

Accounting for Tax 1

*Basic overview of tax disclosures in
the Annual Financial Statements*

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ABOUT THE PRESENTER



Marina Pretorius

Kreston South Africa

Marina is a Chartered Accountant who specialised in taxation since 2006. She holds the following 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

Marina was a tax Associate Director at KPMG from 2017 to 2021 and is currently an Associate Director in the Kreston SA network specialising in Corporate taxation.

She provides a wide range of tax services to various clients across industries. These include but are not limited to the following:

- Income Tax compliance services including but not limited to IRP6, ITR14 and SARS verifications
- Dealing with tax disputes including representing clients at Alternative Dispute Resolution (ADR) hearings.
- Issuing of tax technical opinions on Income Tax
- Audit and Accounting support services that includes Normal Tax and Deferred Tax disclosure and reconciliations of SARS Statement of Account.
- Over the past 15 years, I have presented numerous training programs that varied from training to clients on income tax, compliance, tax compliance, internally to SAICA trainees as well as external clients. Training material are specifically prepared on a case-by-case basis and tailored to each specific client's needs.

Session 1

In today's discussion, I will provide a basic overview of the required disclosures of taxation in a company's Annual Financial Statements as required by IFRS for SME's

We will discuss the disclosure of the following:

- Normal Tax
- Deferred Tax
- Prior year adjustments for normal and deferred tax
- Foreign taxes
- SARS liability
- Change in tax rate
- New rules pertaining to assessed losses

Figures in Rand

2023

2022

19. Taxation

Major components of the tax expense

Current taxation

South African normal tax - year	8 795 558	12 716 247
South African normal tax - prior period (over) under provision	-	1 498 759
	8 795 558	14 215 006

Deferred taxation

South African deferred tax - current year	(398 353)	(1 556 235)
South African deferred tax - prior period (over) under provision	-	633 125
	(398 353)	(923 110)
	8 397 205	13 291 896

Reconciliation of the tax expense

Accounting profit	44 991 369	38 948 410
Tax at the applicable tax rate of 28% (2022: 28%)	12 597 583	10 905 555
Tax effect of adjustments on taxable income		
South African normal tax - prior period (over) under provision	(333 195)	(1 498 759)
South African deferred tax - prior period (over) under provision	-	633 125
Non-deductible expenses	266 519	-
Exempt local dividends	(4 200 000)	-
	(4 266 676)	(865 634)

Other

Change in tax rate	66 298	-
Permanent differences	-	254 459
Temporary differences	-	2 997 516
	66 298	3 251 975
	8 397 205	13 291 896

Figures in Rand

2022

2021

27. Taxation

Major components of the tax expense

Current

Local income tax - current period	32 792 948	31 093 822
Local income tax - recognised in current tax for prior periods	2 064 441	31 396
Royalty tax	40 560	108 405
	34 897 949	31 233 623

Deferred

Originating and reversing temporary differences	5 629 513	(11 406 782)
Changes in tax rates	609 180	-
Arising from prior period adjustments	(57 186)	-
	6 181 507	(11 406 782)
	41 079 456	19 826 841

Reconciliation of the tax expense

Reconciliation between accounting profit and tax expense.

Accounting profit	147 252 038	80 002 663
Tax at the applicable tax rate of 28% (2021: 28%)	41 230 571	22 400 746
Tax effect of adjustments on taxable income		
Non-deductible expenditure	-	341 767
Non-taxable income	(2 808 109)	(2 940 000)
Prior year underprovision of tax	2 064 441	31 396
Royalty tax	40 560	108 405
Prior year deferred tax adjustment	(57 187)	(115 473)
Change in tax rate	609 180	-
	41 079 456	19 826 841

Deferred tax incorporates the tax rate change from 28% to 27%, which will be applicable from the 2023 financial year.

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).

Qualitative characteristics of information that is disclosed in the financial statements:

- Understandability
- Relevance
- Materiality
- Reliability
- Substance over form
- Prudence
- Completeness
- Comparability
- Timeliness
- Balance between benefit and cost
- Undue cost or effort

Section 29 *Income Tax*

Scope of this section

29.1 For the purpose of this Standard, **income tax** includes all domestic and foreign taxes that are based on **taxable profit**. Income tax also includes taxes, such as withholding taxes, that are payable by a **subsidiary, associate or joint venture** on distributions to the reporting entity.

