



Accounting for Tax 1: Analysing the Trial Balance

YOUR KEY TO THE TAX COMMUNITY

ABOUT THE PRESENTER



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- Marina joined the Kreston Pretoria team on 1 March 2021 after specialising in tax at KPMG for the last 13 years. She is an experienced tax advisor who holds an H. Dip(Tax) Degree. She completed her articles at Deloitte where she also passed the CA(SA) qualifying examination.
- She worked in the UK on large listed clients for 2 years and joined KPMG tax department in 2007.
- As Associate Director and head of KPMG's Global Compliance Managed Services business unit, she is very experienced in tax and accounting reporting requirements for large multi-nationals.
- This includes ITR 14 disclosures required for multi-nationals as well as submissions of CbC Reports, Master Files and Local Files.

Education and Qualifications

- B. Com (Accounting)
- B. Com (Accounting) (Hons)
- Certificate in the Theory of Accounting
- Passed qualifying CA(SA) exam.
- H.Dip (Tax)
- Registered Tax Practitioner

What we will cover

In this session we will perform an in-depth analysis of the accounting trial balance to identify the crucial items that might have an implication on the income and deferred tax calculations for Annual Finance Statement disclosures as well as the disclosures in the ITR14 income tax return.



The Trial Balance

YOUR KEY TO THE TAX COMMUNITY

Accounting records

Firstly, determine if the following is applied:

- IFRS for SME's
- Full IFRS
 - IFRS 9
 - IFRS 15
 - IFRS 16

2015

International Financial Reporting Standard® (IFRS®)
for Small and Medium-sized Entities (SMEs)

IFRS for SMEs®

This official pronouncement incorporates *2015 Amendments to the IFRS for SMEs* (effective 1 January 2017 with early application permitted).

Accounting records

1003	Share Capital	- 379 954 891
1101	Retained Income / (Accumulated Loss)	19 159 778
2001	Supplier Control Account	- 90 459
2006	Provisions	- 94 448
2208	Audit Fee Provisions	- 249 450
3619	Investment in subsidiary	375 755 044
5432	Bank account	100 354
5437	Bank Account	- 98 414
8010	Accounting Fees	51 161
8012	Audit Fees	242 904
8015	Bank Charges	218
8049	Interest Paid	2 021 832
8050	Legal Fees	- 87 700
8084	Secretarial Fees	58 092
8099	Tax Expense	2 542 722
8104	Dividends Received	- 106 852 583
8122	LTI Expense	- 2 536 049
9003	Interest Received	- 99 144

- Example of holding company trial balance.
- Mainly dividend income and small amount of interest.
- Therefore only receives passive income.
- Do have some business expenditure.
- Does not have any employees.
- Does this mean the company is trading?

Trading requirement

Section 1 of the Income Tax Act defines “trade” as:

“trade” includes every profession, trade, business, employment, calling, occupation or venture, including the letting of any property and the use of or the grant of permission to use any patent as defined in the Patents Act or any design as defined in the Designs Act or any trade mark as defined in the Trade Marks Act or any copyright as defined in the Copyright Act or any other property which is of a similar nature.

Specifically includes rental income

Does not include the receipt of other passive income such as interest and earning of dividends

- Interpretation Note 33 (dealing with assessed losses, trade and income from trade), specifically excludes the following from “trade”:
- The watching over 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.
- Trading involves more than a mere intention to trade – implies that an active occupation as opposed to the passive earning of investment income should be present.
- Carrying on a trade involves an active step – continuity of activities also indicates trade

New section 11G

Section 11G replaces PN 31

As a general rule, the deduction of expenditure requires that the amount is incurred in the production of income and in the course of carrying on a trade (sections 11(a) and 23(g))

Old: PN 31	New: Section 11G
“Interest paid on moneys borrowed”	“Deduction of expenses incurred in the production of interest”
Allows for a deduction of expenditure incurred by a taxpayer who does not carry on a trade up, to amount of any interest income earned by the taxpayer.	Allows a deduction from income of any person, interest incurred by that person to the extent that the interest— <ul style="list-style-type: none">• is incurred in the production of interest income that is included in the income of that person; and• is not incurred in carrying on a trade. Limited to the amount of interest received
To be withdrawn on effective date of section 11G	Effective from 1 January 2026 to YoA starting on or after this date

Assessed losses

If there is no trade, an assessed loss cannot be created or cannot be brought forward from prior years.

