A lower corporate tax rate: Good news for some taxpayers

By Pieter van der Zwan, issued by SAICA

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The National Treasury announced in the 2022 Budget Review that the corporate tax rate will be lowered to 27% for years of assessment that end or on after 31 March 2023. Practically, for most companies, this means that the reduced rate applies for years of assessment that start on or after 1 April 2022 and some companies may already enjoy the effect of the reduction in 2022 when making provisional tax payments. Companies with a February year-end must however wait for their financial years that end on 28 February 2024 for the reduced rate to take effect.

However, the rate reduction comes at a cost for some taxpayers. The reduction in the corporate tax rate coincides with two amendments made in 2021 to broaden the corporate tax base. The National Treasury indicates in the Budget Review that it anticipates that the combination of the rate change and the two base-broadening provisions should not have any effect on revenue for the fiscus.

The base-broadening measures that accompany the rate reduction are, firstly that companies can only utilise assessed losses carried forward against 80% of their taxable income for a year of assessment. This means that a company will pay tax on 20% of its taxable income, even if it has an assessed loss carried forward in excess of its taxable income for the year. The limitation does not apply if the assessed loss carried forward for set-off against taxable income does not exceed R1 million. Some smaller businesses may therefore not be affected.

The second measure is the deduction of interest paid to persons with whom a taxpayer is in a controlling relationship is limited in terms of section 23M of the Income Tax Act. The scope of the provision was broadened (both the circumstances as well as the amounts to which it applies). The rate at which the limit is calculated was also lowered to a fixed rate of 30% of the adjusted taxable income of the debtor. Previously this rate was determined at a base rate of 40%, which was adjusted for the level of the average repurchase rate.

The base-broadening amendments were introduced in 2021 with delayed effective dates linked to the date on which the corporate tax is first reduced after the announcement by the Minister of Finance in the annual National Budget. They apply in respect of years of assessment commencing on or after that date.

These effective dates resulted from public consultations where concerns were raised regarding the timing of the amendment relating particularly to the carrying forward of assessed losses. The concern was mainly that if companies use cash resources to pay tax on 20% of their taxable income, this may hamper their ability to recover from the effects of, amongst others, the Covid-19 pandemic and July 2021 unrests. The response document to the 2021 amendments acknowledged that businesses have faced difficult economic circumstances, that some businesses are in survival mode and the importance of providing the space for recovery.The timing of the rate change, and the base-broadening amendments becoming effective, may come as a surprise for some, especially for those taxpayers on the receiving end of the National Treasury's revenue balancing act.

ABOUT THE AUTHOR

Professor Pieter van der Zwan, CA (SA), is a member of the South African Institute of Chartered Accountants National Tax Committee.

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