowance SDG 800

c- Lodging allowance SDG 750

d- Social allowance SDG 100

e- Medical allowance SDG 250

Required:

Calculate PIT deducted from his salary for November 2019 given that :

1- He received SDG580 over time during the same month.

2- He is married and has two children.

3- Social insurance is deducted at 8%.

Example 2:-

Asia is working as an employee in RTC CO. in private sector since 2010. She receives monthly basic salary SDG3690, cost of living allowance SDG1680, representation allowance 500, mileage allowance SDG340, social Allowance SDG130. during November 2019, Fatima received SDG1350 as Over time, monthly deduction from her salary is: social insurance 8%, trade Union SDG50. She married and has one child, and the company provides Her with a normal free lodging in Omdurman.

Required:

1- Compute PIT for the month of November 2019.

2- Compute the net salary received by for Asia the same month.

Value Added Tax (VAT)

Definition:

VAT is a tax on consumer expenditure, and it thus classified as an indirect Tax. It is charged on the supply of goods and services in Sudan where the Supply is a taxable supply by a taxable person in the course of furtherance of Business carried on by him.

Taxable Supplies:

VAT is charged on supplies of goods and services made in Sudan by Traders known as taxable persons. VAT is charged by taxable person Making the supply and they periodically pay the amount so charged to the Taxation Chamber. This VAT is known as output VAT.

Taxable persons:

A taxable is someone who is, or is required to

Be, registered for the purpose of VAT. Traders are liable to be re glistered if The value of their taxable turnover exceeds registration limit, but they may Also be voluntary registered if they so requested It will be noted that taxable Persons play an important role in the administration of VAT in that it is they Who collect output VAT on behalf of Taxation Chamber.

The economic purpose of VAT is to tax personal (not business)

Consumption of goods and services and its therefore necessary to ensure VAT does not enter into the business cost.

This done by providing taxable persons with a credit mechanism whereby (Subject to certain exemptions) they are able to recover the VAT that they Have paid.

This known as input VAT and represents VAT chargeable on goods and Services supplied to them by persons.

Exemptions

The position of an exempt supply or good in scheme as follow:

- no VAT is charged on it
- It not taken into account in determining whether a trader is a taxable person.
- input VAT attributable to making an exempt supply or good can

Not normally be recovered.

The most important exempted items can be briefly described:

a- Goods:

- Agricultural products sold without any alteration as wheat, vegetables And fruits.
- Cattle, meat, poultry, fish, milk and their products.
- Fertilizers.
- Human and veterinary medicines.
- Herbicides and insecticides.
- Seeds.
- Bread.
- Local produced flour.
- Imported wheat.
- Cultural inputs.
- Sport inputs.

b- Capital:

- Imported goods for diplomatic staff.

Imported goods and commodities according to bilateral agreements.

- Personal luggage of passengers arrived from outside Sudan or

Purchased from duty free zones.

c- Services:

- Financial services as banking, funding and stock exchange.
- Insurance business.
- Educational business.
- Medical and health services.
- Rent and selling premises of personal use.
- Water and electricity.
- International air tickets.

Rate of tax:

1- Zero-rate

The zero-rate is a tax rate of nil. Thus although no tax is charged on a Supply taxed at zero-rate, it's in all other respects treated as a taxable supply. It's therefore taken into account in determining whether a trader is a taxable Person, and input VAT attributable to it is recoverable. In these two respects It has the possible effect to an exempt supply.

2- Standard rate:

The standard rate is the tax rate of 15% based on the value of goods or Services supplied. Any taxable supply which is not charged to tax at the Zero-rate is charged to tax at the standard rate.

Registration:

Traders are required to register in the following cases:

- If their taxable turnover for the year then ended exceeds SDG 100000.

- If they are importers or exporters, irrespective how much is taxable Turnover.

- If they request voluntary registration.

Deregistration :

Registered traders cease to be liable to registration when they cease to Make taxable supplies. The trader must notify the Taxation Chamber of this Event within thirty days and is then deregistered from the Date cancellation Of registration.

Traders are eligible (entitled) for voluntary deregistration if the value of Their anticipated taxable turnover for the year does not exceed SDG100000.

Voluntary registered traders are liable to deregistration after two years from The date of registration.

VAT Returns: VAT returns represents the total amount recovered

By taxable trader and shows the total output of VAT and total input of VAT For the VAT month, and calculated as follows:

- Total output VAT of subjective sales, exempted sales and export sales.