29.2 This section covers accounting for income tax. It requires an entity to recognise the current and future tax consequences of transactions and other events that have been recognised in the **financial statements**. These recognised tax amounts comprise **current tax** and **deferred tax**. Current tax is income tax payable (recoverable) in respect of the taxable profit (tax loss) for the current period or past periods. Deferred tax is income tax payable or recoverable in future periods, generally as a result of the entity recovering or settling its **assets and liabilities** for their current **carrying amount**, and the tax effect of the carryforward of currently unused tax losses and tax credits.

Definition of “current tax”

Definition of “deferred tax”

Recognition and measurement of current tax

29.4 An entity shall recognise a current tax liability for tax payable on taxable profit for the current and past periods. If the amount paid for the current and past periods exceeds the amount payable for those periods, the entity shall recognise the excess as a current tax asset.

**Current tax
SARS asset/liability**

29.5 An entity shall recognise a current tax asset for the benefit of a tax loss that can be carried back to recover tax paid in a previous period.

29.6 An entity shall measure a current tax liability (asset) at the amount it expects to pay (recover) using the tax rates and laws that have been enacted or **substantively enacted** by the **reporting date**. An entity shall regard tax rates and tax laws as substantively enacted when the remaining steps in the enactment process have not affected the outcome in the past and are unlikely to do so. Paragraphs 29.32–29.33 provide additional **measurement** guidance.

**Tax rate – substantially
enacted/enacted**

Recognition of deferred tax

General recognition principle

29.7 It is inherent in the **recognition** of an asset or a liability that the reporting entity expects to recover or settle the carrying amount of that asset or liability. If it is **probable** that recovery or settlement of that carrying amount will make future tax payments larger (smaller) than they would be if such recovery or settlement were to have no tax consequences, this section requires an entity to recognise a **deferred tax liability (deferred tax asset)** with certain limited exceptions. If the entity expects to recover the carrying amount of an asset or settle the carrying amount of a liability without affecting taxable profit, no deferred tax arises in respect of the asset or liability.

29.8 An entity shall recognise a deferred tax asset or liability for tax recoverable or payable in future periods as a result of past transactions or events. Such tax arises from the differences between the carrying amounts of the entity's assets and liabilities in the **statement of financial position** and the amounts attributed to those assets and liabilities by the tax authorities (such differences are called 'temporary differences'), and the carryforward of currently unused tax losses and tax credits.

**Deferred tax asset/liability
Probability (Requires at least 50%
certainty) before asset or liability
can be recognised**

- **Need to recognise deferred tax on the balance sheet method.**
- **Difference between the carrying value of an asset and the tax value (tax base) of an asset**
- **Difference between the carrying value of a liability and the tax value (tax base) of the liability**

Tax bases and temporary differences

- 29.9 The **tax base of an asset** is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.
- 29.10 The **tax base of a liability** is its carrying amount less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of **revenue** that is received in advance, the tax base of the resulting liability is its carrying amount less any amount of the revenue that will not be taxable in future periods.
- 29.11 Some items have a tax base but are not recognised as assets and liabilities in the statement of financial position. For example, **research and development** costs are recognised as an **expense** when determining **accounting profit** in the period in which they are incurred but may not be permitted as a deduction when determining taxable profit (tax loss) until a later period. The difference between the tax base of the research and development costs, being the amount that the taxation authorities will permit as a deduction in future periods, and the carrying amount of nil is a **deductible temporary difference** that results in a deferred tax asset.
- 29.12 Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. In **consolidated financial statements**, temporary differences are determined by comparing the carrying amounts of assets and liabilities in the consolidated financial statements with the appropriate tax base. The tax base is determined by reference to a consolidated tax return in those jurisdictions in which such a return is filed. In other jurisdictions, the tax base is determined by reference to the tax returns of each entity in the **group**.

Tax base of an asset
e.g. Tax value of PPE
Assessed loss
Provisions

Tax base of a liability
e.g. Section 24C

Taxable temporary differences

29.14 A deferred tax liability shall be recognised for all **taxable temporary differences**, except to the extent that the deferred tax liability arises from:

- (a) the initial recognition of goodwill; or
- (b) the initial recognition of an asset or a liability in a transaction that:
 - (i) is not a business combination; and
 - (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, a deferred tax liability shall be recognised in accordance with paragraph 29.25.

Generally need to recognise deferred tax on ALL temporary differences.

