Deferred Tax

Presenters: **Caryn Maitland CA(SA)**
Carmen Westermeyer CA(SA)

27 February 2023

Ask Questions

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Presenters

Caryn Maitland

Caryn is a qualified CA(SA and RA, who has lectured extensively at UKZN (and other institutes) where she lectured Advanced Financial Accounting up until 2011 as well as co-ordinating the module on the Pietermaritzburg campus and was appointed Section Head of Financial Accounting and Deputy Head of the School of Accounting (managing the Pietermaritzburg campus) prior to leaving UKZN.

She has conducted independent workshops and seminars for professional accountants since 2006 on various topics and has consulted on a number of technical issues. Since January 2011, she has focused on her own business as technical freelance consultant and trainer to those working within the accounting profession. Caryn is a technical advisor to the SAICA Eastern Region Midlands District, Northern District and Southern District Associations, as well as the Small Practice Interest Group in Durban – specialising in financial reporting (IFRS, IFRS for SME's and general accounting), assurance, legislation and ethics. Caryn has a passion for Corporate Governance, which together with her Companies Act specialism and Financial Management for Non Financial Management lecturing background, has served her well in consulting and advising various Boards of Directors in recent years.

Caryn is also a platform presenter for various institutes as well as many small to medium accounting practices across the country and into Southern Africa. Maitland was appointed as a visiting Associate Professor to the University of Limpopo tasked with mentoring their Financial Accounting staff (Aug 2011 to Dec 2013).

Maitland's passion is IFRS and IFRS for SME's and was delighted at the opportunity granted in 2013 to serve on the APC subcommittee constituted to investigate the need for Micro GAAP and the role of IFRS for SME's for small and medium sized practitioners. Caryn, also serves on the Joint Accountants, Auditors and Attorneys Committee of SAICA, and is part of the School Governing Body project initiated by SAICA in KwaZulu-Natal, and has been appointed as an alternative member to the APC in June 2020

Caryn was elected as the first woman Chairperson for the Midlands District Association for SAICA in 2018 and also serves on the Eastern Region SMP Committee as well as the Local Subvention Committee for SAICA. In 2019 Caryn was appointed to the SAICA Eastern Region Council. As someone who is committed to environmental affairs, Caryn serves as a non-executive director for the Institute of Natural Resources, a Non Profit Company focusing on research. Since 2018 Caryn has worked extensively with commerce and industry, assisting analysts, directors and other users of financials to interpret, prepare, analyse and forecast based on the results of financial statements.

Presenter

Carmen Westermeyer CA(SA)

Carmen Westermeyer graduated in 2001 from the University of Natal, Durban (now UKZN), with a BCom Honours degree in Accounting and completed her articles with PwC, where she remained until 2006. She has been a member of SAICA since then.

In 2008, she started her academic career at UKZN, where she performed a number of functions, and ultimately taking on the role of Academic Leader for Taxation. On leaving academia in 2013 Carmen has been providing training and consulting services to the profession. She has presented on behalf of various professional bodies, such as SAICA, FASSET, CSSA as well as providing in house training to numerous accounting firms. The topics covered include all aspects of Income Tax, VAT, Estate Duty as well as the Health Levy (Sugar Tax). In addition, she regularly consults on tax matters as well as assisting with SARS disputes.

She is also the chairperson of the SAICA Eastern Region Tax Committee, a member of the SAICA National Tax Operations Committee and is an Accounting Member of the Tax Court.

Assessed losses

The good, the bad and the ugly

Where to look:

- https://www.sars.gov.za/legal-counsel/legal-advisory/interpretation-notes/
- https://www.sars.gov.za/legal-counsel/primary-legislation/
- https://www.sars.gov.za/lapd-it-g04-guide-on-the-ring-fencing-of-assessed-losses-arising-from-certain-trades-conducted-by-individuals/

Anti avoidance – s103(2)

- Any:
  - Agreement affecting a company or trust; or
  - A change in shareholding/members interest/trustees
- As a result (direct or indirect) of which
  - Income/Capital gain is earned by company/trust
- Which has been entered into by any person solely or mainly for the purpose of utilising the assessed loss/capital losses brought forward in order to reduce/avoid the payment of any tax.

S103(2) – Assessed losses

- ITC 1123: This section applies to income generated within the same company as well.
- Conshu (Pty) Ltd v CIR: These provisions can be applied in YOA's after the agreement was entered into. (egg: company sold 2005, section applied in 2006)
- ITC 1347: If the assessed loss is incidental, and there is a valid business reason for the change in corporate structure, no s103(2)
- New Urban Properties: If s103(2) applies and the company does not trade, the assessed loss is lost.