Companies can carry on a trade at a loss!



Assessed losses

20. 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;

The amendment is effective for companies with years of assessment ending on or after 31 March 2023.

Statement	Comment
Higher of R1 000 000	<ul style="list-style-type: none">Companies with taxable income of less than R1 000 000 will be able to set-off full assessed lossCompanies with a tax loss will be able to set-off full assessed loss
Or 80% of TAXABLE INCOME	<ul style="list-style-type: none">Very important – <u>taxable income</u> and not assessed loss

Companies that is in an assessed loss position for a specific year (before the utilisation of the assessed loss) will not be affected. The 80% limitation is only applicable where a taxable profit was made during the year.

Assessed losses

			Comments	2 024	2 023
Taxable income before assessed loss				21 529 140	49 057 477
Taxable Capital Gains					
Controlled Foreign Company Gains					
Taxable income before assessed loss brought forward				21 529 140	49 057 477
Assessed loss brought forward (Max 80% of current year taxable		80%		-17 223 312	-77 576 825
Assessed loss limitation applicable from 2024 tax year					
<i>Assessed loss brought forward</i>				-28 519 348	
<i>Claimable assessed loss</i>				-17 223 312	
<i>Workings: Claimable if in assessed loss</i>				0	
<i>Workings: Claimable if not in assessed loss</i>				-17 223 312	
<i>Assessed loss carried forward to next year</i>				-11 296 036	
Taxable income subject to standard tax rate				4 305 828	-28 519 348
Income Tax Rate				27%	28%
Liability for normal tax				1 162 574	0

Assessed losses

	Comments	2 024	2 023
SECTION B: Deferred Tax computation			
<i>Assessed loss the end of the tax year</i>		0	28 519 348
<i>Assessed loss the end of the tax year</i>		11 296 036	

Assets

Trading versus dormant

Statement of Financial Position as at 29 February 2024

Figures in Rand	Note(s)	2024	2023
Assets			
Current Assets			
Loans to group companies	3	1 000	1 000
Equity			
Equity			
Share capital	5	1 000	1 000

Dormant

Is the company dormant? Y ☒ N ☐

Did the company become dormant / inactive during the year of assessment? Y ☐ N ☒

Specify the movement in assets, liabilities and / or reserves

R 0

Is the company resident in South Africa for income tax purposes? Y ☒ N ☐

How many different classes of shares have been issued by the company? 1

No assets or liabilities. No income or expenses.

Dormant Company Details

What is the reason for dormancy?

CEASED OPERATIONS

Analysing the trial balance

1000/000/000/000 (Sales)	-43 642 445	Income from trade – taxable. Need to look at potential apportionment issues if income consists of only / mainly dividend income
1002/000/000/000 (Integration & Customisation)	- 140 666	
2000/000/000/000 (Cost of Sales)	6 483 317	Section 11(a) deduction
2750/116/000/000 (Interest Received - Bank)	- 6 758	Taxable
2750/118/000/000 (Interest Received - SARS)	- 289	Taxable! Cannot deduct SARS interest. Be careful of Vlookups...
2880/000/000/000 (Profit on Foreign Currency Exchange)	- 28 792	If with related party and classified as current for accounting purposes, need to carefully look if section 24I(10A) might be applicable. If non-current ignore FX gain or loss.
2900/000/000/000 (Sundry Income)	- 99 235	Usually taxable but need to look at nature of income
3000/000/000/000 (Accounting / Secretarial Fees)	83 158	Section 11(a) deduction
3030/000/000/000 (Admin Fees)	360 000	Section 11(a) deduction
3050/000/000/000 (Advertising & Marketing)	770 306	Section 11(a) deduction

Analysing the trial balance

3100/000/000/000 (Audit Fees)	99 919	Section 11(a) deduction for fees actually paid
3150/000/000/000 (Provision For Doubtful Debt)	89 191	Tax adjustment to be done on the balance sheet method
3200/000/000/000 (Bank Charges)	38 447	Section 11(a) deduction
3300/000/000/000 (Computer Expenses)	6 351	Section 11(a) deduction
3303/000/000/000 (Computer - Licenses & Software)	1 038 966	Section 11(a) deduction
3330/000/000/000 (Conferences)	4 417	Section 11(a) deduction
3349/000/000/000 (BEE Contributions)	1 487 189	If expenses counted towards scorecard, deduction under BCR 02 / section 11(a) and 23(g)
3350/000/000/000 (Consulting Fees)	1 042 383	Analyse for any capital items
3450/000/000/000 (Depreciation)	263 651	Not deductible – add back accounting and calculate tax allowances under sections 11, 12, 13
3460/000/000/000 (Amortisation)	2 344 632	Not deductible – add back accounting and calculate tax allowances under sections 11(gA), (gB) or (gC)
3600/000/000/000 (Donations)	10 000	Only deductible if in possession of section 18A certificate. Just because donation was made to NPO does not mean it is deductible. Limited to 10% of taxable income – if in loss position no deduction allowed. Portion not allowed as deduction to be carried over to following year and deferred tax asset to be raised (moved to temporary differences)

