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Applying Patent System on Micro Enterprises in Egypt

Final Report

By

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1- Introduction

This study is an assignment conducted in favor of “Egypt Small and Medium Enterprises Policy Development Project” (SMEPoL). SMEPoL is a partnership between the Canadian International Development Agency (CIDA), the International Development Research Center (IDRC - Canada) and the Ministry of Finance (Egypt).

The herein study is considered an amendment to a previous study titled “Developing a tax system for Micro and Small Enterprises in Egypt”. The said study was conducted as an application for the recommendations of an earlier study titled “A tax system for Micro, Small and Medium Enterprises in Egypt”.

Although this report was prepared as a stand-alone document, it is recommended to read the report “Developing a tax system for Micro and Small Enterprises in Egypt” to better understand this report.

1-1- Summary of the Previous Study

The pervious study presented the simplified tax systems of the Micro, Small and Medium Enterprises including the international experiences in applying such systems. In addition, the study presented definitions for Micro, Small and Medium Enterprises according to their revenues for tax accounting purposes.

1-1-1- Tax systems of Micro, Small and Medium Enterprises

The following table demonstrates the international experience in applying the simplified tax systems as presented in the study titled “A tax system for Micro and Small Enterprises in Egypt”.

Tax System	Tax Applied on	Requirements	Inspection	Tax Equity	Tax Design	Applied for
The Discounted System	Net Profit	5	5	1	1	Medium Enterprises in developed counties: Canada, UK, Netherlands, Belgium, Australia. Medium Enterprises in developing counties: South Africa, Latvia, Serbia, Bulgaria, Moldova, Russia, Turkmenistan, Uzbekistan
The Revenue Based System	Revenues	4	4	2	4	Micro and Small Enterprises in developing counties: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Romania, Russia, Kazakhstan, Ukraine and Serbia
The Business Indicators Based System	Business Indicators	3	3	3	5	Micro and Small Enterprises in Bulgaria and Georgia
The patent System	Business Indicators & Area	2	2	4	3	Micro Enterprises in developing countries: Belarus, Kazakhstan, Kosovo, Kyrgyzstan, Lithuania, Moldova, Ukraine
The Lump Sum System	Area or district	1	1	5	2	Micro Enterprises in developing countries: Albania, Croatia, Czech Republic, Hungary, Macedonia, Poland, Slovakia, Serbia, Turkmenistan, Uzbekistan

Table 1 - A Comparison among tax systems of the Micro, Small and Medium Enterprises

Requirements, inspection and design: score is 1 to 5 where 1 indicates the “Best/Easiest” while 5 indicates the “Worst/Most difficult”.

Equity: score is 1 to 5 where 1 indicates the “highest degree of tax equity” while 5 indicates to the “Lowest degree of tax equity”.

The following table presents a summary for the suggested tax systems according to the recommendations of the same study:

Enterprises the system applied for	Tax system	Tax Report	Tax amount	Tax inspection requirements
Micro Enterprises	The Business Indicators Based System	Quarterly	A fixed amount	Statistical data
Small Enterprises	The Revenue Based System	Quarterly	A percentage of the revenue	Revenue documents Financial Data on Revenues
Medium Enterprises	The Unified Tax system (on profit)	Annual	75% of the Unified tax amount	According to tax law and Egyptian Accounting Criteria
large Enterprises	The Unified Tax system (on net profit)	Annual	20% as per the law	According to tax law and Egyptian Accounting Criteria

Table 2 - Areas of applying the simplified tax systems

1-1-2- Definitions of the Micro, small and Medium Enterprises

The following table presents definitions for micro, small and medium enterprises for tax accounting purposes. Definitions are based on the enterprises revenues as stated in the said study.

Size of Enterprise	Activity	Revenue (LE)	Type of taxpayers
Micro	Trade /Industrial ⁽¹⁾	150,000 > ⁽³⁾	- Physical Person - Partnership companies (Physical Persons only)
	Professional ⁽²⁾	54,000 > ⁽³⁾	
Small	Trade /Industrial	150,000 : 500,000 ⁽⁴⁾	- Physical Person - Partnership companies (Physical Persons only)
	Professional	54,000 : 180,000 ⁽⁴⁾	
Medium	Trade /Industrial	500,000 : 1,000,000	- Physical Person - Partnership companies (Legal persons up to 25% of the capital) - Physical person / Professional Partnership companies
	Professional	180,000 : 360,000 ⁽⁵⁾	

Table –1 Definitions of Micro, Small and Medium Enterprises

- 1- Trade activities: These activities include all activities based entirely on trade; while industrial activities refer to activities whose license requires issuing an industrial register as provided by law.
- 2- Professional activities: These activities depend on human efforts to sell a service for people. Accordingly, practicing such activities do not require issuing an industrial register as it does not represent an industrial productive unit. The professional activities, however, are the

product of thought, mind and experience.

- 3- The top limits of L.E. 150,000 for commercial and industrial activities and L.E. 54,000 for professional activities were defined in accordance with the sales tax law. The sales tax law stipulates that a company should register itself and start applying certain book keeping activities when it exceeds these limits. Nevertheless, the new tax law does not oblige business owners to keep accounting books and documents if their revenues are less than the lower limit provided by law (250,000). This contradicts the provisions of Trading Books law, thus we recommend considering modifying some of the law articles pertaining to the limits of keeping books and records.
- 4- In spite of the previous study recommendation, setting the top limit for the revenue of trade activities for small Enterprises to be in the range of 150,000 to 250,000, a field survey proved that such range is not practical. Accordingly, the range recommend is the amount between L.E. 150,000 and 500,000, given that the amount L.E. 500,000 is defined based on the studied international experience taking into consideration the economic levels and living standards in Egypt. The same criteria were used to define the revenue range of professional activities and the medium enterprises limits were changed based on the same logic.
- 5- The medium enterprises revenue limits were defined based on the small enterprises limits modifications and with regards to the previously mentioned boundaries and indicators.
- 6- To prevent enterprises fragmentation, a physical person should not use this system for more than one project whether he/she is an individual or a partner.

1-1-3- Suggested Tax Systems

The previous study suggested three simplified tax systems to be applied on the micro, small, and medium enterprises. These systems are the patent system, the revenue based system and the unified tax system. Bellow is a brief overview for the nature of each system.

1-1-3-1- The Patent System

According to this system, tax is calculated as a fixed amount of money based on certain criteria set by the concerned tax authority. The system does not require receiving any further financial or accounting data from the enterprises. According to this system, tax rate is a fixed amount known even before the tax accounting period.

The patent system applies to micro enterprises and some of the professional activities (like Medical Doctors) regardless to the enterprise size.

1-1-3-2- The Revenue Based System

According to this system, tax is calculated as a percentage of the enterprise revenues. This system is applied to small and medium enterprises. That percentage is defined based on studying each activity to calculate the expected average of its total profit and estimate its total administrative expenses. Accordingly, the tax rates of the revenue based system are calculated using profit based rate. In view of that, revenue based tax system is considered a profit based system taking into consideration the average of both the total profit and the administrative expenses.

