

Corporate Income Tax Rate Reduction and Changes to the Treatment of Assessed Losses

The Minister of Finance in his Budget Speech in February 2022 announced a reduction of the companies' tax rate from 28% to 27% with effect from years of assessment ending on or after 31 March 2023. The reduction in the corporate tax rate was accompanied by a change to the treatment of assessed losses (section 20 of the Income Tax Act, 1962 (the ITA)) and a further limitation of interest deductions (section 23M of the ITA).

The current treatment of assessed losses (before the changes take effect) allows a taxpayer company to carry forward and claim an assessed loss if the company is still trading. The company loses the right to claim the assessed loss if the company has not traded at all during the year of assessment.

The changes to the claiming of assessed losses will limit the assessed loss deduction to the greater of 80% of taxable income (before considering any assessed loss) or R1 million.

Example

The company carries forward an assessed tax loss from the previous year of assessment of R2 000 000. The company has taxable income of R2 000 000 in the current year of assessment.

Current treatment	
Taxable income current year of assessment before losses	R 2 000 000
Less assessed loss	(R 2 000 000)
Taxable income after losses	R NIL
Tax payable	R NIL

Based on the current treatment of losses, the company will be entitled to a full deduction of the previous year's assessed loss and will not be liable to pay any tax.

Future treatment	
Taxable income current year of assessment before losses	R 2 000 000
Less: Greater of R1 000 000, or	
80% of taxable income (80% x R2 000 000 = R 1 600 000)	(R 1 600 000)
Taxable income	R 400 000
Tax payable (27% x R400 000)	R 108 000

The effect of the change is that if 80% of a company's previous year's assessed loss is less than R1 million, the full assessed loss will be deductible against its taxable income.

Companies should consider the effect of this change when submitting future tax returns and provisional tax estimations.

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