29.15

Some temporary differences arise when **income** or expense is included in accounting profit in one period but is included in taxable profit in a different period. Such temporary differences are often described as **timing differences**. The following are examples of temporary differences of this kind that are taxable temporary differences and that therefore result in deferred tax liabilities:

- (a) interest revenue is included in accounting profit on a time-proportion basis but may, in some jurisdictions, be included in taxable profit when cash is collected. The tax base of any receivable with respect to such revenues is nil, because the revenues do not affect taxable profit until cash is collected.
- (b) **depreciation** used when determining taxable profit (tax loss) may differ from that used when determining accounting profit. The temporary difference is the difference between the carrying amount of the asset and its tax base, which is the original cost of the asset less all deductions in respect of that asset permitted by the taxation authorities when determining taxable profit of the current and prior periods. A taxable temporary difference arises, and results in a deferred tax liability, when tax depreciation is accelerated. If the tax depreciation is less rapid than the accounting depreciation, a deductible temporary difference arises resulting in a deferred tax asset (see paragraph 29.16).

Interest (S23M)
Limitation of interest deductions in respect of debts owed to persons not subject to tax

Fixed assets

Deductible temporary differences

29.16 A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or a liability in a transaction that:

- (a) is not a business combination; and
- (b) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

However, for deductible temporary differences associated with investments in subsidiaries, branches and associates and for interests in joint ventures, a deferred tax asset shall be recognised in accordance with paragraph 29.26.

29.17 The following are examples of deductible temporary differences that result in deferred tax assets:

- (a) retirement benefit costs may be deducted when determining accounting profit at the time that the service is provided by the employee, but deducted when determining taxable profit either when contributions are paid to a fund by the entity or when retirement benefits are paid by the entity. A temporary difference exists between the carrying amount of the liability and its tax base; the tax base of the liability is usually nil. Such a deductible temporary difference results in a deferred tax asset because economic benefits will flow to the entity in the form of a deduction from taxable profits when contributions or retirement benefits are paid.
- (b) certain assets may be carried at fair value, without an equivalent adjustment being made for tax purposes. A deductible temporary difference arises if the tax base of the asset exceeds its carrying amount.

Deferred tax asset raised to the extent that it is probable that taxable profits will be available in future. Effectively an “impairment” of deferred tax asset.

Examples of items that give rise to deferred tax assets:

- **Provisions add back**
 - **Bonus, Leave Pay, PRMA**
 - **Warranties, Maintenance**
 - **Credit Notes**
- **Section 11A pre-trade expenditures carried forward**
- **Section 23A limitation of capital allowance on assets leased**
- **Tax value of assets are higher than carrying value of assets**
- **Section 23M add back of interest**
- **Assessed losses**

29.18 The reversal of deductible temporary differences results in deductions when taxable profits of future periods are determined. It is probable that taxable profit will be available against which a deductible temporary difference can be utilised when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity that are expected to reverse:

- (a) in the same period as the expected reversal of the deductible temporary difference; or
- (b) in periods into which a tax loss arising from the deferred tax asset can be carried back or forward.

In such circumstances, the deferred tax asset is recognised in the period in which the deductible temporary differences arise.

29.19 When there are insufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, the deferred tax asset is recognised to the extent that:

- (a) it is probable that the entity will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary difference (or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward). When evaluating whether it will have sufficient taxable profit in future periods, an entity ignores taxable amounts arising from deductible temporary differences that are expected to originate in future periods, because the deferred tax asset arising from those deductible temporary differences will itself require future taxable profit in order to be utilised.
- (b) tax planning opportunities are available to the entity that will create taxable profit in appropriate periods.

When checking “impairment” – cannot set-off jurisdictions and cannot apply “group” tax

When checking impairment – There needs to be more than 50% likelihood of future profits (Probable > 50%)

Reassessment of unrecognised deferred tax assets

29.23

At the end of each reporting period, an entity reassesses any unrecognised deferred tax assets. The entity recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.



Annual evaluation

Measurement of deferred tax

29.27 An entity shall measure a deferred tax liability (asset) using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date. An entity shall regard tax rates and tax laws as substantively enacted when the remaining steps in the enactment process have not affected the outcome in the past and are unlikely to do so.

What tax rate?

In the National Budget Speech of 2022, it was announced that the corporate tax rate will be reduced from 28% to 27% with effect from years of assessment commencing on or after 1 April 2022

29.28 When different tax rates apply to different levels of taxable profit, an entity shall measure deferred tax liabilities (assets) using the average enacted or substantively enacted rates that it expects to be applicable to the taxable profit (tax loss) of the periods in which it expects the deferred tax liability to be settled (deferred tax asset to be realised).