1-1-3-3- The Discounted System

The Discounted system suits medium enterprises. This system provides a 20% to 30% tax discount to the medium enterprises. Meanwhile, enterprises should also abide by the provisions of the enacted tax law. It is worth noting that the stated discount percentage was set according to the actually applied international experiences.

1-2- Remarks on Previous Study

After submitting the draft report for the study “Developing a tax system for Micro and Small Enterprises in Egypt”, several remarks were made, which are:

- The importance of studying the Syrian experience in terms of its nature and the benefits it could bring. The second chapter “The Syrian Experience” on page 7 will present a brief overview about the new tax law in Syrian.
- Conduct a detailed study to be amended to the previous one as a pilot project for applying the Patent System to micro enterprises in certain areas.

This study aims to conducting a pilot project targeting micro enterprises in rural areas, villages and small cities (excluding capitals of governorates and tourist cities). The current report is the outcome of the mentioned pilot project.

- Simplifying the used criteria, based on these remarks the used criteria have been simplified as follows:

First category (A)	Depends on constant parameters with no need for inspection and cannot be changed, e.g. the geographical zone of the trade and professional activities. Defining the suggested tax is based on this level.
Second category (B)	Depends on criteria that require documents inspection as in the space and years of experience. This category is used in the most restricted way.

- Recommendations for small and medium enterprises

It was agreed that a focus should be given to recommendations related to the small enterprises appropriate system. In this context, we recommend that tax agreements be extended in a later stage to define the basis for calculating expenses in the same manner that total profit is calculated. This way would provide for these agreements to be more like the previously mentioned Revenue Based System.

2- The Syrian Experience

Syria shares many features whether geographic, demographic or economic with Egypt. Recently, the Syrian Ministry of Finance has enacted the new income tax law (24/2003). Below is a brief overview of the said law as pertaining to the micro, small and medium enterprises.

2-1- The Income Tax Law (24/2003)

The Syrian assembly has ratified the income tax law in its session held on 28/10/2003. Accordingly the 24/2003 law was issued. The law states that income tax is to be imposed on revenues of industrial, commercial and noncommercial professions. It differentiates between two types of taxpayers. The first type represents the “the Real Profit taxpayers” and they are subject to articles of the first chapter (From article 2 to article 40). The second type represents the “Fixed income taxpayers” and they are subject to articles of the second chapter (From article 41 to article 60)

2-2- Fixed Income Tax

It is an annual tax that every commercial, industrial or craft practitioner who cannot keep regular accounting books and records is subject to. A taxpayer whose business size enlarges could be transferred to the real profit taxpayers’ category and vice versa.

The fixed income tax is applied to all physical and legal persons practicing any industrial, commercial or noncommercial profession and not included in the real taxpayers category (32 activities stated in the second article of the law). The taxpayer paying this tax should have the following specifications:

- The taxpayer should be practicing the activity.
- The taxpayer should be practicing the activity in Syria
- The taxpayer should not be subject to article 2 of the law.

According to the fixed income tax system, tax rate is defined based on the net profit estimated for each taxpayer by the elementary and appeal committees of classification. These committees use the Tax Information Apparatus database to reach realistic profits in order to achieve tax equity for taxpayers.

The fixed income tax is defined according to the classification conducted by the aforementioned committees. The taxpayer classification lasts for 5 years. However, a taxpayer may be reclassified within two years in case the business size decreases or increases with a percentage of up to 25%. Otherwise, the classification will last for 5 years. Afterwards, a new tax will be defined based on the previous classification.

Since this system depends mainly on the estimation of revenues and expenses or in other words the net profit, as soon as the taxpayer reports starting business (or if discovered by Tax Information Apparatus), tax classification committees visit the taxpayer to examine his activity, and securitize some records and official documents like water and electricity consumption bills

and receipts. Afterwards, the committee estimates his revenues and expenses to decide the annual profit, which will act as a basis for his tax calculation.

Taxes are collected at the beginning of each year. It is worth noting that taxpayers practicing scientific activities (Engineers, Physicians and lawyers) enjoy a tax relief ranges between 36,000 Lira and 50,000

Taxpayers have the right to appeal classification decisions within 30 days of declaration. The appeal committee decision is final and not subject to objection or revision.

It is worth mentioning that, taxpayers who pay their taxes during the first and second months of the year get 4% tax discount. Those who pay taxes during the third and forth months get 3% tax discount. On the other hand, those who pay taxes during the seventh month are required to pay 5% fine and it increases by 1% for each new month till it become a 10% fine by the end of the year.

Each taxpayer has his own estimated tax based on his classification and as decided by the elementary and appeal classification committees as per the following table. A percentage of 2% is added to the tax amount as an estimation charge and as a contribution to the local administrative expenses decided by the municipalities at the beginning of each year.

Net profit from	To	Tax rate
0	200000	10%
200001	400000	15%
400001	700000	20%
700001	1000000	23%
1000001	2000000	26%
2000001	3000000	29%
More that 3 Million Syrian Lira		35%

Table 2 –Layers of fixed income tax in Syria

2-3- Conclusion

Based on the previous overview of the “Fixed Income Tax” system, we could conclude that:

- This system depends on inspection since the committees are visiting the taxpayer and examine his activity physically.
- The system is a pre agreement with the taxpayer, since classification is conducted and tax is estimated based on the documents presented by the taxpayer.
- Classification is conduced separately for each taxpayer as the tax is decided based on estimating the taxpayer net income.

Accordingly, it can be concluded that the Syrian experience entirely differs from the system targeted by this study in terms of aim and application

The text of the 24/2003 law and regulations can be found through the Syrian Ministry of Finance web site as indicated bellow:

<http://www.syriafinance.org/modules.php?op=modload&name=Subjects&file=index&req=viewpage&pageid=228>

3- The Patent System for Micro Enterprises

As mentioned earlier, this report is the outcome of a pilot project for the application of the patent system on micro enterprises taking into consideration that this application depends on the definition of the micro enterprises as stated in the previous study and in page 2 of this study.

3-1- Application Phases

3-1-1- First Phase

This phase is a focal point in this study. It measures the success of the suggested system and helps deciding the system problems that could be avoided during the next phase. Accordingly, the first phase will be applied on the whole Republic of Egypt except for tourist cities and governorates.

- Rural areas and villages.
- Small cities and districts

Cities are selected according to the instructions of the Tax authority and in the light of the ministerial decree pertaining to the definition of tourist and remote areas.

3-1-2- Second phase

The second phase will start after the first phase success and along with the enterprises tax awareness immaturity. During this phase, public areas in capitals, governorates and tourist areas will be included.

It is worth mentioning that problems or defects emerged during the previous phase will be avoided in this one. Areas included in this phase will be defined according to the tax authority instructions.