Assessed losses

- Presume a business with this tax calculation

Gross Income:	**110,000**
Sales	100,000
Interest received	10,000
Less deductions:	**141,000**
Purchases	80,000
Salaries	60,000
Bank charges	1,000
Taxable Income:	(31,000)
Tax liability @ 27%	0

Assessed losses – big picture principles

- S20:
  - In order to determine taxable income FROM TRADE, you may set off:
    - Balance of assessed losses brought forward, and
    - Any assessed losses incurred in the current year from any other trade
  - This means that you have to be carrying on a trade, and the income must be from trade (Robin Consolidated Industries Ltd v CIR)

Assessed losses

- So what is trade?
  - Trade is defined in s1 (profession, trade, business, employment, calling, occupation or venture)
  - Carrying on of trade:
    - Timberfellers Ltd: Collection of debt while in liquidation is not carrying on of trade
    - SARS requires a profit intention (subjective test)
    - Objective test: Must be a reasonable prospect of a profit in a reasonable time
  - Income from trade:
    - CSARS v Megs Investments: Must be direct link between trade and income received (or to be received)

Non trade income?

- Commencement of trade
  - CSARS vs Contour Engineering: Involves an active step, something more than watching over investments.
  - If no trade, no deduction, capitalised and deducted under s11A once trade starts.
- From IN 33
  - The watching over of investments does not constitute a trade.
  - The earning of interest on funds advanced by a holding company to its subsidiary was held not to constitute the carrying on of a trade.
  - The definition of “trade” in section 1(1) includes the word “business”, and the issue frequently arises whether a company’s investing activities constitute a business of moneylending. If they do, the company would be able to meet the “trade” requirement. The same would apply to a company carrying on share-dealing.

Assessed losses

- Income from trade:
  - You can be trading without earning income.

- The problem? In order for s 20 to apply do you need to have:
  - Income and trading activities; or
  - Just trading activities?

- In other words, if you traded, but earned no income, can you roll forward your prior year assessed loss?

Interpretation Note 33

- Income and trade:
  - Those who argue in favour of the “income from trade” requirement point to the wording of section 20(1) which requires that an assessed loss be “set off against the income so derived”. They argue that if there is no income then no set-off can be achieved.
- Trade only
  - Those who argue against the existence of the “income from trade” requirement seem to rely mainly on the irrationality of the requirement from a policy perspective. They point to the fact that in the case of section 11(a) it is sufficient for a taxpayer to secure a deduction if the purpose of the expenditure is to produce income, and that income need not be derived in the same year of assessment (Sub-Nigel Ltd v CIR51).

- Can you guess which one SARS supports?

SARS' view

- SARS is of the view that section 20 contains a trade requirement and an income from trade requirement. Both these requirements must be satisfied before an assessed loss may be carried forward. SARS does, however, accept that this may have some unintended results.
- In dealing with the problem SARS will accept that as long as the company has proved that a trade has been carried on during the current year of assessment, the company will be entitled to set off its balance of assessed loss from the preceding year, notwithstanding the fact that income may not have accrued from the carrying on of that trade. This concession is limited to situations in which it is clear that trade has been carried on.

Example from IN 33

- Example – Carry-forward of an assessed loss when trade carried on but no income derived from trade
- Facts:
- Pecan Nut (Pty) Ltd was formed on 1 March 2012 with a February year-end for the purpose of operating a pecan nut farm. On 1 April 2012 it acquired a suitable piece of land and began planting small pecan nut trees during the months that followed. It was expected that the trees would be ready for harvesting only in four years' time.
- During the 2013 to 2016 years of assessment the company derived no income although it incurred considerable expenditure in each of these years in cultivating the nut trees.
- During the 2017 year of assessment the company started harvesting nuts and sold them to a number of retail outlets.

- Result:
- Despite the company not having derived any income from trade during the 2013 to 2016 years of assessment, SARS will permit the company to carry forward its 2013 to 2016 assessed losses and set them off against the income derived in the 2017 year of assessment. The reason for the failure to derive any income during the years in question clearly stems from the nature of the company's trade.

The only “good” news? Section 20(2A)

- For all taxpayers other than companies, the trade restriction does not apply
- Put differently, only companies are at risk of losing their assessed losses based on trading activities

The full legalese

- Set-off of assessed losses.—(1) For the purpose of determining the taxable income derived by any person from carrying on any trade, there shall, subject to section 20A, be set off against the income so derived by such person—
  - (a) (i) that is a company, other than a company referred to in subparagraph (ii), any balance of assessed loss incurred by that person in any previous year which has been carried forward from the preceding year of assessment, to the extent that the amount of such set-off does not exceed the higher of R1 million and 80 per cent of the amount of taxable income determined before taking into account the application of this section;
  - (ii) that is a company carrying on mining operations as contemplated in section 15, any balance of assessed loss incurred by that person in any previous year which has been carried forward from the preceding year of assessment, to the extent that the amount of such set-off does not exceed the higher of R1 million and 80 per cent of the amount of taxable income determined before taking into account the application of—
    - (A) this section; and
    - (B) the provisions of section 36 (7C); or

