Tax amendments

Limitation of assessed losses and change in corporate tax rate

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Overview

In his budget speech on 23 February 2022, the Minister of Finance, enacted an amendment to section 20 of the Income Tax Act. The amendment, which limits the utilization of assessed losses, aligns National Treasury's reduction in the corporate tax rate from 28% to 27%.

National Treasury has indicated that the reduction in the corporate tax rate requires a trade-off by broadening of the tax base in order to achieve overall revenue neutrality. Restricting the use of assessed losses against taxable income (amongst other measures) provides some of the fiscal space required to lower the corporate income tax rate and, as a result, forms part of a corporate income tax package to broaden the base and reduce the headline corporate tax rate in an overall revenue neutral manner.

In respect of years of assessment starting on or after 1 April 2022, corporate taxpayers will no longer be able to fully utilize an assessed loss carried forward balance against their positive income tax position. Instead, the utilization of an accumulated assessed loss will be limited to 80% of the taxable income in the year of assessment, with the remaining assessed loss balance to be utilized in subsequent years of assessment.

Illustrative example

Company A has a year of assessment starting 1 January. During the 2022 year of assessment, Company A accumulated an assessed loss of ZAR 10 million which will be carried forward to 2023. During its 2023 year of assessment it has a taxable income of ZAR 6 million. Under the new amendment, only ZAR 4.8 million (ZAR 6 million x 80%) of the ZAR 10 million assessed loss can be utilized during the 2023 year of assessment. The remaining unutilized balance of ZAR 5.2 million will be carried forward to be utilized in subsequent years of assessment. Company A would be liable for normal tax at 27% on ZAR 1.2 million (ZAR 6 million – ZAR 4.8 million).

Note: As the amendment is only effective for years of assessment starting on or after 1 April 2022, Company A's 2022 assessed losses will not be limited to 80%.

In addition, section 20 of the Income Tax Act provides relief for companies whose taxable income, before taking into account prior assessed losses, does not exceed ZAR 1 million. In such circumstances, the 80% limitation will not apply.

Income tax implications

While the reduction in the corporate tax rate may bring some relief to corporate taxpayers, those having accumulated assessed losses will only be able to obtain the benefit of such over an extended period of time. As noted in the example above, the deferral of utilization of assessed losses could further adversely impact a corporate entity's tax cash flows.

Financial reporting implications

The deferral of the utilization of assessed losses is unlikely to have a measurement impact on deferred tax given that IAS 12 Income Taxes prohibits the discounting of deferred tax assets and liabilities. However, the reduction in the corporate tax rate will impact the measurement of existing deferred tax assets and liabilities as well as trigger additional disclosure requirements in accordance with IAS 12.