3-1-3- Third phase

This phase will start after the second phase success and as long as the immaturity of the enterprises tax awareness lasts. During this phase, the patent system will be applied on all the micro enterprises activities all over the republic and large taxpayers will be considered as an exception.

3-2- Application Area

3-2-1- Villages and rural areas

These areas could be easily defined after defining the cities based on the tax authority instructions and in the light of the previously mentioned ministerial decree. Other areas are considered villages and rural areas.

Reference to the conducted field survey, it is proved that almost all the micro enterprises activities in villages and rural areas are not registered in tax authority. Accordingly, they are not contributing to the tax revenues. Therefore, these areas are the main target of the current study.

3-2-2- Small Cities and Districts

These cities include many micro activities; most of them are not registered. Even the registered ones are subject to random defined tax rates. For example, In Badrashine the tax rate for all grocery activities practiced in spaces exceeding 6 meters is L.E 242. The study shows that the actual tax rates for the various activities in small cities do not match the high inspection and collection costs.

3-3- Activities subject to the suggested system

Activities in this study are classified according to their nature as follows:

- Commercial activities
- Services activities
- Professional activities
- Coffee shops
- Small industrial activities and crafts
- These activities are:

3-3-1- Commercial Activities

Seeds and pesticides	Fodder	Fruits and vegetables	Flowers	Dried sweets
Agricultural Products	Egg	Leathers	Poultry and Legumes	Herbs
Grocery	Sweets and soft drinks	Small wares	Milk and Dairy	Bakery
Nuts	Tea & Coffee	Ready made garments	Home Appliances	Glasses
Footwear	Carpets	Textile	Household tools	Paper
Cassette tapes	Spare parts	Cleaners	Furniture	Alcoholic drinks l
Antiques	Wood	Sanitary Ware	Irons and paints	Newspapers distribution
Glass	Frames	Cement and Construction materials	Tubes	Gas tanks distribution
Rubber Tires	Car Furnishing	Pharmacies	Watches	Kids toys
	Threads, Canvas and scraps	Stationary	Coal	

3-3-2- Services activities, coffees and professions.

Services	Coffee Shops	Profession
Tailors	Koshari Restaurants	Physicians
Upholsters	Public coffee shops	Dentists
Photocopying	Fuol & falafel Restaurants	Veterinaries
Laundries	Casinos	Lawyers
Keys molding	Fast food Restaurants	Accountants
Private central	Cafeterias	Engineers
Barber shops	Buffets	Private lessons
Business men service centers		Poets & authors
Video tapes Stores		Actors
Lacquer works		Artists
Typing Training		Consultants

3-3-3- Small industrial activities and crafts

Pickles plant	Lollipop Industry	Sweets Industry	Tobacco Industry
Tanning and leather Industry	Carpet Industry	Iron Industry	Households tools Industry
Repair & Maintenance Workshops	Plumper	Printing houses	Bags manufacturing
Metal Casting Workshops	Welding workshops	Polishing workshops	Carpentry workshops
Aluminum Workshops	Car repairs	Plastics manufacturing workshops	Knitting
Milk & Dairy plans	Electricians	Exhaust Workshops	Goulash Manufacture
	Tiles industry	Shoes laces industry	

3-4- Methodology

This section presents the methodology followed during the implementation of the current study. It is worth mentioning that defining the micro enterprises depends on the definition stated in section "1-1-2-Definitions of the Micro, small and Medium Enterprises" in page 3.

3-4-1- Collecting Data

In order to implement this pilot project, we use the tax data available in the tax branch offices in the specified areas. These offices are:

- Al Badrashin Tax branch office
- Damiitta (First) Tax branch office
- Assuit (First) Tax branch office

The files used are those of the recent defined tax rates (less than 5 years). These rates are either defined by an internal committee, an appeal committee or based on a court sentence.

It is worth mentioning that some of these activities have no sufficient tax files due to the nature of the activity and the surveyed location. For instance, Al Badrashin Tax branch office has only three files for the carpentry activity (spaces more than 20 Meters), and it has no files for coffee shops activities (spaces less than 10 meters).

3-4-2- How Tax is Calculated

In order to calculate the upper and lower limits for the suggested tax, samples have been classified into two levels according to the space or the practicing years (only for physicians). The suggested tax for the samples was calculated using the general average and conservative average approach

3-4-2-1- The General Average Approach

According to this approach, the defined tax rates of all the sample files are summed including the Zero rate. Then, the total files number to get and average for the tax rate per file divides the result.

3-4-2-2- The Conservative Average Approach

According to this approach, the defined tax rates are calculated as follows:

- Excluding top 10% of the files with highest tax rates.
- Excluding bottom 10% of the files with lowest or zero tax rates.
- Adding a percentage of 40%, 60% or 100% as a balancing factor to compensate for :
 - Additional costs including accountant/ lawyer's salary in addition to the other overheads.
 - Tax transparency of the activity. To avoid disputes when defining the tax rates, certain indicators are not taken into consideration and false revenues and expenses are estimated.

Since the two approaches brought about nearly the same results, the conservative average approach is used in this study for calculating the upper and lower limits for the suggested tax

4- Tax Rate in the Suggested System

Applying the suggested system, we classified the activities into main categories according to their nature as follows:

- 1- Commercial activities: It includes all properties sales and purchasing activities.
- 2- Service activities: It includes all activities supplying consumers with direct service without a need for production apparatuses.
- 3- Coffee shop Activities: It includes cafeterias and other places serving food and beverages.
- 4- Professional Activities: These are the activities depending on mental and intellectual efforts
- 5- Vocational Activities: activities providing consumers with small vocational/industrial services.

Based on the previous categorization, a number of activities representing each category has been defined:

Activity	Activity representative
Commercial activity	Grocery
Service activity	Barber shops
Coffee shops activity	Coffee shops
Vocational	Carpentry
Profession	Medical Doctors

We classified the studied activities according to space and years of practice (for professions) into two samples representing the upper and lower limits for each activity. Then the suggested tax rate has been calculated and applied on both samples. The following table summarizes the average defined and suggested tax rates for the different categories of the different activities. Whereas the following sections present details of each activity in detail:

Activity	Activity representative	Space (M ²)/ Years of Practice		Average of the defined annual tax	Suggested annual tax
		From	To		
Commercial	Grocery	0	6	9	50
		6	12	112	160
Services	Barber Shops	0	6	49	100
		6	12	129	190
Coffee shops	Coffee shops	0	10	0	150
		10	40	225	360
Vocational	Carpentry	0	20	234	375
		20	80	223	950
Professional	Medical Doctors	3	12	204	410
		1	40	577	1200

Table 3 –The suggested tax in the first phase (small cities)

Note: in terms of Medical Doctors, the factor used is the years of practice (experience), since it is significant rather than the space factor.

It is worth mentioning that both the space and years of practice factors are driven from the tax files based on the operation license or the physical inspection conducted by tax inspectors.