The full legalese

- Set-off of assessed losses.—(1) For the purpose of determining the taxable income derived by any person from carrying on any trade, there shall, subject to section 20A, be set off against the income so derived by such person—
  - (iii) that is not a company, any balance of assessed loss incurred by that person in any previous year which has been carried forward from the preceding year of assessment: Provided that no person whose estate has been voluntarily or compulsorily sequestrated shall be entitled to carry forward any assessed loss incurred prior to the date of sequestration, unless the order of sequestration has been set aside, in which case the amount to be carried forward shall be reduced by an amount which was allowed to be set off against the income of the insolvent estate of such person from the carrying on of any trade.
  - (b) any assessed loss incurred by a person during the same year of assessment in carrying on any other trade either alone or in partnership with others, otherwise than as a member of a company the capital whereof is divided into shares:

The full legalese

- Provided that there shall not be set off against any amount—
  - derived by any person from a source within the Republic, any—
    - assessed loss incurred by such person during such year; or
    - any balance of assessed loss incurred in any previous year of assessment,
  - in carrying on any trade outside the Republic; or
  - that is a retirement fund lump sum benefit, retirement fund lump sum withdrawal benefit or severance benefit included in taxable income, any—
    - balance of assessed loss;
    - "assessed loss" as defined in subsection (2) incurred in such year before taking into account that retirement fund lump sum benefit or retirement fund lump sum withdrawal benefit.

Summary:

- Company:
  - Must have trade
  - If no income, must be able to prove that there still was trading activity ongoing
  - Limited to greater of R 1 million or 80% of taxable income before taking assessed losses into account

- All other taxpayers:
  - As long as they have some taxable income can roll forward.

Explanatory memorandum

- Example 3 (presume millions)
- Company B3 has a year of assessment starting on 1 October 2022. It also has taxable income of R500 before offsetting the assessed loss balance. However, its assessed loss balance is R200, which is less than 80 per cent of taxable income. Company B3 will be able to use its total assessed loss balance of R200 to reduce its taxable income.

All figures rounded to the nearest million

AL restriction		80%	80%	80%
Company		**B1**	**B2**	**B3**
Existing regime				
Taxable income		500	500	500
Assessed loss balance b/f		1 000	475	200
Taxable income		-	25	300
CIT @ 28%		*-*	*7*	*84*
AL balance c/f		500	-	-
Proposed regime				
Taxable income		500	500	500
80% of taxable income		400	400	400
Assessed loss balance b/f		1 000	475	200
% of taxable income		*200%*	*95%*	*40%*
Taxable income		100	100	300
CIT @ 28%		*28*	*28*	*84*
AL balance carried forward		600	75	-
Change in tax liability				
CIT pre-change (no restriction on assessed loss balance)		-	7	84
CIT post-change (restriction on assessed loss balance)		28	28	84
Difference		28	21	-

IT DOESN'T

END HERE.

For individuals at least…

- Ring fencing of assessed losses (s20A):
  - Applies to natural persons ONLY.
  - Sum of taxable income and assessed losses must be at the maximum marginal rate
  - 2 criteria:
    - Incurred a loss for at least 3 years of the past 5 OR!
    - The trade causing the assessed loss is one of the suspect trade
  - NB: If either of the 2 criteria are met, the losses from these trades may NOT be set off against income from other trades.
  - If there is a reasonable prospect of profit, section won't apply (though will use 6/10 yardstick, otherwise known as the "facts and circumstances test"

What are suspect trades?

- The practice of any sport by yourself or a relative
- Dealing in collectibles
- Rental of residential accomodation (scope out if 80% is used by non relatives for most of the year)
- Rental of vehicles, aircraft or boats (same 80% exclusion)
- Animal showing
- Farming or animal breeding on a part time basis
- Performing or creative arts
- Gambling
- Acquisition or disposal of crypto assets

What’s that income test again?

- Individual under 65 for 2023

Employment income	R	2 575 000,00
Allowable deductions (Pension fund contributions)	-R	143 125,00
Interest received	R	25 000,00
Capital gain before annual exclusion (The capital gain was made on the disposal of a fixed property.)	R	81 500,00
Letting of property – Assessed loss incurred during 2023 year of assessment (suspect trade)	-R	21 000,00
Balance of assessed loss brought forward from 2022	-R	15 000,00

Result?

