



February 2022

Reduction in Corporate Income Tax Rate and Broadening the Tax Base

The 2022 Budget Speech delivered on 23 February 2022 included an announcement that the corporate income tax (CIT) rate would be reduced from 28% to 27%. The announcement confirms the reduction in rate initially floated in the 2021 Budget Speech. The reduction in rate will be implemented in a fiscally neutral manner through the introduction of measures to broaden the tax base. The effective dates of the changes being **years of assessment ending on or after 31 March 2023** may catch companies by surprise.

In the 2021 Budget Speech, the Minister of Finance announced that the CIT rate would reduce from 28% to 27% with effect from years of assessment commencing on or after 1 April 2022. Given that the implementation date of the CIT reduction was more than a year away, it was not surprising that the reduction in the CIT rate was not included in the Draft Rates and Monetary Amounts and Amendment of Revenue Laws Bill (the Draft Rates and Monetary Amounts Bill) for 2021.

The 2021 legislative cycle did, however, see the promulgation of amendments to section 20 of the Income Tax Act No 58 of 1962 (the Income Tax Act) which introduced a limitation on the ability of a company to utilise assessed tax losses. A maximum of R1 million or 80% of taxable income (whichever is greater) is permitted to be set-off against taxable income. In addition, section 23M which limits the deduction of interest payable to certain parties who are not subject to tax was significantly widened. These changes are key to ensuring that the reduction in rate is fiscally neutral.

The amendments to the Income Tax Act were contained in sections 18 and 19 of the Taxation Laws Amendment Act 20 of 2021 (the 2021 TLAA). Whilst the draft legislation reflected the effective date of the amendments as being years of assessment commencing on or after 1 April 2022, this date was changed following the public commentary process. The 2021 TLAA reflects the amendments as becoming operational "on the date on which the rate of tax in respect of the taxable income of a company is first reduced after announcement by the Minister of Finance in the annual National Budget and applies in respect of years of assessment commencing on or after that date".

On 23 February 2022, the Minister of Finance announced that the CIT would reduce from 28% to 27% with effect from years of assessment ending on or after 31 March 2023. This change has been included the Draft Rates and Monetary Amounts Bill for 2022. Importantly, the Draft Rates and Monetary Amounts Bill for 2022 also includes amendments to section 18 and 19 of the 2021 TLAA changing the effective dates of the amendments to section 20 and section 23M. These amendments will now come into operation on 31 March 2023 and will apply in respect of years of assessment ending on or after that date.

Whilst the reduction in the CIT rate is welcome, there was concern that the amendments to broaden the tax base, specifically the amendments in relation to assessed losses, would be detrimental to many companies still battling to regain a financial footing following the economic fallout as a result of the COVID-19 pandemic. Following comments from industry in this regard, many expected the implementation of the CIT reduction to be pushed out.

Whilst the wording of the effective date may have changed, years of assessment ending on or after 31 March 2023 marks the same period as years of assessment commencing on or after 1 April 2022.

KPMG has a team of professionals who are able to advise companies who may be impacted by the changes in respect of the utilisation of assessed losses or by the interest limitations.

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