4-1- The next sections

The next sections of this study detail the data driven from the sample files, the suggested tax, tax calculation technique and a comparison between the defined and the suggested tax in the sample files. Following is a detailed explanation for the columns of the tables used in next sections.

4-1-1- Data extracted from the files and a comparison between defined and suggested tax rates

Column	Data
Tax branch office	Name of the respective branch office
File Number	The taxpayer file number
Space	As indicated in the tax file
Practicing year	As indicated in the tax file
Net profit	As indicated in the tax file
Defined tax	As per the latest defined tax rate (No more than 5 years)
Suggested tax	Tax rate as suggested by this study

4-1-2- Calculating tax on sample files

Title	Data
Total number of files	Number of files for a certain segment (Example: from 0 to 6 Meters or from 6 to 12 Meters)
Sample files	Number of files after excluding a percentage of 10% of the highest and the lowest defined tax rate (or the zero defined rate)
Total calculated tax	Total amounts defined for each sample file
Tax average for the file	Result of dividing the "total calculated tax" by "sample files"
An #% increase to meet other costs	A percentage of the average tax for the file (40% or 60% or 100%) added as balance factor
Total	Total of the "tax average for the file" and "balance factor"
Suggested Tax	Tax rate as suggested by this study

4-2- Grocery Activity

4-2-1- Data extracted from the sample files

Sample: 0 to 6 meters

Serial	Branch Office	File No.	Space m ²	Years of Practice	Net Profit	Defined Tax
1	Assiut	1037	1.00	26	2083	17
2	Assiut	797	1.00	22	2500	0
3	Al Badrashin	1719	1.50	7	0	0
4	Al Badrashin	171	1.50	3	1988	0
5	Al Badrashin	1702	2.50	6	0	0
6	Al Badrashin	2732	6.00	2	4136	9

Table 4 Activity: Grocery, sample: from 0 to 6 meters

Sample: 6 to 12 meters

Serial	Branch Office	File No.	Space m ²	Years of Practice	Net Profit	Defined Tax	Suggested Tax
1	Assiut	6448	6.25	4	4100	220	160
2	Al Badrashin	1319	7.50	22	3098	84	160
3	Assiut	6426	7.50	4	2500	100	160
4	Al Badrashin	3278	8.75	16	2256	0	160
5	Al Badrashin	1684	9.00	5	2503	101	160
6	Damitta	350	9.00	6	10000	400	160
7	Assiut	791	9.00	36	1553	0	160
8	Al Badrashin	1064	10.50	27	3285	57	160

Table 5- Activity: grocery, sample: from 6 to 12 meters

4-2-2- Calculating tax for the sample files

Sample: 0 to 6 meters

The sum of 50 pounds was presumed as the lower limit for the suggested tax, and this number suits the indirect costs that the taxpayer pays.

Sample: 6 to 12 meters

Total number of files	8
Sample files	5
Total defined tax	562
Average Tax per file	112
40% increase to meet the other costs	45
Total	157
Suggested tax	160

More than 12 meters

Based on the sample in Al Badrashin branch office, there were no activities with space that exceeds 12 meters (the biggest area in the sample is 10.5 meters), so the suggestions will not cover spaces exceeding 12 meters , it will be postponed to the next stage.

4-2-3- Suggested tax for grocery activity

The Area		Suggested Annual Tax
From	To	
Zero	6	50
6	12	160

Table 6 - the Suggested tax for grocery activity

4-2-4- Comparison between defined and suggested tax for grocery activity

Sample: 0 to 6 meters

Serial	Branch Office	File No.	Space m ²	Years of Practice	Net Profit	Defined Tax	Suggested Tax
1	Assiut	1037	1.00	26	2083	17	50
2	Assiut	797	1.00	22	2500	0	50
3	Al Badrashin	1719	1.50	7	0	0	50
4	Al Badrashin	171	1.50	3	1988	0	50
5	Al Badrashin	1702	2.50	6	0	0	50
6	Al Badrashin	2732	6.00	2	4136	9	50

Sample: 6 to 12 meters

Serial	Branch Office	File No.	Space m ²	Years of Practice	Net Profit	Defined Tax	Suggested Tax
1	Assiut	6448	6.25	4	4100	220	160
2	Al Badrashin	1319	7.50	22	3098	84	160
3	Assiut	6426	7.50	4	2500	100	160
4	Al Badrashin	3278	8.75	16	2256	0	160
5	Al Badrashin	1684	9.00	5	2503	101	160
6	Damitta	350	9.00	6	10000	400	160
7	Assiut	791	9.00	36	1553	0	160
8	Al Badrashin	1064	10.50	27	3285	57	160

4-3- Barber Shops Activity

4-3-1- Data extracted from the sample file

Sample: 0 to 6 meters

Serial	Branch Office	File No.	Space m ²	Years of Practice	Net Profit	Defined Tax
1	Assiut	11912	3.75	4	325	10
2	Damitta	89	5.00	9	3000	200
3	Assuit	1012	5.00	N.A	3440	88
4	Al Badrashin	59	6.00	18	2790	0
5	Al Badrashin	61	6.00	14	1845	0
6	Assiut	896	6.00	25	3440	0

Table 7 - Activity: barber shops, sample: 0 to 6 meters

Sample: 6 to 12 meters

Serial	Branch Office	File No.	Space m ²	Years of Practice	Net Profit	Defined Tax
1	Assiut	281	6.25	42	2560	12
2	Al Badrashin	187	7.50	4	3838	167
3	Al Badrashin	20	7.50	22	3425	85
4	Al Badrashin	183	7.50	2	2684	0
5	Al Badrashin	232	7.50	1	1683	37
6	Al Badrashin	196	9.00	3	0	0
7	Al Badrashin	38	9.00	19	2015	0
8	Al Badrashin	64	9.00	13	3450	90
9	Damitta	48	9.00	26	4770	77
10	Damitta	80	9.00	12	2790	0
11	Damitta	104	10.00	7	4905	609
12	Al Badrashin	89	10.50	10	5612	270
13	Al Badrashin	86	12.00	10	3175	235
14	Al Badrashin	152	12.00	6	3952	190
15	Assiut	977	12.00	16	4200	0

Table 8- Activity: barber shops, sample: 6 to 12 meters

4-3-2- Calculating tax for sample files

Sample: 0 to 6 meters

The sum of 100 pounds was presumed as the lower limit for the suggested tax, and this number suits the indirect costs that the taxpayer pays.

Sample: 6 to 12

Total number of files	15
Sample files	9
Total defined tax	1163
Average Tax per file	129
40% increase to meet other costs	52
Total	181
Suggested tax	190

More than 12 meters

Based on the sample in Al Badrashin branch office, there were no activities with space that exceeds 12 meters (the biggest area in the sample is 12 meters), so the suggestions will not cover spaces exceeding 12 meters , it will be postponed to the next stage.