Income	
Employment Income	R 2 575 000,00
Taxable capital gain (R81 500 - R40 000) x 40%	R 16 600,00
Interest (25 000 - 23 800)	R 1 200,00
	R 2 592 800,00
Less deductions:	
Pension	-R 143 125,00
Current loss	-R 21 000,00
Assessed loss brought forward	-R 15 000,00
Taxable income	R 2 413 675,00
Add back:	
Current loss	R 21 000,00
Assessed loss brought forward	R 15 000,00
Taxable income for s20A purposes	R 2 449 675,00

Up to here – should we ringfence?

Taxpayer	Nature of income	Current Taxable income	Trade specific income (C)	C - 1	C-2	C-3	C-3	C-4
Co A	Rent	100	(80)	(20)	150	(250)	50	40
A	Commercial rent	2 000	(600)	1 500	(1 000)	500	400	250
B	Residential rent	2 000	(600)	1 500	(1 000)	500	400	250
C	Residential rent	1 000	(600)	1 500	(1 000)	500	400	250

Values in R'000

We’re almost there – s20A(5)

- Any previously ringfenced losses can only be set off against income from that particular trade.

What if you don’t always hit maximum marginal rate?

- See Example 8 of the Guide.
- Facts:
- A taxpayer carries on a listed suspect trade which produces the following results for the 2005 to 2008 years of assessment: 2005: (R11 000); 2006: R9 200; 2007: (R8 700); 2008: (R5 000).
- Before applying section 20A the taxpayer’s taxable income was as follows: 2005: R284 000; 2006: R305 000; 2007: R405 000; and 2008: R440 000.
- After applying the “facts and circumstances” test in 2005 and 2007, the taxpayer is not able to show that the trade constitutes a business with a reasonable prospect of deriving taxable income (other than taxable capital gain) within a reasonable period.
- The amount of taxable income above which the maximum marginal rate of tax becomes payable for the 2005 to 2008 years of assessment is as follows: 2005: R270 000; 2006: R300 000; 2007: R400 000; 2008: R450 000.

Result?

Step One: Are we above the threshold?

Tax year	income before section 20A R	Add back assessed loss R	Adjusted taxable income R	Marginal rate threshold R	Threshold exceeded?
2005	284 000	11 000	295 000	270 000	Yes
2006	305 000		305 000	300 000	Yes
2007	405 000	8 700	413 700	400 000	Yes
2008	440 000	5 000	445 000	450 000	No

The 2005, 2006 and 2007 years of assessment will be subject to ring-fencing since the adjusted taxable income exceeds the level at which the maximum marginal rate of tax becomes payable. The assessed loss of R5 000 incurred in the 2008 year of assessment will not be subject to ring-fencing since the taxable income for that year falls below the maximum marginal rate threshold.

- The profit of R9 200 derived in the 2006 year of assessment is applied against the balance of the ring-fenced assessed loss brought forward from 2005.

Tax year	Balance of assessed loss b/f R	Assessed loss R	Used R	Balance of assessed loss c/f R
2005	-	11 000	-	11 000
2006	11 000	-	(9 200)	1 800
2007	1 800	8 700	-	10 500
2008	10 500	-	-	10 500

Final result

- In the 2006 year of assessment, R9 200 of the ring-fenced assessed loss brought forward from 2005 has been allowed against the profit of R9 200 included in the taxable income for that year.
- The assessed loss of R5 000 incurred in the 2008 year of assessment has been allowed as a deduction because the taxpayer falls below the marginal rate threshold in that year.

	Taxable income before section 20A R	**(allow) ring-fenced assessed loss R**	**Taxable income after section 20A R**
2005	284 000	11 000	295 000
2006	305 000	(9 200)	295 800
2007	405 000	8 700	413 700
2008	440 000	-	440 000

But wait! There’s more! (s20A(3))

- Ringfencing will not apply at all (either suspect or 3/5) if it is a business with a “reasonable prospect of profit within a reasonable period”
- Factors that must be given “special regard”
  - Proportion of gross income to allowable deductions
  - Level of activities or the amount spent on advertising, promoting or selling for the business
  - Whether the trade is carried on in a commercial manner:
    - Number of full time employees (not domestic workers)
    - Commercial setting of the trade premises
    - The extent of equipment used exclusively for trade
    - Time spent on business premises for the trade

But wait! There's more! (s20A(3))

- Factors that must be given "special regard"
  - Years in business vs years with assessed losses, taking into account:
    - Unexpected events
    - Nature of the business
  - Business plans of the individual to turn the business around
  - How "available" are trade assets for recreational or personal consumption

In other words?

- If you can demonstrate a true business purpose and plan, ringfencing does not apply.