- Total input VAT of subjective purchases, exempted purchases and all Subjective expenses.

- The difference between total output VAT and total input VAT is the Amount to be paid or recovered by trader from taxation Chamber, if the Amount is a debt balance, so must be fully paid to Taxation Chamber, and If it is a credit balance, so to be transferred to the next month. VAT returns Must be completed and returned to Taxation Chamber together with any VAT payable due within 15 days of the end of relevant month.

VAT Refund on Export

If a trader business is only on exports, he can writes an application to Taxation Chamber claiming VAT on exports to be refunded Supporting Documents must be attached together with the application. If a trader Business is on both exports and local sales, he should his VAT return Showing the total output and total input VAT.

When the difference between them is a credit balance from exports, the Trader can write an application to the Taxation Chamber claiming VAT on Exports to be refunded as above mentioned.

VAT Records

Records must be kept of all goods and services received and supplied in the Course of a business and they must be sufficient to allow the VAT return to Be completed and to allow the Taxation Chamber to check the return.

The following books and records must be maintained by any taxable person:

1- A record of all inputs: purchases and expenses day book.

2- A record of all outputs: sales day book.

3- A record of all sales and purchases returns.

4- Copies of all VAT invoices issued

(Sales, purchases and expenses invoices).

5- Stock ledger.

6- Exports ledger.

Business Profit Tax

Definitions

a- Business

Business is defined as any activity generates income such as:

All trade activates, manufacturing, industry, agriculture activities, professional and handcraft and mining or wealth from the ground or water.

b- Business Profit:

Business profit is defined as any profit gained From any business on any Period in which A business is undertaking and any profit gained from other

Benefits such as:

1- Trade, industrial and agricultural profit.

2- Profit from mineral and animal resources.

3- Profit from financial services such as:

a- Banking and finance services.

b- Insurance

c- Freight and shipping transport.

d- Hotels, publishing, agencies, travel, lodging and dislodging brokerage.

e- Profit from contracts.

f- Profit from investments such as: dividends received,

Bank deposits, interest on loans.

c- Types of business

1- Limited companies under public or private

2- Unlimited liability firms: not subject to BPT and subject to PIT

3- Sole trade: not subject to BPT and subject to PIT

4- Profession

d- Business profit tax liability

Business profit tax is a tax levied on the net profit gained

From undertaking different kind of activities weather by

Individuals or corporations

e- <u>Income</u>

Income is defined as any proceed or receipt gained from a business which include any income realized from selling goods or property related directly To the business other than capital income which is exempted from business Profit tax and has its own tax.

f- Capital asset

Any asset acquired by a firm to be used in its regular and normal Activates and not for resale.

Profit exempted from BPT

1- Capital gains because it subjected to capital gain tax

2- Dividends received out of profit chargeable: under income

Tax act 1986 and that is because dividends paid after tax.

3- Individual profit gained from saving accounts or postage office

4- Any exemption according to investment act or income tax act.

Chargeable income

Business profit tax is levied annually on the income of the base period Which includes:

1- Income realized in Sudan incase of resident or nonresident person.

2- Income realized from outside Sudan in case of resident person.

3- Income realized from outside Sudan in case of Sudanese working abroad

4- Income of persons work in diplomatic mission is exempted from business Profit tax.

Resident person: any person living inside Sudan, it may be individual or a Corporation.

Computing the taxable income:

The taxable income is computed by subtracting expenses incurred in Generating income during the period from income

Taxable income = Income – Expenses (Expenditure)

When computing the taxable income, expenses are divided

Into three main groups:

a- Allowable expenses
b- b- Disallowable expenses
c- Expenses have special treatment

a- Allowable Expenses:

Allowable expenses are all expenses incurred during the accounting Period and contributed in generating the income of the period. All allowable Expenses are deducted from income generated during the period.

Allowable expenses are: (any expense incurred during the period paid or Not paid and contributed in generating the income)

1- Remuneration (staff bonus, grants, salaries and wages)

2- Depreciation of non-current assets using straight line method, and The Rate of depreciation is approved by Chamber of Taxation.

3- Interest paid on loans

4- Rents

5- Repairs and maintenances (not comprising any capital expenditure).