4-3-3- Suggested tax for barber shops activity

The Area		Suggested Annual Tax
To	From	
zero	6	100
6	12	190

Table 9- Summary of the suggested tax for barber shops activity

4-3-4- Comparison between defined and suggested tax for barber shops activity

Sample: 0 to 6 meters

Serial	Branch Office	File No.	Space m ²	Years of Practice	Net Profit	Defined Tax	Suggested Tax
1	Assiut	11912	3.75	4	325	10	100
2	Damitta	89	5.00	9	3000	200	100
3	Assiut	1012	5.00	N.A	3440	88	100
4	Al Badrashin	59	6.00	18	2790	0	100
5	Al Badrashin	61	6.00	14	1845	0	100
6	Assiut	896	6.00	25	3440	0	100

Sample: 6 to 12 meters

Serial	Branch Office	File No.	space m ²	Years of Practice	Net Profit	Defined Tax	Suggested Tax
1	Assiut	281	6.25	42	2560	12	190
2	Al Badrashin	187	7.50	4	3838	167	190
3	Al Badrashin	20	7.50	22	3425	85	190
4	Al Badrashin	183	7.50	2	2684	0	190
5	Al Badrashin	232	7.50	1	1683	37	190
6	Al Badrashin	196	9.00	3	0	0	190
7	Al Badrashin	38	9.00	19	2015	0	190
8	Al Badrashin	64	9.00	13	3450	90	190
9	Damitta	48	9.00	26	4770	77	190
10	Damitta	80	9.00	12	2790	0	190
11	Damitta	104	10.00	7	4905	609	190
12	Al Badrashin	89	10.50	10	5612	270	190
13	Al Badrashin	86	12.00	10	3175	235	190
14	Al Badrashin	152	12.00	6	3952	190	190
15	Assiut	977	12.00	16	4200	0	190

4-4- Coffee Shops Activity

4-4-1- Data extracted from the sample file

Sample: 0 to 10 meters

Serial	Branch Office	File No.	Space m ²	Years of Practice	Net Profit	Defined Tax
1	Assiut	1143	7.00	42	3100	0
2	Assiut	1313	8.00	7	6738	74
3	Assiut	11292	8.00	5	0	0

Table 10 Activity: Coffee Shops, sample: 0 to 10 meters

Sample: 10 to 40 meters

Serial	Branch Office	File No.	Space m ²	Years of Practice	Net Profit	Defined Tax
1	Damitta	95	17.50	8	3136	27
2	Al Badrashin	40	10.50	9	5579	315
3	Al Badrashin	81	10.50	9	4437	287
4	Assuit	1360	18.00	22	3000	156
5	Assuit	4462	21.00	10	9120	376
6	Damitta	94	25.00	7	4030	0
7	Al Badrashin	102	28.00	19	5136	427
8	Damitta	95	30.00	12	3684	137
9	Damitta	102	40.00	34	4394	279
10	Damitta	31	40.00	24	10300	0

Table 11 - Aactivity: Coffee Shops, sample: 10 to 40 metres

4-4-2- Calculating tax for sample files

Sample: 0 to 10 meters

The sum of 150 pounds was presumed as the lower limit for the suggested tax, and this number suits the indirect costs that the taxpayer pays.

Sample: 10 to 40 meters

Total number of files	10
Sample files	7
Total defined tax	1577
Average tax per file	225
60% increase to meet other costs	135
Total	361
Suggested tax	360

More than 40 meters

Based on the sample in Al Badrashin branch office, there were no activities with space that exceeds 40 meters (the biggest area in the sample is 40 meters), so the suggestions will not cover spaces exceeding 40 meters , it will be postponed to the next stage.

4-4-3- Suggested tax for Coffee Shops activity

The Area		Suggested Annual Tax
From	To	
zero	10	150
10	40	360

Table 12 - the suggested tax for coffee shops activity

4-4-4- Comparison between defined and suggested tax for Coffee Shops activity

Sample: 0 to 10 meters

Serial	Branch Office	File No.	Space m ²	Years of Practice	Net Profit	Defined Tax	Suggested Tax
1	Assiut	1143	7.00	42	3100	0	150
2	Assiut	1313	8.00	7	6738	74	150
3	Assiut	11292	8.00	5	0	0	150

Sample: 10 to 40 meters

Serial	Branch Office	File No.	Space m ²	Years of Practice	Net Profit	Defined Tax	Suggested Tax
1	Damitta	95	17.50	8	3136	27	360
2	Al Badrashin	40	10.50	9	5579	315	360
3	Al Badrashin	81	10.50	9	4437	287	360
4	Assiut	1360	18.00	22	3000	156	360
5	Assiut	4462	21.00	10	9120	376	360
6	Damitta	94	25.00	7	4030	0	360
7	Al Badrashin	102	28.00	19	5136	427	360
8	Al Badrashin	95	30.00	12	3684	137	360
9	Damitta	102	40.00	34	4394	279	360
10	Damitta	31	40.00	24	10300	0	360

4-5- Carpentry Activity

4-5-1- Data extracted from the sample file

Sample: 0 to 20 meters

Serial	Branch Office	File No.	Space m ²	Years of practice	Net Profit	Defined Tax
1	Al Badrashin	430	15.00	10	4388	278
2	Al Badrashin	56	15.75	25	7371	183
3	Al Badrashin	581	20.00	5	4400	280
4	Al Badrashin	536	9.00	11	3866	173
5	Al Badrashin	220	10.50	20	4610	322
6	Assiut	428	16.00	11	3985	197

Table 13 - Activity: carpentry, sample: 0 to 20 meters

More than 20 meters

It is preferred to put an upper limit for space because the workshop with a space of 150 meters is considered a factory and not a workshop (80 meters is presumed as an upper limit and does not require an industrial registry).

Serial	Branch Office	File No.	Space m ²	Years of practice	Net Profit	Defined Tax
1	Al Badrashin	431	25.00	10	4113	223
2	Al Badrashin	77	42.00	25	5021	153
3	Al Badrashin	62	150.00	25	10660	2324

Table 14 - Activity: carpentry, sample: more than 20 meters

4-5-2- Calculating tax for sample files

Sample: 0 to 20 meters

Total number of files	6
Sample files	4
Total of defined tax	938
Average Tax per file	234
60% increase to meet other costs	141
Total	375
Suggested tax	375

More than 20 meters

Due to the lack of sufficient data, the value of suggested tax is calculated as LE 950. this calculation is based on the value of the suggested tax for the previous sample multiplied by the operator 2.5, which is the operator used in the other categories.