If only we stopped there… (s20A(4))

- Suspect trades however, cannot make use of the s20A(3) arguments if:
  - Losses have been incurred in 6 of the last 10 years of assessments.
  - Must include current year in the count of 10.
- Does not apply to farming!

With these new requirements - should we ringfence?

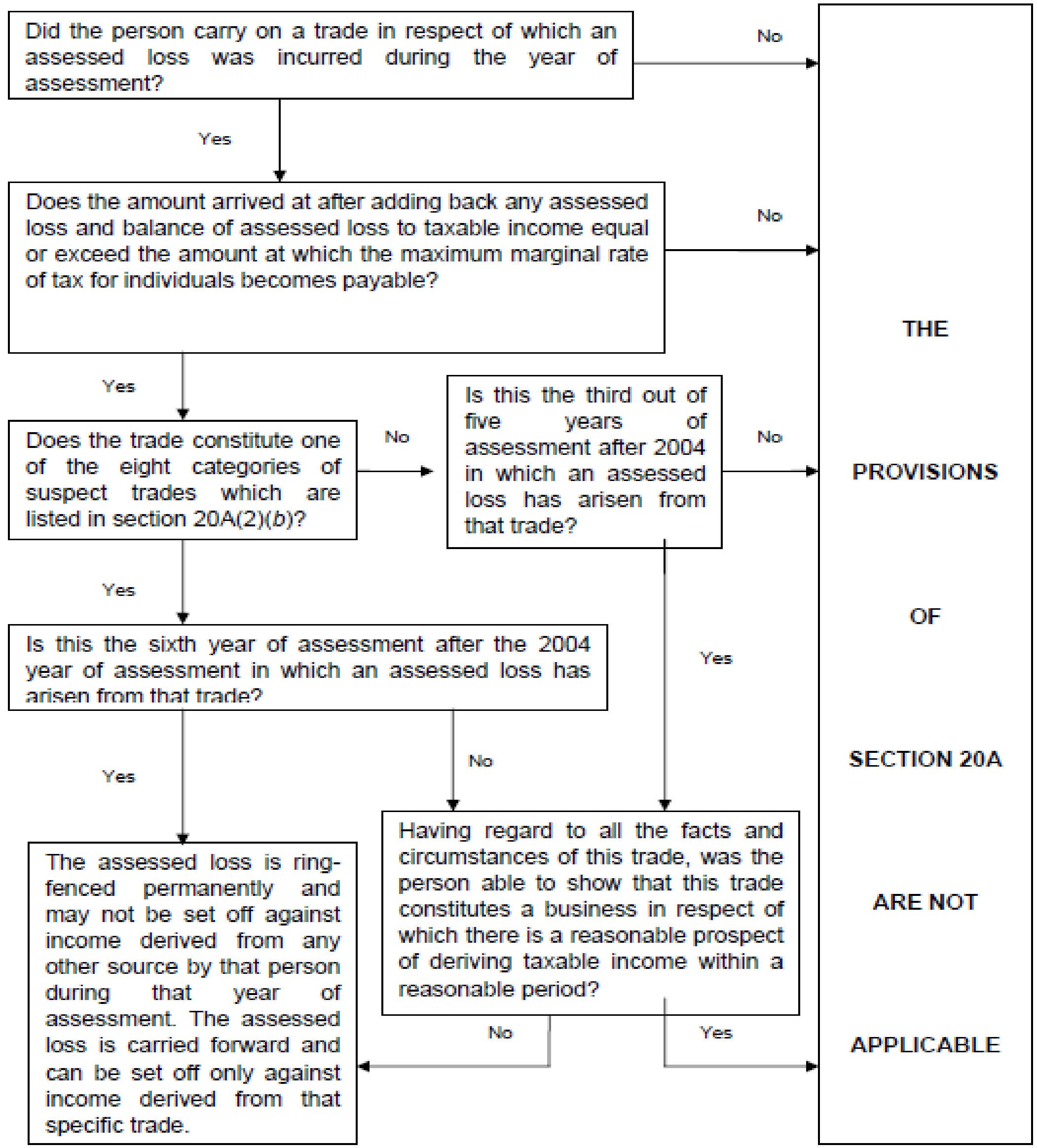
Taxpayer	Nature of income	Current Taxable income	Trade specific income (C)	C - 1	C-2	C-3	C-3	C-4	C-5	C-6	C-7	C-8	C-9	C-10
D	Farming	100	(80)	(20)	150	(250)	50	40	(200)	(300)	150	80	70	(150)
A	Commercial rent	2 000	(600)	(1 500)	(1 000)	500	400	250	(400)	(500)	505	(780)	(220)	30
B	Residential rent	2 000	(600)	1 500	(1 000)	500	400	250	(450)	(550)	555	(790)	(240)	70
C	Residential rent	1 000	(600)	1 500	(1 000)	(500)	400	250	(200)	(300)	150	(100)	70	(250)

Values in R’000

Miscellaneous provisions

- All farming activities are considered to be one trade
- If you carry on a suspect trade while at the maximum marginal rate, the trade must be disclosed separately on your tax return

Annexure – Checklist (flowchart) for the application of the ring-fencing provisions



Income Taxes
(SMES)

2023

Presented by Caryn Maitland CA(SA)

It’s all about reconciling

- **Current Tax**
  - Accounting Profit vs Taxable Income
  - Permanent and Temporary Differences

- **Deferred Tax**
  - Carrying values to Tax bases
  - Temporary not timing differences!