Analysing the trial balance

4410/000/000/000 (Salary)	14 338 409	Section 11(a) deduction
4411/000/000/000 (Bonus Provision)	1 229 999	Section 11(a) deduction
4417/000/000/000 (Leave Pay Provision)	- 205 676	Section 11(a) deduction
4450/000/000/000 (Staff Training)	129 819	Section 11(a) deduction
4500/000/000/000 (Staff Welfare)	30 562	Section 11(a) deduction
4600/000/000/000 (Telephone / Data usage)	122 394	Section 11(a) deduction
4651/000/000/000 (Travel Re-imbursment- Local)	17 259	Section 11(a) deduction
4652/000/000/000 (Travel & Accommodation - Overseas)	-Analyse for extended holidays, spouses travelling with etc.	
4653/000/000/000 (Travel & Accommodation - local)	263 305	Section 11(a) deduction
4800/000/000/000 (Normal Tax)	- 21 587	N/A
4850/000/000/000 (Deferred Tax)	-N/A	
4950/000/000/000 (Dividends Paid)	1 000 000	DTR01 and DTR02 – disclosed in AFS as part of the normal tax paid note

Analysing the trial balance

5100/000/000/000 (Share Capital)	- 2 505 142	Contributed tax capital – accounting and tax values can differ
6260/610/000/000 (Computer Equipment - Cost)	694 060	Deferred tax liability created
6260/620/000/000 (Computer Equipment - Accumulated Depreciation)	- 307 202	
6270/610/000/000 (Intangible Asset - Cost)	13 652 654	
6270/620/000/000 (Intangible Asset - Accumulated Depreciation)	- 8 318 311	
6350/610/000/000 (Furniture Fittings - @ Cost)	307 878	
6350/620/000/000 (Furniture Fittings - Accum Depr)	- 86 165	Movable versus not movable
6600/610/000/000 (Leasehold improvements - Cost)	139 957	
6600/620/000/000 (Leasehold improvements - Depreciation)	- 71 684	
8000/000/000/000 (Receivables Control)	4 960 148	
8000/031/000/000 (Debtors - Creditors with debit balances reclassification)	5 649	
8050/000/000/000 (Less: Provision For Doubtful Debts)	- 64 385	Add back and apply section 11(j) – IFRS 9 applied or not applied

Analysing the trial balance

8200/000/000/000 (Prepayments)	191 473	Section 12H to be applied – first apply 6 month rule and then less than R100 000 rule
8430/000/000/000 (FNB - Savings account)	82	
9000/000/000/000 (Payables Control)	- 73 271	
9000/031/000/000 (Creditors - Debtors with credit balances reclassification)	- 5 649	
9200/000/000/000 (Accruals)	- 39 216	Need to distinguish between accrual and provision – unconditional liability or not
9250/000/000/000 (Salary Provisions)	- 398 136	
9257/000/000/000 (Workmens Compensation)	- 27 589	
9258/000/000/000 (Leave Pay Provision)	- 508 438	Section 7B
9261/000/000/000 (Future Operating Lease Liability)	- 21 118	IFRS 16
9400/000/000/000 (Provision of Bonuses)	- 1 302 243	Section 7B
9500/000/000/000 (VAT Control)	- 401 792	
9510/000/000/000 (Taxation)	3 063 021	
9511/000/000/000 (Withholding Tax)	77 418	
9520/000/000/000 (Deferred Tax)	- 132 620	

Dividend Tax

Where is amount of WHT tax disclosed in the AFS?