4-5-3- Suggested tax for carpentry activity

The Area		Suggested Annual tax
From	To	
Zero	20	375
20	80	950

Table 15 - suggested tax for carpentry activity

4-5-4- Comparison between defined and suggested tax for carpentry activity

Sample: 0 to 20 meters

Serial	Branch Office	File No.	Space m ²	Years of Practice	Net Profit	Defined Tax	Suggested Tax
1	Al Badrashin	430	15.00	10	4388	278	375
2	Al Badrashin	56	15.75	25	7371	183	375
3	Al Badrashin	481	20.00	5	4400	280	375
4	Al Badrashin	536	9.00	11	3866	173	375
5	Al Badrashin	220	10.50	20	4610	322	375
6	Assiut	428	16.00	11	3985	197	375

Sample: More than 20 meters

Serial	Branch Office	File No.	Space m ²	Years of Practice	Net Profit	Defined Tax	Suggested Tax
1	Al Badrashin	431	25.00	10	4113	223	950
2	Al Badrashin	77	42.00	25	5021	153	950
3	Al Badrashin	62	150.00	25	10660	2324	950

4-6- Medical Doctors Activity

4-6-1- Data extracted from sample files

Sample: Years of practice 3 to 12 years

Serial	Branch Office	File No.	Years of practice	Net Profit	Defined Tax
1	Al Badrashin	158	5	3099	20
2	Damitta	194	5	2260	82
3	Damitta	24	8	5610	490
4	Al Badrashin	162	11	2907	326

Table 16 - Activity: Medical Doctors, sample: years of practice: 3 to 12 years

Sample: Years of practice more than 12 years

Serial	Branch Office	File No.	Years of practice	Net Profit	Defined Tax
1	Assiut	3327	13	3027	7
2	Al Badrashin	139	14	1913	383
3	Al Badrashin	132	14	2831	203
4	Assiut	3041	14	5549	523
5	Damitta	32	17	8558	1375
6	Al Badrashin	129	21	3652	399
7	Damitta	107	38	16495	3752

Table 17- Activity: Medical Doctors, years of practice: more than 12 years

4-6-2- Calculating tax for the sample files

Sample: Years of practice 3 to 12 years

Total number of files	4
Sample files	2
Total defined tax	408
Average Tax per file	204
100% increase to meet other costs	204
Total	408
Suggested tax	410

Sample: Years of practice more than 12 years

Total number of files	7
Sample files	5
Total defined tax	2883
Average Tax per file	577
60% increase to meet the costs	577
Total	1153
Suggested tax	1200

4-6-3- Suggested tax for Medical Doctors activity

Years of Practice		Suggested Annual Tax
From	To	
Zero	12	410
12	40	1200

Table 18 Suggested tax for physicians

4-6-4- Comparison between defined and suggested tax for Medical Doctors activity

Sample: Years of practice 3 to 12 years

Serial	Branch Office	File No.	Years of practice	Net Profit	Defined Tax	Suggested Tax
1	Al Badrashin	158	5	3099	20	410
2	Damitta	194	5	2260	82	410
3	Damitta	24	8	5610	490	410
4	Al Badrashin	162	11	2907	326	410

Sample: Years of practice more than 12 years

Serial	Branch Office	File No.	Years of Practice	Net Profit	Defined Tax	Suggested Tax
1	Assiut	3327	13	3027	7	1200
2	Al Badrashin	139	14	1913	383	1200
3	Al Badrashin	132	14	2831	203	1200
4	Assiut	3041	14	5549	523	1200
5	Damitta	32	17	8558	1375	1200
6	Al Badrashin	129	21	3652	399	1200
7	Damitta	107	38	16495	3752	1200

4-7- A Summary for the suggested tax in the first stage

The following table presents a summary for each activity of the previously used activities as a model for implementing the Patent system on micro-enterprises in small cities (except governorates capitals and tourist cities) during the study.

Activity Type	Activity Representative	Space (m ²) /Years of experience		Annual Defined Tax Average	Annual Suggested Tax
		From	To		
Commercial	Grocery	Zero	6	9	50
		6	12	112	160
Services	Barber Shops	Zero	6	49	100
		6	12	129	190
Coffee Shops	Coffee Shops	Zero	10	0	150
		10	40	225	360
Vocational	Carpentry	Zero	20	234	375
		20	80	223	950
Professional	Medical Doctors	3	12	204	410
		12	40	577	1200

The “years of practice” factor (experience) has been used for the MDs activity where it is a significant factor to the activity's rather than the space.

It is also possible to apply the same system in the villages and in rural areas since the enterprises located in these areas would be within the lower limit boundary.

Thus, if it is possible to specify the rural areas and villages, following the instructions given by the tax authority, and guided by the previously mentioned ministerial decrees, it would be better to develop a specific system for those areas with a small defined sum that suits the economic difference between urban and rural communities.

This amount will be a factor of attraction for such enterprises, especially since most of them are not registered with the tax authority.

The following table presents the annual suggested tax to be applied to micro-enterprises in the villages and rural areas in the first stage.

Activity Type	Activity Representative	Space (m ²) /Years of experience		Annual Suggested Tax
		From	To	
Commercial	Grocery	Not Specified		50
Services	Barber Shops	Not Specified		50
Coffee Shops	Coffee Shops	Not Specified		50
Vocational	Carpentry	Not Specified		50
Professional	Medical Doctors	Not Specified		100

5- Procedure of joining the suggested system

5-1- Pre-requisites

Micro enterprises should satisfy a number of conditions in order to join the Patent system. These conditions are as follows:

- 1 Taxpayer should be active.
- 2 The Enterprise has to be located within the geographical boundaries specified for the first stage (Rural areas, villages, small cities except the provisional capitals and tourist cities).
- 3 The enterprise does not deal with governmental authorities and does not issue official bills.
- 4 The enterprise is not involved in more than one activity.
- 5 The enterprise is not registered with sales tax authority.
- 6- The enterprise is owned by physical person or Perons Company formed of physical persons.

5-2- Submitting the application

The taxpayer applies to join the micro-enterprises Patent system, this application is to be written in a standard form. Annex "A" includes the suggested form for this application.

5-3- Application examination and procedures of approval

The applications are to be examined in the respective branch office to make sure that all the required conditions are applicable as follows:

Examining the attachments to confirm the submitted data or correcting it.

- Deciding on the file status regarding regular payment and revenue nature.
- Defining the date of last examination and the available data in the examination and comparing it with the submitted data (and this is in case the enterprise is registered with the tax authority).
- Addressing sales tax branch office to make sure that the taxpayer is not registered with it.
- Addressing the general department for deduction and addition to make sure that the taxpayer des not use any bills subject to deduction.

When all the conditions are applicable, the inspector prepares a memorandum based on the submitted application including the estimated tax and the date of examination (as required).

The application is approved and followed by a report confirming the taxpayer's approval to apply the system and his commitment to pay the defined tax according to the system in the defined times for filling the tax report as per current tax law. In case the taxpayer breaches this obligation, he is automatically deprived of his right to use such system.

Meanwhile, the taxpayer's file is to be ratified with the approval and the report date and number in addition to the defined tax rate. All these documents are kept in a special file.