Gold Mines

29.29 The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the reporting date, to recover or settle the carrying amount of the related assets and liabilities. Consequently, an entity measures deferred tax liabilities and deferred tax assets using the tax rate and the tax base that are consistent with the expected manner of recovery or settlement. For example, if the temporary difference arises from an item of income that is expected to be taxable as a capital **gain** in a future period, the deferred **tax expense** is measured using the capital gain tax rate and the tax base that is consistent with recovering the carrying amount through sale.

- Investments – if the investment will be recovered via dividends – use 0%. If on sale use CGT rate.
- Land revaluations recovery via rent – use 27% - if via sale, use CGT rate

Withholding tax on dividends

29.34 When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. Such an amount paid or payable to taxation authorities is charged to **equity** as a part of the dividends.

- Dividend tax is tax on shareholder
HOWEVER
- Deemed dividends is tax on company and must be shown on tax line
 - Section 8F
 - Section 31

Presentation

Allocation in comprehensive income and equity

29.35 An entity shall recognise tax expense in the same component of **total comprehensive income** (ie continuing operations, **discontinued operations** or **other comprehensive income**) or equity as the transaction or other event that resulted in the tax expense.

- Disclose tax where the associated income is recognised

Current/non-current distinction

29.36 When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify any deferred tax assets (liabilities) as current assets (liabilities).

- Deferred tax is always non-current

Offsetting

29.37 An entity shall offset current tax assets and current tax liabilities, or offset deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off the amounts and the entity can demonstrate without undue cost or effort that it plans either to settle on a net basis or to realise the asset and settle the liability simultaneously.

- Generally in RSA a net amount can be shown. But acceptable to disclose separately.

8. Deferred tax

Deferred tax liability

Tangible fixed assets	(1 656 093)	(1 474 970)
Prepaid expenses	(399 096)	(945 393)
Total deferred tax liability	(2 055 189)	(2 420 363)

Deferred tax asset

Staff training	28 844	-
Other provisions	277 692	202 749
Tenant installation allowance	79 272	56 540
Long term incentive provision	12 324 479	15 788 720
Expected credit loss	28 903	54 741
Leave pay accrual	1 701 898	1 626 916
Lease obligation	1 809 989	1 830 609
Bonus provision	1 678 120	5 095 601
Provision for audit and other professional fees	331 578	393 844
Other advances	242 264	-
Total deferred tax asset	18 503 039	25 049 720

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

Deferred tax liability	(2 055 189)	(2 420 363)
Deferred tax asset	18 503 039	25 049 720
Total net deferred tax asset	16 447 850	22 629 357

- 29.40 An entity shall disclose the following separately:
- (a) the aggregate current and deferred tax relating to items that are recognised as items of other comprehensive income.
 - (b) the aggregate current and deferred tax relating to items that are charged or credited directly to equity.
 - (c) an explanation of any significant differences between the tax expense (income) and accounting profit multiplied by the applicable tax rate. For example such differences may arise from transactions such as revenue that are exempt from taxation or expenses that are not deductible in determining taxable profit (tax loss).
 - (d) an explanation of changes in the applicable tax rate(s) compared with the previous reporting period.
 - (e) for each type of temporary difference and for each type of unused tax losses and tax credits:
 - (i) the amount of deferred tax liabilities and deferred tax assets at the end of the reporting period; and
 - (ii) an analysis of the change in deferred tax liabilities and deferred tax assets during the period.
 - (f) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset is recognised in the statement of financial position.
 - (g) in the circumstances described in paragraph 29.33, an explanation of the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders.
- 29.41 If an entity does not offset tax assets and liabilities in accordance with paragraph 29.37 because it is unable to demonstrate without undue cost or effort that it plans to settle them on a net basis or realise them simultaneously, the entity shall disclose the amounts that have not been offset and the reasons why applying the requirement would involve undue cost or effort.