24. Taxation

Major components of the tax expense

Current

Current tax in respect of the current year

Local income tax - recognised in current tax for prior periods

Withholding tax

147,021	133,081
1,680	(3,952)
(1,702)	573
146,999	129,702

Reconciliation to AFS - B Preference Shares

Details	Number of shares	Accounting	Contributed Tax Capital
Original issue per note 17 of AFS	840	84 000 000	84 000 000
Less: Redemption in 2020	-90	-9 000 000	0
Less: Redemption in 2021	-90	-9 000 000	-2 000 000
Capital value at 31 December 2021	660	66 000 000	82 000 000
Accumulated dividends capitalised		388 912	0

Balance 31 December 2021

66 388 912

82 000 000

AFS not 17

ITR14

Analysing the trial balance

Contributed Tax Capital

Description of class of shares

B PREFERENCE SHARES

Amount of contributed tax capital:

(a) Immediately before 1 January 2011; or

R

(b) Where the company became a resident since 1 January 2011

R

Add: Consideration received or accrued for the issue of shares by the company

R

Deduct: Amounts transferred to holders of shares

R

Deduct: Adjustments in terms of s8G

R

Deduct: Reduction as a result of the application of s42

R

Deduct: Reduction as a result of the application of s44

R

Deduct: Reduction as a result of the application of s46

R

Balance of contributed tax capital at the end of the year of assessment

R

Leasehold Improvements

Fixed Assets: Rule of accession

1

The nature and purpose of the attached thing: This test entails that there has to be a rationale or reason for the thing to be attached to the immovable. This is largely a matter of recognising the obvious destination of certain things. E.g., chimney-pots, guttering, plumbing components, electrical fittings and the like made for a building, or to be permanently affixed to a building, lose their independent identity as the purpose for which they are affixed is to become a permanent part of the immovable.

2

The manner and degree of its attachment: This test entails that there has to be an enquiry as to the extent that the thing has become a part of the immovable. The fundamental issue is that of permanence and finality of the attachment. E.g., something which cannot be removed without damage to itself, or the immovable is more likely to be regarded as having become immovable by accession.

3

The intention with which the attachment was made: In this test the court has to determine the intention of the owner of the thing at the time when the attachment was made to the immovable. E.g., whether the intention was that the attachment should be permanent or temporary.

Section 11(j) allowance

Where IFRS 9 is applied:

- On portion that relates to lifetime expected credit losses, 40% of the provision will be allowed as a deduction.
- 25% allowance may be deducted in respect of the balance of the impairment loss provision.

Where IFRS 9 is not applied:

- An allowance which is based on the ageing of debt is to be applied:
 - On debt due 120 days or more, the allowance is 40% of such debt.
 - On debt due 60 days or more but less than 120 days, the percentage is reduced to 25%.

7B. Timing of accrual and incurral of variable remuneration.

(2) In determining the taxable income derived by any person during a year of assessment, any amount to which an employee becomes entitled from an employer in respect of variable remuneration is deemed to—

(a) accrue to the employee; and

(b) constitute expenditure incurred by the employer,

on the date during the year of assessment on which the amount is paid to the employee by the employer

Employee Tax Incentive

Exempt ito section 10(s) of the Income Tax Act:

10. Exemptions.—(1) *There shall be exempt from normal tax—*

(s) any amount by which the employees' tax as defined in section 1 of the Employment Tax Incentive Act, 2013, payable by an employer as contemplated in section 3 of that Act is reduced in terms of section 2 (2) of that Act or paid in terms of section 10 of that Act;



The ITR14

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Tax return disclosure

Accounting loss on disposal of fixed assets / other assets

R

Admin., secretarial, rentals, guarantee fees and other services - Connected (Local)

R

Admin., secretarial, rentals, guarantee fees and other services - Connected (Foreign)

R

Admin., secretarial, rentals, guarantee fees and other services - Non-connected

R

Alterations and improvements (excluding repairs and maintenance)

R

Bad debts written off

R

Capital improvements - farming operations (par 12 of the First Schedule)

R

Commission paid

R

Compensation for loss of office

R

Consulting, legal and professional fees

R

Depreciation

R

Directors' / members' remuneration

R

Donations (s18A)

R

Donations - other

R

Employee expenses: Wages and salaries (excluding medical, provident and pension)

R

Employee expenses: Group life insurance

R

Employee expenses: UIF contributions and SDL

R

Employee expenses: Pension and Provident fund contributions

R

Employee expenses: Medical scheme contributions

R

Employee expenses: Membership of a professional body

R

Employee expenses: Training

R

Expenditure incurred by a lessor of land let for farming purposes in respect of soil erosion (s17A)