Current Tax

Turning Accounting Profit into Taxable Income

ABC Limited	20X2	at 27%
Current Tax Calculation	**R**	**R**
Profit before tax	150000	40500
Adjust for Permanent Differences	11500	3105
Goodwill Impairment	15000	
Dividends Received	-1000	
Non-taxable portion of capital profit	-500	
Fair value adjustments	-2000	
Adjust Temporary Differences	1375	371.25
Add Depreciation	500	
Add Impairment loss	400	
Less Wear and Tear	-750	
Add Recoupment	1200	
Less Accounting profit (reversal of depreciation)	-350	
Adjust Mvt in Provision for warranties	225	
Adjust Mvt in impairment of debtors	200	
Less SARS allowance for doubtful debts	-50	
Taxable income	162875	43976.25
Effective tax rate	29%	

Current Tax Expense note

Tax Expense Note:

SA Normal		
- Current tax	43976.25	
- Deferred Tax	-371.25	From Deferred Tax Calc
Tax Expense	43605	
Reconciliation of tax rate		
Standard tax rate	27%	
Accounting profit at rate	40500	
Goodwill Impairment	4050	
Dividends Received	-270	
Non taxable portion of capital profit	-135	
Fair value adjustments	-540	
Tax expense	43605	
Effective rate	29%	

Deferred Tax

Timing Differences

- Timing differences are no longer!!!!
- Occur when an amount **(income/expense)** forms part of accounting profit **in a different reporting period** to that which it is included in the computation of taxable profit
- Proper matching in the Statement of Profit and Loss
- We work with **TEMPORARY DIFFERENCES**
  - This is the “Balance Sheet” approach (Statement of Financial Position)
- Timing Differences part of Temporary Differences.

Temporary Differences (TD)

- TD = Carrying Amount – Tax Base
- Two categories:
  - **Taxable TD** result in taxable amounts in the determination of future periods' taxable profit
    - CV>TB ie depn rate is **lower** than W&T
    - Result in DTax **Liabilities**
  - **Deductible TD** result in amounts that are deductible in the determination of future periods' taxable profit
    - CV<TB ie depn rate is **higher** than W&T
    - Result in DTax **Assets**
- **Carrying Amount????**

Temporary Differences (TD) - Taxable

	CA	TB	TB	
Purchase	100 000	100 000	-	
Depreciation/W&T	(20 000)	(25 000)	5 000	
CB Yr 1	**80 000**	**75 000**	**5 000**	**Liab**
Depreciation/W&T	(20 000)	(25 000)	5 000	
CB Yr 2	**60 000**	**50 000**	**10 000**	**Liab**
Depreciation/W&T	(20 000)	(25 000)	5 000	
CB Yr 3	**40 000**	**25 000**	**15 000**	**Liab**
Depreciation/W&T	(20 000)	(25 000)	5 000	
CB Yr 4	**20 000**	**-**	**20 000**	**Liab**
Depreciation/W&T	(20 000)		- 20 000	
CB Yr 5	**-**	**-**	**-**	**Nil**

Temporary Differences (TD) - Deductible

	CA	TB	TB	
Purchase	100 000	100 000	-	
Depreciation/W&T	(25 000)	(20 000)	(5 000)	
CB Yr 1	75 000	80 000	- 5 000	Asset
Depreciation/W&T	(25 000)	(20 000)	(5 000)	
CB Yr 2	50 000	60 000	- 10 000	Asset
Depreciation/W&T	(25 000)	(20 000)	(5 000)	
CB Yr 3	25 000	40 000	- 15 000	Asset
Depreciation/W&T	(25 000)	(20 000)	(5 000)	
CB Yr 4	-	20 000	- 20 000	Asset
Depreciation/W&T		(20 000)	20 000	
CB Yr 5	-	-	-	Asset