- **Sub-elements of deferred tax in balance sheet**

- **Generally in RSA a net amount can be shown. But acceptable to disclose separately.**

Understanding Deferred Tax

Example 1

Provisions

SECTION A: Current Tax computation

0 0 0

 30 June 30 June 30 June
 2021 2022 2023

Net income before tax			-5 000 000	30 000 000	40 000 000
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Temporary differences

3 500 000 250 000 600 000

Non-deductible Provisions

Provision for doubtful debt	CY	(+)	2 000 000	2 500 000	2 750 000
	PY	(-)	0	-2 000 000	-2 500 000
Provision for Bonus	CY	(+)	800 000	1 000 000	2 000 000
	PY	(-)	0	-800 000	-1 000 000
Provision for Leave Pay	CY	(+)	1 500 000	1 250 000	700 000
	PY	(-)	0	-1 500 000	-1 250 000
Doubtful debt allowance					
Section 11(j) allowance	CY	(-)	-800 000	-1 000 000	-1 100 000
	PY	(+)	0	800 000	1 000 000

Taxable income before assessed loss			-1 500 000	30 250 000	40 600 000
Taxable Capital Gains					
Controlled Foreign Company Gains					
Taxable income before assessed loss brought forward			-1 500 000	30 250 000	40 600 000
Assessed loss brought forward				-1 500 000	
Taxable income subject to standard tax rate			-1 500 000	28 750 000	40 600 000
Income Tax Rate			28%	28%	28%
Liability for normal tax			0	8 050 000	11 368 000
Section 6quat rebate		(-)			
Liability for South African tax			0	8 050 000	11 368 000
1st provisional tax payment		(-)			-6 000 000
2nd provisional tax payment		(-)		-7 000 000	-6 000 000
3rd provisional tax payment		(-)			
Remaining tax liability for current tax			0	1 050 000	-632 000
Potential understatement penalty			0	0	0

SECTION B: Deferred Tax computation

		Deferred tax asset: (+) Deferred tax liability: (-)	Deferred tax asset: (+) Deferred tax liability: (-)	Deferred tax asset: (+) Deferred tax liability: (-)
		30 June 2021	30 June 2022	30 June 2023
Total		5 000 000	3 750 000	4 350 000
<i>Non-deductible Provisions</i>				
Provision for doubtful debt	Carrying value	2 000 000	2 500 000	2 750 000
Provision for Bonus	Carrying value	800 000	1 000 000	2 000 000
Provision for Leave Pay	Carrying value	1 500 000	1 250 000	700 000
<i>Doubtful debt allowance</i>				
Section 11(j) allowance	Tax value	-800 000	-1 000 000	-1 100 000
<i>Assessed loss the end of the tax year</i>		1 500 000	0	0
<i>Total temporary differences</i>		5 000 000	3 750 000	4 350 000
<i>Relevant income tax rate</i>		28%	28%	28%
<i>Deferred tax balance at the end of the year</i>		1 400 000	1 050 000	1 218 000

SECTION D: Annual Financial Statement disclosure

	Deferred tax asset: (+) Deferred Tax liability: (-))	Deferred tax asset: (+) Deferred Tax liability: (-))	Deferred tax asset: (+) Deferred Tax liability: (-))
	30 June 2021	30 June 2022	30 June 2023
Deferred tax balance movement			
Deferred tax asset/(liability) per the prior year Annual Financial Statements			
Prior year over/under provision for deferred tax			
Deferred tax asset/(liability) as per prior year ITR 14 submitted		1 400 000	1 050 000
Deferred tax raised via temporary differences	980 000	70 000	168 000
Assessed loss at the end of the year	420 000	0	0
Prior year assessed loss utilised	0	-420 000	0
Deferred tax raised outside temporary differences in normal tax comp			
<i>Deferred tax asset/(liability) raised via equity on IFRS adoptions (e.g. IFRS 9, IFRS 15 or IFRS 16) - generally at beginning of year</i>			
<i>Deferred tax assets/(liabilities) raised on corporate rule transactions concluded during the year</i>			
<i>[Other: Please describe]</i>			
Deferred tax asset/(liability) at the end of the year	1 400 000	1 050 000	1 218 000
Deferred tax asset/(liability) calculated on balance sheet method (before deferred tax raised via equity and OCI).	1 400 000	1 050 000	1 218 000
Amount by which proof of deferred tax does not balance	0	0	0

SECTION D: Annual Financial Statement disclosure

	Due by SARS: (+) Due to SARS: (-)	Due by SARS: (+) Due to SARS: (-)	Due by SARS: (+) Due to SARS: (-)
SARS balance as at the end of the current financial year end.	30 June 2021	30 June 2022	30 June 2023
Amount due by /(to) SARS for current year (+)(-)	0	-1 050 000	632 000
Amount due by /(to) SARS for prior years (+)(-)			
Section 6quat foreign tax rebates available after current year utilisation and not impaired for accounting purposes. (+)	0	0	0
	0	-1 050 000	632 000

