

**ITD Global Conference on Taxation of SMEs
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***A Closer Look at Presumptive
Tax Methods***

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ITD Global Conference on Taxation of SMEs ***A Closer Look at Presumptive Tax Methods***

- Small businesses struggle to comply with complex set of tax laws.**
- Compliance costs and the risks associated with noncompliance have increased greatly.**
- Governments understand of SMEs concerns about the requirements of the tax system.**
- Reducing compliance costs is a complex process.**

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The Hard To Tax (“HTT”)

- Groups of taxpayers whose tax amounts are quite low compared with the administrative costs that would have to be incurred by the tax administration to assess the proper amount of tax.**
- Taxpayers who do not keep good books of account.**

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- **The following factors contribute to their being hard to tax:**
 - **Their number is great;**
 - **Their incomes are small;**
 - **They are not compelled by business reasons to keep adequate books of account;**
 - **They sell largely to the population for cash;**
 - **In part due to the above factors, they can easily conceal their incomes.**

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Presumptive Taxation

- Involves the use of indirect means to ascertain tax liability, which differ from the usual rules based on the taxpayer's accounts.**
- The concept covers a variety of means of determining the tax base, reconstructing income based on administrative practice, to true minimum taxes with tax bases specified in legislation.**

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Presumptive techniques

- May be employed for a variety of reasons:**
 - Simplification.**
 - to combat tax avoidance or evasion.**
 - Provide objective indicators for tax assessment.**
 - Rebuttable presumptions can push taxpayers to keep proper accounts.**
 - serve as minimum taxes.**

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Presumptive Methods

- Contractual Method (Forfait).**
- Percentage of Gross Receipts.**
- Fixed Amount Based on Profession or Trade (Patent).**
- Standard Assessment Guide.**

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A. Contractual Method (Forfait) 1/2

- Annual turnover is below a specified amount.**
- Is based on advance agreement between the taxpayer and the tax authority.**
- Base tax liability on estimated income instead of on actual income.**
- the following information with respect to the preceding year: purchases, sales, and value of closing inventory, number of employees, amount of wages paid, and number of cars owned by the taxpayer.**

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A. Contractual Method (Forfait) 2/2

- The tax administration then calculates the *forfait*, which is supposed to be an estimate of the "income which the enterprise can normally produce.**
- General expenses are established on the basis of industry-specific estimates.**
- The taxpayer has the option to use regular income accounting instead of the *forfeit* method but, if electing the regular method, is bound to use it for three years.**

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B. Percentage of Gross Receipts

- ❑ A minimum-tax.**
 - ❑ The taxable income of a business can be no less than a specified percentage of the gross receipts of the business.**
 - ❑ Classifying taxpayers according to their business and by specifying a profit percentage to be applied to gross receipts, based on industry studies for each type of business to be covered.**
 - ❑ A turnover tax, rather than an income tax.**
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C. Fixed Amount Based on Profession or Trade (Patent)

- A minimum tax based on an individual's profession or trade.**
 - The presumptive amounts is set at rather low levels.**
 - Ineffective in taxing higher-income professionals.**
 - Divide taxpayers within a given industry into classes and categories based on turnover, capital used in the business.**
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D. Standard Assessment Guide

- Based on various ascertainable factors, which are developed for particular industries.**
- Does involve an element of agreement between taxpayers and the tax authorities.**
- Agreement is a general guide being negotiated with industry representatives.**

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- It is apparent from the preceding discussion that different types of presumptive methods can have:**
 - quite different incentive effects,**
 - revenue effects,**
 - distributional consequences,**
 - levels of complexity,**
 - and legal and administrative implications.**
- This makes it dangerous to generalize about presumptive taxation.**

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Other Concerns of Presumptive Methods

- Rebuttable vs. irrebuttable.**
- Can be challenged on the basis that they impose tax on a basis that is inconsistent with ability to pay.**
- The attitude of courts to presumptions.**
- The overall architecture of the tax system.**

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The Appropriate Overall Architecture of a Tax System – Egypt Experience

Tax Policy Measures

- **Special Tax Regime with:**
 - Tax Amnesties.
 - Incentives and simplified accounting rules (cash in and cash out accounting).
 - Thresholds to Exclude Hard-to-Tax from Tax Net.
 - Exemption from VAT registration and filing.
 - Exemption from whatever taxes that are based on double entry books of accounts.
 - Tax is based on net profits.
 - A tax relief is based on new assets employed.

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The Appropriate Overall Architecture of a Tax System – Egypt Experience

Tax Administration Measures

- ❑ Simplified registration and simplified tax returns.**
- ❑ Transparency of the tax administration policies and procedures.**
- ❑ Risk assessment / Limitation on audits.**
- ❑ Highly skilled, helpful and ethical staff.**
- ❑ Increased taxpayer assistance and educational programs.**
- ❑ Payment plan and administrative assistant.**



Thank You