5-4- Filling the tax report

The report is filled in standard format accompanied by the tax file to be stamped as paid, in addition to the receipt number and date. Annex "b" contains a suggested model for tax report. The annual tax report is kept in the inspection file, and this report is considered final. Accordingly, the inspection file does not contain but the following:

Opening file documents (the enterprise official documents)

- The taxpayer's application to implement the system
- Memorandum in terms of availability of the system's conditions
- In case of approval, the previously mentioned approval
- Follow up memorandum to write the date of submission of every report, the paid tax and the receipt number and date
- Inspection memorandum (will be mentioned later)

5-5- Inspection

The inspector performs in office inspection. This is conducted by revising registered taxpayers' data (from sales tax branch office), deduction tax (from the general department for deduction in tax authority) and municipal council (license department) to make sure that the taxpayer is not registered in sales tax or the deduction department. Based on the collected data, inspection memorandum is to be written to explain any breach for the system conditions. It is recommended that the inspection and examination procedures are to be done periodically every five years for each file. The period of five years has been chosen for the following two reasons:

The enterprise loses its right for taxes prescriptively after five years.

- This period is suitable to measure any physical changes that may occur to the enterprise in terms of business size.

Annex "A": application to apply lump sum tax to micro-enterprises

Application to apply lump sum tax to micro-enterprises

Mr.\ General Manager of _____ branch office

Dear Sir,

I submit this application to have an approval to apply lump sum tax system to micro-enterprises where all required conditions are applicable to my enterprise, as it is clear from the data and attachments enclosed with this application and they are as follows:

The enterprise name	_____
Legal entity	_____
Activity	_____
Activity location	_____
Capital	_____
Area \ Practice years (for free professions)	_____
Activity commencement date	____/____/____
Tax report no.	____/____/____/____
Automatic registration no.	____-____-____-____

Attachments:

- ☐ Copy of the tax file
- ☐ Copy of the commercial register
- ☐ Copy of the license (if available)

(All the attachments have to be valid)

The taxpayer name	_____
Signature	_____
Date of application submission	____/____/____

Annex "B": Tax report of the Patent System on micro-enterprises

Tax Authority

Tax branch office _____

File No. _____/_____/_____/_____

File automatic No.

--	--	--	--	--

To be filled by the tax branch office

Incoming No. _____ Date ____/____/____ Incoming writer signature _____

Defined Tax _____ Concerned tax inspector signature _____

Registration date in tax report ____/____/____ Concerned tax inspector signature _____

Filing tax report of lump sum tax system (micro-enterprises)

The taxation year ends on 31/12/_____

To be filled by the taxpayer

Enterprise Data

Enterprise name (1) _____

Activity (2) _____

Activity address(3) _____

Telephone no. _____ Fax no. _____

Capital(4) _____

Area\ Practice years _____

Enterprise owner\owners Data

Full Name	Title	Correspondence Address

Cairo on ____/____/____

Taxpayer Signature

Remarks on the tax report

- 1 Enterprise name: writing the enterprise name as stated in the tax file and commercial register.
- 2 Activity: writing the enterprise activity as stated in the tax file and commercial register.
- 3 Activity address: writing the address of the enterprise's activity as stated in the tax file and commercial register.
- 4 Capital: writing the enterprise capital as stated in the tax file and commercial register.
- 5 Area\ years of experience: mentioning the actual/registered area of the activity (whichever bigger) and mentioning the practice years instead of the area in case of free professions.

6- The expected effect of the suggested system

6-1- Simplifying the procedures of defining and collecting tax

The current system for defining and collecting tax from the enterprises implies 6 processes, it takes 15 days at least for a taxpayer per year, and it requires 7 employees for each branch office. The following two figures present the processes' sequence of defining and collecting the tax in the current system and suggested system.

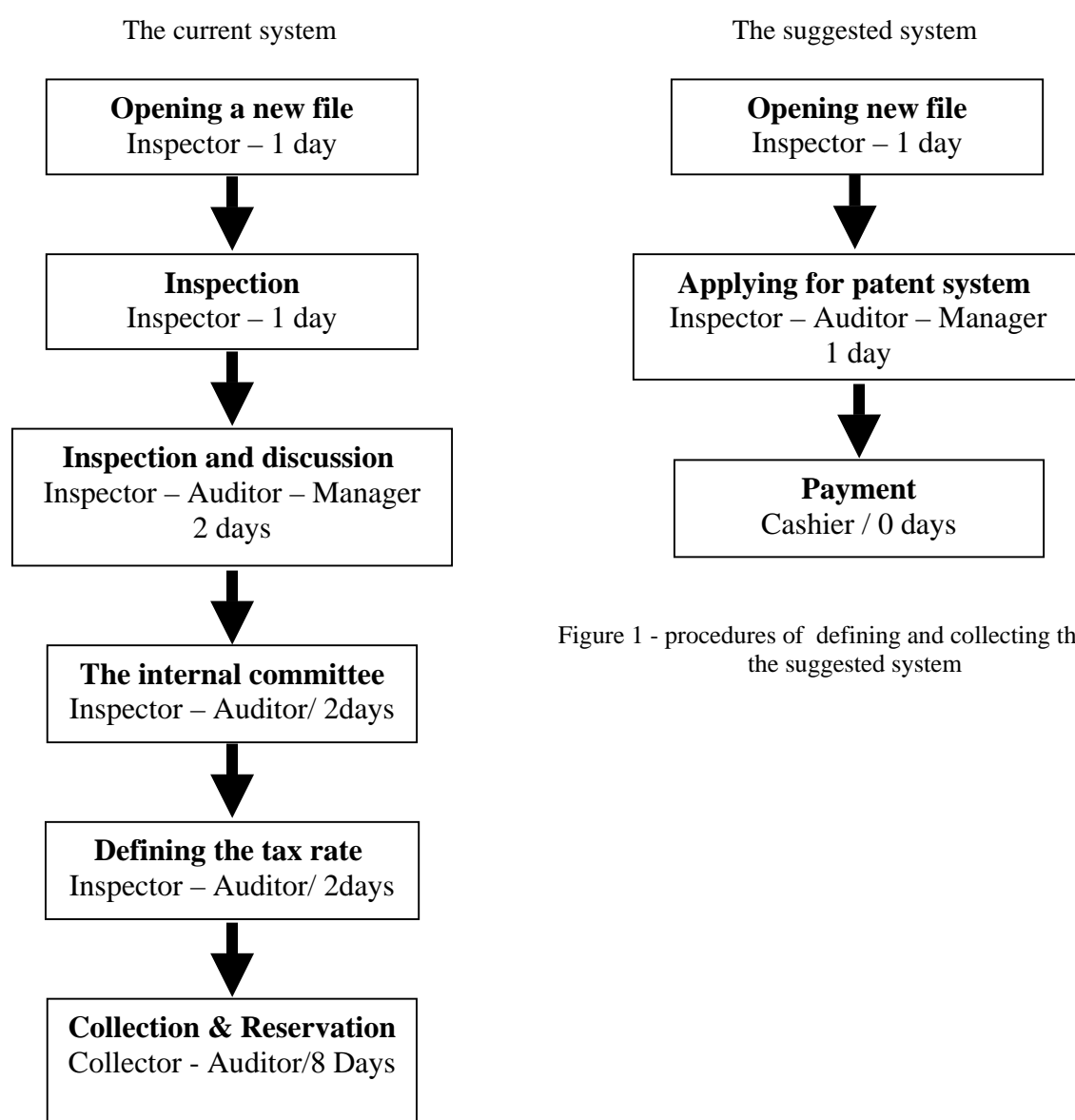


Figure 1 - procedures of defining and collecting the tax in the suggested system

Figure 2 – the process of defining and collection tax according to the current system

The following figure presents a chart for the expected effect in case of applying the suggested system to this study in terms of the number of processes, days and the employees involved in the procedures of defining and collecting the tax.