SECTION D: Annual Financial Statement disclosure

	Tax expense: (+) Tax income: (-)	Tax expense: (+) Tax income: (-)	Tax expense: (+) Tax income: (-)
	30 June 2021	30 June 2022	30 June 2023
Income Statement (SOI) disclosure in current year			
Normal Tax	0	8 050 000	11 368 000
- Current year tax expense/(income)	0	8 050 000	11 368 000
- Prior year (over)/under provision for normal tax			
- Foreign tax rebates written off to the income statement and not utilised			
Deferred Tax	-1 400 000	350 000	-168 000
- Current year deferred tax expense/(income)	-1 400 000	350 000	-168 000
- Prior year (over)/under provision for deferred tax			
- Change in tax rate			
Total taxation per Income statement	-1 400 000	8 400 000	11 200 000

SECTION D: Annual Financial Statement disclosure

Tax rate reconciliation	30 June 2021	30 June 2022	30 June 2023
Effective tax rate	28.00%	28.00%	28.00%
Dividend tax on deemed dividends	0.00%	0.00%	0.00%
Capital Gains Tax	0.00%	0.00%	0.00%
Foreign tax rebates written off to the income statement and not utilised	0.00%	0.00%	0.00%
Impact of prior year adjustments normal tax	0.00%	0.00%	0.00%
Impact of prior year adjustments deferred tax	0.00%	0.00%	0.00%
Impact of non-temporary differences	0.00%	0.00%	0.00%
Impact of change in tax rate	0.00%	0.00%	0.00%
Standard Tax Rate	28.00%	28.00%	28.00%

Example 2

Fixed Assets

Case Study			
Facts	Date		
Company acquires mobile crane on	2021/01/01		
Purchase price	R 1 000 000		
Section 11(e) tax wear and tear	25%		
Accounting Depreciation rate (no residual)	15%		
Mobile crane is used as part of business continuously			
Mobile crane is sold to unrelated party on	2023/03/31		
Proceeds on sale of asset	R 1 400 000		
Assumptions	2021/06/30	2022/06/30	2023/06/30
Net income before depreciation and before profit/loss on sale of asset	20 000 000	30 000 000	40 000 000
Total provisional tax payments made for relevant tax year	4 000 000	6 000 000	9 000 000
Assume prior year tax liability is settled in full in current year			
Calculate:	2021	2022	2023
1. Net income before tax			
2. Current tax charge in Income Statement			
3. Deferred tax charge in income statement			
4. SARS liability as at 30 June each year			
5. Book value of assets as at 30 June each year			
6. Tax value of assets as at 30 June each year			
7. Deferred tax liability as at 30 June each year			
8. Perform proof of deferred tax at 30 June each year - Balance?			

Calculating NIBT

	30 June 2021	30 June 2022	30 June 2023
Net Income before tax before Depreciation	20 000 000	30 000 000	40 000 000
Accounting depreciation	-75 000	-150 000	-112 500
Accounting profit/(loss) on sale of asset			737 500
Net income before tax	19 925 000	29 850 000	40 625 000

Book value on date of sale	662 500
Proceeds on sale	1 400 000
Profit on sale	737 500

Current Tax computation

	30 June 2021	30 June 2022	30 June 2023
Net income before tax	19 925 000	29 850 000	40 625 000
Non-temporary differences	0	0	-400 000
Capital accounting profit on sale of assets			-400 000
Other			
Temporary differences	-50 000	-100 000	150 000
Fixed assets			
Reverse accounting			
Depreciation (+)	75 000	150 000	112 500
Accounting profit/loss on sale of fixed assets (+)(-)			-337 500
Record tax consequences of transactions			
Capital allowances: S11(e) (-)	-125 000	-250 000	-187 500
Section 8(4)(a) recoupments (+)			562 500
PY (+)(-)			
Taxable income before assessed loss	19 875 000	29 750 000	40 375 000
Taxable Capital Gains			320 000
Taxable income before assessed loss brought forward	19 875 000	29 750 000	40 695 000
Assessed loss brought forward			
Taxable income subject to standard tax rate	19 875 000	29 750 000	40 695 000
Income Tax Rate	28%	28%	28%
Liability for normal tax	5 565 000	8 330 000	11 394 600
Provisional tax payments (-)	-4 000 000	-6 000 000	-9 000 000
Remaining tax liability for current tax	1 565 000	2 330 000	2 394 600

