KPMG

Tax and Legal News

March 2020

Carry Forward of Assessed Losses

During the 2020 Budget Speech it was announced that National Treasury is looking to broaden the corporate income tax base. One of the proposed mechanisms to achieve this is a restriction on the utilisation of assessed losses carried forward to 80% of taxable income. Additional revenue generated will be used to reduce the corporate income tax rate in the "medium term", a necessary response to the widening gap between our current 28% tax rate and the corporate tax rates of our major trading partners. The amendment is intended to come into effect in respect of years of assessment commencing on or after 1 January 2021.

Broadening the corporate tax base

Based on the 2019 Tax Statistics published by National Treasury and the South African Revenue Service in December 2019, it was anticipated that 814 151 active corporate taxpayers (that are not small business corporations) will have filed income tax returns and will be assessed for the 2017 Tax Year. Of these taxpayers, only 24.3% are expected to have positive taxable income, 48.3% will have nil taxable income and 27.4% will have negative taxable income. Increasing the number of "paying" corporate taxpayers beyond the 24.3%, even if only to the extent of 20% of taxable income in any given year, could have a marked effect on corporate income tax collections.

Impact for taxpayers on tax payable

On face value, the proposal would result in taxpayers being subject to tax on a minimum of 20% of their taxable income calculated for any year, irrespective of the quantum of any assessed loss brought forward.

According to Chapter 4 of the Budget Speech, the proposal is "viewed as a reasonable approach that affects all businesses equally, rather than restricting the number of years for carrying forward assessed losses, which would disproportionately hurt businesses with large initial investments or long lead times to profitability". It therefore appears that the balance of any unutilised assessed loss will remain available to be carried forward, subject to the 80% restriction in future years.

There is no indication that current year losses will be impacted. No tax should be payable in any year where there is no taxable income. Moreover, we expect that taxpayers would be able to add any current year loss to the balance of assessed loss. However, as soon as a company has taxable income in any particular year, tax will be payable on 20% of that taxable income with only 80% of the taxable income capable of being set-off against the assessed loss.

Deferred tax impact

In terms of IAS 12 a company needs to assess the raising of its deferred tax asset and ensure that there is sufficient future taxable income to utilise the assessed loss. The limitation of assessed loss utilisation due to the proposed

amendment will directly impact the assessment of the deferred tax asset and will need to be considered in detail when preparing future taxable income forecasts.

Cashflow impact

The proposed amendment above will have an impact on the cash flow of a company as income tax will need to be paid as and when companies have taxable income regardless of the quantum of any assessed losses. In this regard companies should have a renewed focus in reducing taxable income - one way would be ensuring that tax allowances to be claimed are appropriately calculated in order to reduce taxable income.

Future reduction in the corporate tax rate

It is clear that the South African corporate income tax rate is higher than its major trading partners and that there is a downward trend for corporate income tax rates globally. Treasury has indicated that it will consider reducing the South African corporate tax rate to ensure the relative competitiveness of the country, to encourage businesses to invest and expand production and to reduce the incentive for base erosion and profit shifting by reducing the corporate tax rate over the medium term. Whilst Treasury does not provide a precise timeframe, given that the Medium Term Budget Policy Statement generally covers a three year time period, we would expect the reference to the “medium term” to be within this time frame. We would, however, hope that the steps to broaden the tax base will enable Treasury to reduce the corporate tax rate in the next budget cycle.

We would be happy to discuss the implications of the proposed amendments and how we can assist in the reduction of taxable income through the claiming of allowances in further detail.

If you have any queries, require assistance or need more information, please contact us:

Lesley Bosman
Associate Director: Corporate Tax
KPMG South Africa
M:+27827195523
E: Lesley.Bosman@kpmg.co.za

Nontethelelo Ndebele
Consultant: Corporate Tax
KPMG South Africa
M: +27609976443
E: Nontethelelo.Ndebele@kpmg.co.za