R

Expenditure incurred directly or indirectly in effecting BEE and / or BBEEE compliance

R

Expenditure incurred in respect of company restructuring

R

Foreign exchange loss

R

Impairment loss recognised in profit or loss

R

Insurance (excluding s37A payments)

R

Insurance premium in respect of rehabilitation obligations (s37A)

R

Interest - financial institutions

R

Interest - Connected (Local)

R

Interest - Connected (Foreign)

R

Interest - Non-connected

R

Interest and penalties paid to SARS (excluding SARS interest repaid that was previously taxed i.t.o. s7E)

R

Key man insurance (s11(w))

R

Lease payments other than operating leases

R

Management fees - Connected

R

Management fees - Non-connected

R

Operating lease payments - Connected

R

Operating lease payments - Non-connected

R

Tax return disclosure

Partnership / Joint venture loss - Foreign

R

Partnership / Joint venture loss - Local

R

Provision for doubtful debts

R

Repairs and maintenance

R

Research and development costs (s11D)

R

Restraint of trade

R

Royalties and license fees (excluding payments in terms of mineral and petroleum resources royalties) - Local

R

Royalties and license fees (excluding payments in terms of mineral and petroleum resources royalties) - Foreign

R

Mineral and Petroleum Resources royalty

R

Small items and loose tools

R

Other expenses (excluding items listed above)

R

Please provide descriptions relating to other expenses listed above

**COMPUTER EXPENSES, RECRUITMENT FEES,
ADVERTISING AND MARKETING, BANK
CHARGES, OTHER OPERATING EXPENSES**

Detailed Income Statement

Detailed Statement Of Comprehensive Income

	R	R
Revenue		43 783 111
Cost of Sales		(6 483 317)
Gross profit		37 299 794
Other income		128 027
Profit on foreign exchange	28 792	
Sundry income	99 235	
Operating expenses		(25 079 095)
Accounting and secretarial fees	83 158	&
Admin fees	360 000	^
Advertising and marketing	770 306	*
Amortisation	2 344 633	*
Audit fees	48 039	&
Bank charges	38 450	*
BEE contributions	1 487 189	*
Computer expenses	6 351	*
Computer license and software	1 038 966	*
Consulting fees	1 042 384	&
Depreciation	263 652	*
Directors remuneration	2 194 367	#
Donations	10 000	*

Detailed Income Statement

Entertainment	142 280	
Equipment rental	2 090	
Insurance	29 750	*
Legal fees	267 802	&
Loss on foreign currency	43 121	*
Loss on scrapping of asset	38 069	*
Minor capital assets	15 723	*
Printing and stationery	11 241	
Provision for doubtful debt	89 176	*
Recruitment	422 440	
Rental - operational costs	462 632	^
Salary	13 291 994	#
Staff training	129 820	*
Staff welfare	30 562	
Subscription membership fees	11 940	
Telephone expenses	122 395	
Travel and accommodation	280 565	*
Finance income		7 046
Finance costs		(1 251 462)
Net Profit Before Tax		11 104 310

Detailed Income Statement

ITR14 disclosure:

Gross income	
Revenue	43 783 111
Other income	128 027
Investment income	7 046
	43 918 184
Professional, legal & consulting fees (&)	
Accounting and secretarial fees	83 158
Audit fees	48 039
Consulting fees	1 042 384
Legal fees	267 802
	1 441 383 &
Admin, rental, secretarial, guarantee fees and other services (^)	
Admin fees	360 000
Rental - operational costs	462 632
	822 632 ^
Salaries and wages (#)	
Directors remuneration	2 194 367
Salary	13 291 994
	15 486 361 #

Seperately disclosed on ITR14 (*)

*

Detailed Income Statement

Other expenses

Advertising and marketing	770 306
Bank charges	38 450
Computer expenses	6 351
Computer license and software	1 038 966
Entertainment	142 280
Equipment rental	2 090
Printing and stationery	11 241
Recruitment	422 440
Staff welfare	30 562
Subscription membership fees	11 940
Telephone expenses	122 395
	<hr/>
	2 597 021
	<hr/>

Detailed Income Statement

- Provide the following in terms of the total expenses claimed by the company:
 - Detailed Income Statement with comparative figures.
 - In respect of the largest three expenses contained in your detailed Income Statement, or where expenses exceed income by 50% or more, explain and prove why these are considered deductible for tax purposes.



Thank you

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