Calculating Deferred Tax

Deferred Tax computation

Deferred tax asset: (+) Deferred tax liability: (-)	Deferred tax asset: (+) Deferred tax liability: (-)	Deferred tax asset: (+) Deferred tax liability: (-)
30 June 2021	30 June 2022	30 June 2023

Items requiring manual input

		-50 000	-150 000	0
Fixed asset: Carrying amount	Carrying va (-)	-925 000	-775 000	0
Fixed assets: Tax value	Tax value (+)	875 000	625 000	
[Other: Please describe]				
[Other: Please describe]				
[Other: Please describe]				
[Other: Please describe]				

Total temporary differences	-50 000	-150 000	0
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Relevant income tax rate	28%	28%	28%
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Deferred tax balance at the end of the year	-14 000	-42 000	0
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Proof of Deferred Tax

Proof of deferred tax

Deferred tax balance movement

	30 June 2021	30 June 2022	30 June 2023
Deferred tax asset/(liability) as per prior year ITR 14 submitted	0	-14 000	-42 000
Deferred tax raised via temporary differences <i>[Other: Please describe]</i>	-14 000	-28 000	42 000
Deferred tax asset/(liability) at the end of the year	-14 000	-42 000	0
Deferred tax asset/(liability) calculated on balance sheet method (before deferred tax raised via equity and OCI).	-14 000	-42 000	0
Amount by which proof of deferred tax does not balance	0	0	0

Deferred tax asset: (+) Deferred Tax liability: (-)	Deferred tax asset: (+) Deferred Tax liability: (-)	Deferred tax asset: (+) Deferred Tax liability: (-)

30 June
2021

30 June
2022

30 June
2023

Disclosure in Income Statement

Income Statement (SOI) disclosure in current year

	30 June 2021	30 June 2022	30 June 2023
Normal Tax	5 565 000	8 330 000	11 394 600
- Current year tax expense/(income)	5 565 000	8 330 000	11 394 600
- Prior year (over)/under provision for normal tax			
- Foreign tax rebates written off to the income statement and not utilised			
Deferred Tax	14 000	28 000	-42 000
- Current year deferred tax expense/(income)	14 000	28 000	-42 000
- Prior year (over)/under provision for deferred tax			
- Change in tax rate			
Dividend Tax	0	0	0
- Dividends tax on deemed dividends			
- Dividend tax on transfer pricing adjustments			
Total taxation per Income statement	5 579 000	8 358 000	11 352 600

Tax Rate Reconciliation

Tax rate reconciliation

	30 June 2021	30 June 2022	30 June 2023
Effective tax rate	28.00%	28.00%	27.94%
Capital Gains Tax	0.00%	0.00%	-0.22%
Impact of non-temporary differences	0.00%	0.00%	0.28%
Standard Tax Rate	28.00%	28.00%	28.00%

Answer

	2021	2022	2023
1. Net income before tax	19 925 000	29 850 000	40 625 000
2. Current tax charge in Income Statement	5 565 000	8 330 000	11 394 600
3. Deferred tax charge in income statement	14 000	28 000	-42 000
4. SARS liability as at 30 June each year	1 565 000	2 330 000	2 394 600
5. Book value of assets as at 30 June each year	925 000	775 000	-
6. Tax value of assets as at 30 June each year	875 000	625 000	-
7. Deferred tax liability as at 30 June each year	-14 000	-42 000	-
8. Perform proof of deferred tax at 30 June each year - Balance?	-	-	-

Prior year
adjustment

Calculation and Disclosure

What is a prior year adjustment?

Difference between tax amount calculated and disclosed in the AFS compared to final assessment issued by SARS

Relevant for normal as well as deferred tax

Why do we need to disclose this?

For AFS to be accurate and reliable

			Comments	2021 ITR14	2021 AFS
Liability for South African tax				33 188 134	31 123 693

			Comments	2021 ITR14	2021 AFS
Closing balance on deferred tax				22 686 544	22 629 357

	Assessment	AFS	Difference
Normal tax charge	33 188 134	31 123 693	2 064 441
Deferred tax	22 686 543	22 629 357	57 186

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

27. Taxation

Major components of the tax expense

Current

Local income tax - current period	32 792 948	31 093 822
Local income tax - recognised in current tax for prior periods	2 064 441	31 396
Royalty tax	40 500	108 405
	34 897 949	31 233 623