6- Donations: there are two types of donations

i- Donations in cash: in condition that:

a- paid to government treasury.

b- Not exceeding SDG 200 or 10% of the profit before deducting this Donation whichever is greater.

ii- Donations in kind to government projects:

Conditions for donations in kind:

a- Not exceed than 50% of the project total cost.

b- Donations deduction should take place within two subsequent years

7- Cars running expenses

8- Communications expenses such as: telephone, fax, and internet

9- Water and electricity.

10- Printing and stationary expenses.

11- Bank charges and commissions.

12- Legal expenses.

13- Bad debts.

14- Royalty expenses.

15- Audit fees.

16- Zakat.

17- Formation and preliminary expenses: deducted over period of ten years.

18- Insurance premium.

19- Transportation and travelling expenses.

20- Subscriptions.

21- Advertisement expense.

22- Local rates and fees.

23- Medical expenses.

b- Disallowable Expenses:

Disallowable expenses are expenses incurred during the period but not Deducted from income:

1- Expenses which are not only incurred in generating of such income as personal expenses.

2- All capital expenses.

3- Losses due to reduction or acquisition of capital.

4- Any expenses or losses which are recoverable under insurance contract or indemnity e.g.: burglary, fire and embezzlement.

5- Any income tax or tax of similar nature paid on income except tax on tax.

6- All reserves and provision except provision for bad debts made

During a base year.

Examples for donations:

A company net profit SDG 10000 at the end of year, compute the net profit subjected to business profit tax where donations paid to

Government as follows:

1- SDG 150

2- SDG 800

3- SDG 1500

Solution

Allowable donations have two conditions:

a- To be paid to government treasury

b- Not exceed than SDG200 or 10% of net profit before deductting donations whichever is greater;

In above examples donations paid to government treasury,

So allowable donations SDG200 or 10% of net profit before deducting Donations whichever is greater:

1- Donations paid SDG 150 which is less SDG200, so it's fully allowable And net profit subjected to tax is SDG10000.

2- Donations paid SDG800, so we compare between 200 and 10% of net profit whichever is greater:

Computing 10% of net profit before deducting donations:

Net profit	10000
Add: Donations	800
Net profit before deducting donations	10800

10% = 10800 x 10% = 1080, allowable donations is SDG1080

And donations paid SDG800, which is less than SDG1080, So donations paid is allowable in full, and net profit is SDG 10000.

3- Donations paid SDG1500, and its greater than 200 and we

Compare between 200 and 10% of net profit before

Deducting donations:

Net profit	10000
Add: Donations	1500
Net profit before deducting donations	11500

10% of net profit = 11500 x 10% = SDG 1150.

Maximum donations to be deducted SDG1150.

Net profit subjected to BPT = 11500 – 1150 = 10350.

C-Expenses have special treatment

Expenses have special treatment are two types:

a- Director's remuneration

b- Trade losses

a- Director's remuneration

There are two types of treatment for director's remuneration

1- Companies 2- Sole trades

1- Companies:

In companies there are two types of directors:

a- Full time service director

b- Part time service director

a- Full time service director:

In such case remuneration is allowable to be deducted as expense in full amount, but For example: assume that a company has three directors each

One receives SDG10000 as a remuneration, and if you have been informed That, the equivalent remuneration to directors of same industry is SDG9000. Compute allowable remuneration to be deducted from the taxable income.

Maximum allowable full time directors are two and equivalent Remuneration of same industry is SDG 9000, so allowable remuneration is SDG18000 to be deducted from the taxable income, and disallowable Remuneration is SDG12000.

b- Part time service director:

In such case the maximum limit of allowable remuneration is SDG 500 or 5% of the profit before deducting this remuneration whichever is greater for Any number of directors.

For example: if the net profit was SDG15000 and part time director's Remuneration was SDG3000. Compute the revised profit?

Allowable remuneration is SDG500 or 5% of the profit before

Deducting remuneration whichever is greater:

Computing the revised profit

Net profit	15000	
add: remuneration	3000	
Profit before remuneration		18000
Deduct: allowable remuneration (5%) = 18000 x 5% =		(900)
Net profit subjected to BPT		17100

Another example:

If the net profit SDG20000, and director remuneration is

SDG600.

Compute the revised profit ? Allowable remuneration is SDG500 or 5% of Profit before remuneration whichever is greater, remuneration paid is 500 which is greater than 500, so to be compared with 5% of profit before Deducting remuneration

Net profit	20000
Add: Remuneration	600
PBR	20600

5% of profit = 20600 x 5% = 1030

Maximum allowable remuneration is SDG1030, and remu neration paid is SDG600 which is less than maximum allowable, so SDG600 is allowable in full. And the net profit is

20600 – 600 = SDG 20000.