Tax Base of an Asset

- Where **taxable** economic benefits will flow to the enterprise when it recovers the carrying amount of an asset:
  - *The tax base of the asset is the amount that will be deductible for tax purposes against those future taxable benefits*
  - *TB = future deductions (Eg PPE)*
- Where the economic benefits that flow to the enterprise as it recovers the carrying amount of an asset **will not be taxable**:
  - *The tax base of the asset will be equal to its carrying amount*
  - *TB=CV (Eg cash, trade debtors)*
- *Admin Buildings*
- *Net Investment in Lease (Receivable + VAT)*

Tax Base of a Liability

- The tax base of a liability is its **CV less any amount that will be deductible for tax purposes** iro that liability in future periods, and
  - TB = CV – future deductions
  - Eg loans payable, provisions, bank OD
- Revenue received in advance:
  - The tax base of the liability is its **CV less any amount of revenue that will *<u>not</u>* be taxed in future periods.**
  - TB = CV – non future deductions

General Rule

- Tax base not immediately apparent:

- Fundamental principle
  - An enterprise should, with certain limited exceptions, recognise a deferred tax liability (asset) whenever **recovery or settlement of the carrying amount** of an asset or liability would make **future tax payments larger/smaller** than they would be if such recovery or settlement were to have **no tax consequences.**

Exempt Temporary Differences

- CV – TB = TD (- exempt portion)
- Initial recognition of goodwill
- GW for which amortisation is not deductible for tax purposes (ALL GW in SA)
- The **initial recognition** of an asset which:
  - Is **not** a business combination, and
  - At the time of the transaction affects neither accounting or taxable profit (eg admin building)
- Note: does not exempt revalued portions of assets.

Measurement of DTax

- Consider the following:
  - The tax rate (substantially) enacted at reporting date
  - The TD which are exempt from DTax
  - The manner in which management **<u>intends</u>** to realise the asset or recover the liability
  - The Dtax balance should not be discounted
- Revaluations
  - Factory vs Admin Building
- Tax base, but no CV (R & D)

Other Considerations

- DTax Expense
  - Format of DTax Comp
  - Revaluations and Fair Value Adjustments
  - Change of intention
  - General Disclosure

- Deferred tax wrt taxpayers graduated rates
- Change in tax status
- Recoupments
- Change in tax rate

Very Important – Dtax Calculation

	CV	TB	TD	DT	
O/B	100	80	20	6	Cr
Mvt				3	Cr
C/B	80	50	30	9	Cr

Change in tax rate – All revenue transactions Year Ends up to Feb 2023

Change in tax rate - all revenue transactions

Date	CA	TB	TB	@Rate		
28-Feb-23	100000	80000	20000	5600	Liab	28%
Change in rate				200		Dr Deferred Tax Liability; Cr Tax expense
28-Feb-23			20000	5400	Liab	27%
01-Mar-23	100000	80000	20000	5400	Liab	

Change in tax rate – All revenue transactions Year Ends beginning on or after 1 April 2022 (ie Mar 2023)

Change in tax rate - all revenue transactions

Date	CA	TB	TB	@Rate		
1 April 22	100000	80000	20000	5600	Liab	28%
Change in rate				200		Dr Deferred Tax Liability; Cr Tax expense
1 April 2022			20000	5400	Liab	27%
Continue with transaction for the year at 27% tax rate						

Change in rate – CGT included

What if your deferred tax includes capital transactions

	CV	TB	Exempt	TD	rate @28%	
Historic Depreciated Cost	70000	60000		10000	2800	
Revaluation						
Up to Orginial cost	10000			10000	2800	
Above cost	20000		-4000	16000	4480	
	100000	**60000**		**36000**	**10080**	
change in rate					360	to 27%
Revenue 28% to 27%					**9720**	
Dr Dtax Liability			360		SoFP	
Cr Reval Reserve*				160	Equity	
Cr Tax Expense				200	P&L	
R20k above OC less non taxable of R4k						

Accounting for Deferred Tax Assets

Deferred Tax Assets

- Arise from
  - Deductible temporary differences
    - ie. CV < TB
  - Tax Losses
- Recognised to the extent that it is **probable** that future taxable profits will be sufficient to allow the tax benefit to be realised
- Consistent with Section 2 Conceptual Framework
  - Defn
  - Recognition Criteria

Deductible Temporary Differences

- These will invariably satisfy the recognition criteria

Tax Losses and Unprovided DDT

- Tax losses can arise because of
  - Taxable temporary differences
  - Permanent Differences
  - Trading losses

- Tax loss c/f = future tax relief
  - Recognised only to the extent
    - that tax credits exist, or
    - That it is **probable** that it can be recovered from future profits
      - **Convincing evidence** (recent vs long standing losses)