Deferred

Originating and reversing temporary differences	5 629 513	(11 406 782)
Changes in tax rates	600 180	-
Arising from prior period adjustments	(57 186)	-
	6 181 507	(11 406 782)
	41 079 456	19 826 841

28% - 27%

Change in tax rate

			Comments	2 022	2 021
Taxable income before assessed loss				115 080 991	118 529 048
Taxable Capital Gains					
Controlled Foreign Company Gains				0	0
Taxable income before assessed loss brought forward				115 080 991	118 529 048
Assessed loss brought forward					
Taxable income subject to standard tax rate				115 080 991	118 529 048
Income Tax Rate				28%	28%
Section 6quat deduction					
					118 529 048
Liability for normal tax				32 222 677	33 188 134
Section 6quat rebate		(-)			
Liability for South African tax				32 222 677	33 188 134
Section 6quat rebate					
1st provisional tax payment		(-)	PSOA	-16 049 200	-13 877 837
2nd provisional tax payment		(-)	PSOA	-17 342 664	-17 383 553
3rd provisional tax payment		(-)		0	-1 944 640
Remaining tax liability / (Refund) for current tax				-1 169 187	-17 897

	Comments	2 022	2 021
SECTION B: Deferred Tax computation			
<i>Relevant income tax rate</i>		27%	28%

In the National Budget Speech of 2022, it was announced that the corporate tax rate will be reduced from 28% to 27% with effect from years of assessment commencing on or after 1 April 2022

How to calculate change in tax rate:

	Comments	2 022
Total temporary differences		59 437 308

Total temporary differences	59 437 308	A
Tax rate was	28%	
Tax rate changed to	27%	
Difference in rate	1%	B
Effect of rate change	594 373	A x B

Income Statement (SOCl) disclosure in current year

	2 022	2 021
Normal Tax	34 316 988	33 219 529
- Current year tax expense/(income)	32 222 677	33 188 134
- Prior year (over)/under provision for normal tax	2 094 311	31 396
- Foreign tax rebates written off to the income statement and not utilised		
Deferred Tax	6 581 288	-11 463 969
- Current year deferred tax expense/(income)	6 044 102	-11 348 496
- Prior year (over)/under provision for deferred tax	-57 187	-115 473
- Change in tax rate	594 373	
Dividend Tax	0	0
- Dividends tax on deemed dividends		
- Dividend tax on transfer pricing adjustments		
Total taxation per Income statement	40 898 277	21 755 561

Section 20 of
the ITA

New Rules on 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 will be 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 loss• Companies 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 – taxable income and not assessed loss

Companies who are 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.

Example 1	New rules	Previous rules
Taxable income	R1,500,000	R1,500,000
Assessed loss balance brought forward	R3,000,000	R3,000,000
Assessed loss allowed	Greater of 80% of taxable income / R1 million	100% of taxable income
Assessed loss deducted	R1,200,000 <i>(80% of R1,500,000)</i>	R1,500,000
Taxable income after deduction	R300,000 <i>(R1,500,000 less R1,200,000 deducted above)</i>	R0
<i>Tax payable at 27%</i>	<i>R81,000</i>	<i>R0</i>
Assessed loss balance carried forward	R1,800,000 <i>(R3,000,000 less R1,200,000 deducted above)</i>	R1,500,000 <i>(R3,000,000 less R1,500,000 deducted above)</i>

			Comments	2024	2023
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
<i>Assessed loss limitation applicable from 2024 tax year</i>					
<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

			Comments	2024	2023
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	

			Comments	2 024	2 023
Taxable income before assessed loss				579 380	-4 393 218
Taxable Capital Gains					
Controlled Foreign Company Gains					
Taxable income before assessed loss brought forward				579 380	-4 393 218
Assessed loss brought forward (Max 80% of current year taxable income)			Taxable income is less than R1m therefore full assessed loss can be B/F	-20 248 610	-15 855 392
Assessed loss limitation applicable from 2024 tax year					
Assessed loss brought forward				-19 506 363	
Claimable assessed loss				-19 506 363	
Assessed loss carried forward to next year				0	
Taxable income subject to standard tax rate				-19 669 230	-20 248 610
Income Tax Rate				27%	28%
Liability for normal tax				0	0
Section 6quat rebate		(-)			
Liability for South African tax				0	0
1st provisional tax payment		(-)		0	
2nd provisional tax payment		(-)			
3rd provisional tax payment		(-)			
Remaining tax liability for current tax				0	0

Thank you