2- Director's remuneration in sole trade:

In sole trade there are two types of directors:

a- Professional director

b- Non-professional director

a- Professional director:

If the director is professional, the maximum allowable the maximum Allowable remuneration is SDG500 or 10% of profit before deducting Remuneration.

b- Non-professional director:

If the director is non-professional, the maximum allowable

Remuneration is SDG500 or10% of profit before remuneration

But the maximum limit is SDG 1000.

For example:

If the net profit is SDG10000 and remuneration

Paid is SDG 1800.

Compute allowable remuneration if the is professional and non-professional.

Professional director:

Net profit	10000
Add: remuneration	1800
Profit before remuneration	11800

10% of profit= 11800 x 10% = 1180.

If the director is professional, allowable remuneration is

1180, the net profit is 11800 – 1180 = SDG10620.

But if the director is non-professional, maximum remuneration

Is 1000, so the net profit is 11800 – 1000 = 10800.

b- Trade losses

Trade losses are operating losses incurred during the base year

And to be transferred and deducted from future profit, but maximum Transferred for five years.

Statement format to compute BPT:

Particular	SDG	SDG
Net profit per account		xxx
Add: income subjected to BPT(any income did not exist on income statement		xxx
Total profit		_xxx
Deduct: income not subjected to BPT:		
Capital gains	xxx	
Dividends received	xxx	
Profit from saving accounts	xxx	
Sales returns not recorded	xxx	
Total deductions of income not subjected to BPT		(xxx)
Add: Disallowable expenses:		
Personal expenses	xxx	
Capital expenses	xxx	
Donations(temporary): **if greater than maximum limit**	xxx	

Continued

Directors' remuneration(if greater than maximum limit)	xxx	
Taxes except tax on tax	xxx	
Bad debts(not approved by Chamber of Taxation)	xxx	
Depreciation if not computed by straight line method	xxx	
Total disallowable expenses		(xxx)
		xxx
Deduct: Allowable expenses:		
Donations: If less than maximum limit	xxx	
Directors' remuneration: within maximum limit	xxx	
Depreciation	xxx	
Trade losses	xxx	
Total allowable expenses		(xxx)
Revised profit		_xxx

Business Profit Tax Rates

1- For companies;-

Agriculture companies	zero
Industrial companies	10%
Cigarettes & Topco	30%
Trading companies	15%
Banking & Insurance	15%
Public companies	15%
Services companies	15%
Agricultural & Animal Product	zero

2- For professional:-

1st SDG3000	Exempted
Next SDG3000	5%
Next SDG4000	10%
Excess	15%

Example:-

ALI Trading Co presented to Taxation Chamber its audit accounts for the year ended 31\12\2019, where its income statement was as follows:

Salaries & wages	**12300**	**Sales**	**140000**
Cars running expenses	**5600**	**Cost of sales**	**90000**
Rent	**4000**	**Gross profit**	**50000**
Water & electricity	**2400**	**Other income**	**1000**
Donations	**300**		
Full time remuneration	**3600**		
Part time remuneration	**700**		
Depreciation	**2100**		
Net profit	**20000**		

When the taxation inspector examined the books and records of the company, the following information and data related for year 2019:

1- Personal income tax for salaries and wages SDG10000.

2- Rent paid covers year 2019 and 2020.

3- Car is used for business activities by 60%.

4- SDG100 of electricity not recorded in books.

5- Donations paid to government treasury.

6- Directors' remuneration of same industry is SDG4000 per year

7- Approved costs of non-current assets and rates of depreciation

By Taxation Chamber are as follows:

- Motor cars of SDG5000 and depreciation rate 20%.

- Furniture and equipment of SDG3000, depreciation rate 10%

8- A selling invoice of SDG2000 was not taken into account.

9- Sales returns of 500 and purchases returns of 4000 were not

Recorded in books.

10- Other income includes dividends of 250 received from a company after tax.

11- Trade losses approved by Taxation Chamber are: 2000 from base year 2016 and remaining loss of 4000 from base year 2013

Required

Compute BPT for ALI CO. for year 2019. Explaining the amendments made by Taxation Chamber to the income statement

From the accounting and taxation point of view.