Capital losses

- Assets can arise
- Ring fenced
- Probability of future taxable capital profits

Capital Allowances				Tax Loss	Cap Loss	TOTAL	Prov	UDDT
CV	TB	TD	@ 30%					
100	**80**	**20**	**6**			**6**	**6**	
		(30)	(9)	(10)		(19)	(6)	(13)
50	**60**	**(10)**	**(3)**	**(10)**		**(13)**	**-**	**(13)**

Example (year 1)

- Company commenced operations 1 Jan 20X0
- Tax rate 40%, always been CGT.
- Does not have convincing evidence to provide for DTax assets
- Carrying Value of Assets 1 Jan 20X4
  - R 275 000
- Tax Base of Assets 1 Jan 20X4
  - R 200 000

Current Tax Comp

	R	40%
Loss before tax per I/S	(120 000)	(48 000)
PD: Dividend received	(20 000)	(8 000)
	(140 000)	(56 000)
TD: Plant	50 000	20 000
Depreciation	100 000	
Wear and Tear	(50 000)	
Tax Loss	(90 000)	(36 000)

Example (R'000)

CV	TB	TD	@ 40%	Tax Loss	Total	Prov	Unprov
275	**200**	**75**	**30**	**-**	**30**	**30**	
(100)	(50)		(20)	(36)	(56)	(30)	(26)
175	**150**	**25**	**10**	**(36)**	**(26)**	**-**	**(26)**

Journals

	Dr R'000	Cr R'000
Deferred Tax SoFP (cap allw)	20	
Deferred Tax SoFP (tax loss)	10	
Deferred Tax expense		30
Wanted to provide R36 000 for tax loss, but R26 000 is unprovided.		

Statement of P&L Disclosure

SA Normal tax		R
Current		Nil
Deferred		
- Capital Allow		(20 000)
- Tax loss		(10 000)
current	(36 000)	
unprovided	26 000	
		(30 000)

Statement of P&L Disclosure (cont.)

Tax Rate Reconciliation		R
Standard Rate		40%
Loss at Standard Rate		(48 000)
Dividend received		(8 000)
Increase in UDDT		
- capital allowance		-
- tax loss		26 000
		(30 000)
Effective Rate		25%

Statement of FP Disclosure

	R
<u>**Composition of deferred tax liability**</u>	Nil
Capital Allowances Tax loss	10 000 (10 000)
<u>**Analysis of UDDT:**</u>	26 000
Deductible temporary differences Unused tax losses (*Assessed loss b/f?)	- 26 000

Example (year 2)

- Company commenced operations 1 Jan 20x0
- Tax rate 40%, always been CGT.
- Does not have convincing evidence to provide for DTax assets

Current Tax Comp (Yr 2)

	R	40%
Profit before tax per SoCI	120 000	48 000
PD: Dividend received	(8 000)	(3 200)
	112 000	44 800
TD: Plant	(18 000)	(7 200)
Depreciation	80 000	
Wear and Tear	(98 000)	
Taxable income for the yr	94 000	37 600
Assessed loss b/f	(90 000)	(36 000)
Taxable income	4 000	1 600

Example (R'000)

CV	TB	TD	@ 40%	Tax Loss	Total	Prov	Unprov
175	**150**	**25**	**10**	**(36)**	**(26)**	**-**	**(26)**
(80)	(98)		7.2	36	43.2	17.2	26
95	**52**	**43**	**17.2**	**-**	**17.2**	**17.2**	**-**

Journals

	Dr R	Cr R
Tax Expense (current + Def)*	18 800	
Deferred Tax SoFP		
- capital allowances (TD)		7 200
- Tax loss utilised		36 000
- Tax loss previously unprovide	26 000	
SARS (current)		1 600
*1600+7200+36000-26000		

Statement of Profit and Loss Disclosure

SA Normal tax		R
Current		1 600
Deferred		
- Capital Allow		7 200
- Tax loss		10 000
current tax loss utilised	36 000	
previously unprovided	(26 000)	
		18 800

Statement of P&L Disclosure (cont.)

<u>Tax Rate Reconciliation</u>		R
Standard Rate		40%
Profit at Standard Rate		48 000
Dividend received		(3 200)
Decrease in UDDT		
- capital allowance		
- tax loss		(26 000)
		18 800
Effective Rate		15.67%

Statement of FP Disclosure

	R
<u>Composition of deferred tax liability</u>	17 200
Capital allowances	17 200
Tax loss	-
<u>Analysis of UDDT:</u>	-
Deductible temporary differences	-
Unused tax losses	-
(*Assessed loss b/f?)	

Q&A

Please use the chat sidebar to the right of the video / presentation on the screen to ask your questions.

If you would like to e-mail a question please use:

technicalquestions@accountingacademy.co.za

Thank you for your participation

Disclaimer

This seminar is presented for information purposes only and does not constitute tax advice. Please contact your tax practitioner for advice tailored to your specific circumstance.