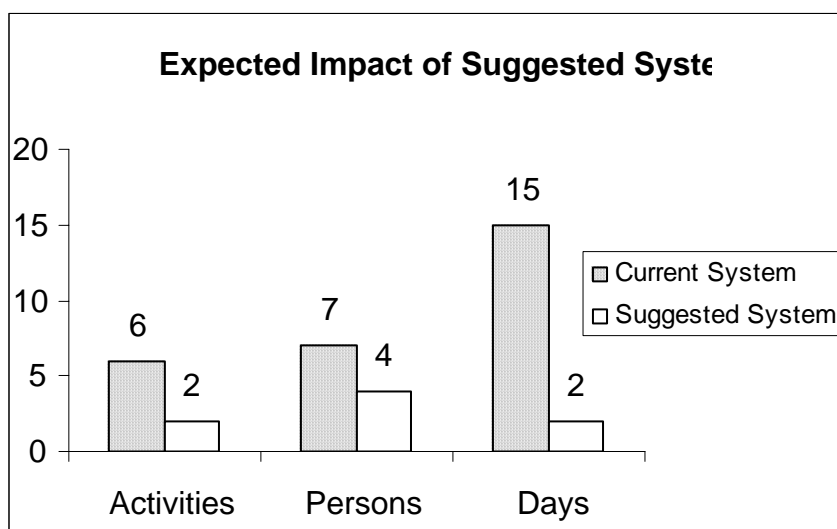


Figure 3 – the expected effect of the suggested system

6-2- The increase of tax revenues

The following figure presents a comparison between the defined and the suggested tax based on the data collected from the sample tax files for grocery, barberry, cafes, carpentry and physicians activities in Al Badrashin, Damitta and Assiut. Annex "c" presents the table that uses the following charts.

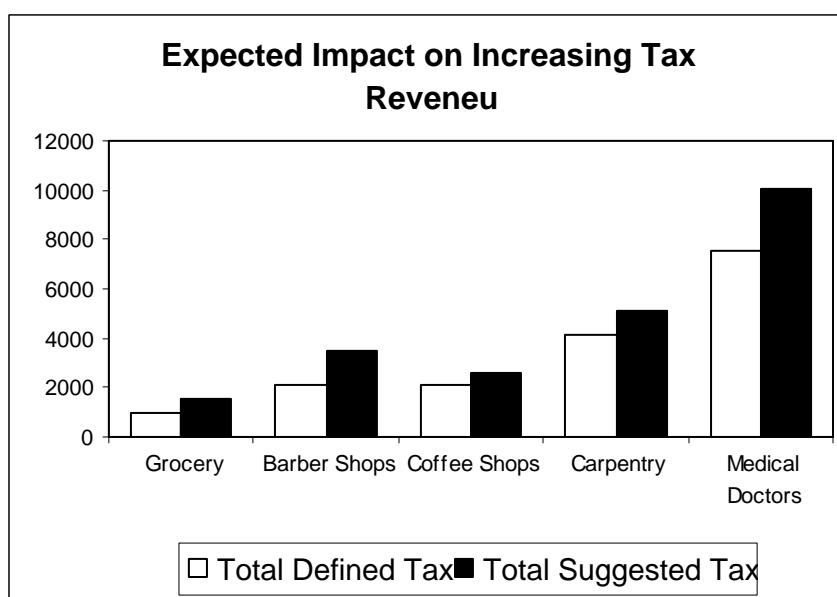


Figure 4 – comparison between the defined tax and suggested tax

The following figure presents the percentage of the expected increase in tax revenue based on the previously mentioned table.

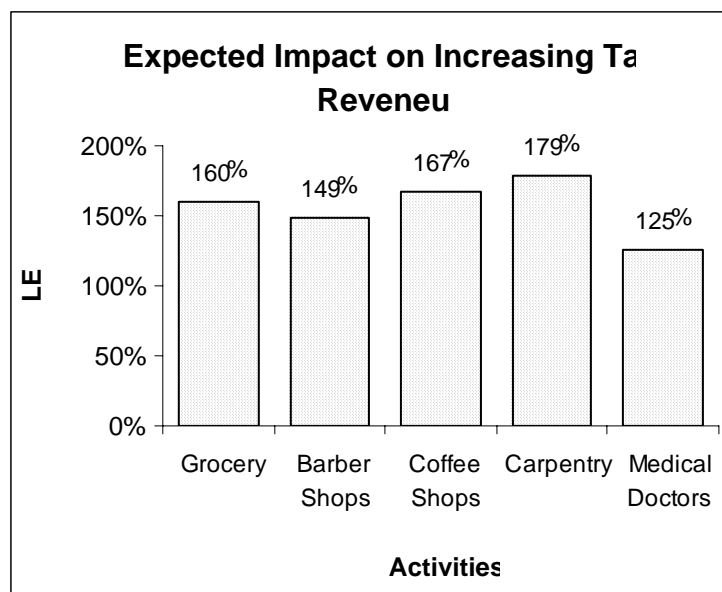


Figure 5 – the expected increase in tax revenue

6-3- Summary

Based on the previous charts, it can be said that implementing the suggested system will lead to the following consequences:

- Decreasing collection cost almost by 80%
- Increasing tax revenue almost by 50%

Annex "C": Comparison between defined and suggested tax for study samples

Activity	Sample	Gross defined tax	Gross suggested tax	Increase
Grocery	From 0 to 6 metres	26	300	274
	From 6 to 12 metres	962	1280	318
Barber Shops	From 0 to 6 metres	298	600	302
	From 6 to 12 metres	1772	2850	1078
Coffee Shops	From 0 to 10 metres	74	450	376
	From 10 to 40 metres	2004	2152	148
Carpentry	From 10 to 20 metres	1433	2250	817
	More than 20 metres	2700	2850	150
Medical Doctors	From 3 to 12 years	918	1640	722
	More than 12 years	6643	8400	1757