EYU

The way we develop our people

Deferred Tax Slides “Back to basics”.

ICAZ Seminar 26 January 2017

Building a better working world

State of affairs

- Tax rate reconciliation items often grouped together incorrectly (e.g. “non-deductible expenses” is insufficient)
- Detailed and specific disclosure not provided to support recognition of a deferred tax asset (including nature and assumptions made)
- Incorrect application of offsetting of deferred tax assets and liabilities
- Deferred tax on non-depreciable assets not measured at the CGT rate
- Accounting policy and measurement basis of uncertain tax positions often not disclosed

State of affairs (Continued)

- Tax reviewers did not have sufficient knowledge of business operations.
- ZIMRA's "Pay first and query later", what guidance governs the resulting receivable? [IAS 37, IAS 12].
- Estimates for penalties and interest.
- We should aim for better disclosure (More clarity and less boiler plate).

Definitions

- Deferred tax liabilities- Amounts of income tax taxes payable in future periods in respect of *taxable temporary differences.*
- Deferred tax assets- Amounts of income taxes recoverable in future periods in respect of *deductible temporary differences* together with carry forward of unutilised tax losses.

Definitions (Continued)

- **Taxable temporary difference-** Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax position.
- **Deductible temporary difference-** Temporary differences that will result in amounts that are deductible in determining taxable profit (tax loss) of future periods when the carrying amounts of the asset / liability is recovered or settled.

Definitions (Continued)

- **Tax base of an asset** -The amount that will be deductible for tax purposes against any taxable economic benefit that will flow to the entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base is equal to its carrying amount.
- **Tax base of a liability-** 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 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.

Summary table

Asset/Liability	CA higher or lower than tax base	Nature of temporary difference	Resulting deferred tax (if recognised)
Asset	Higher	Taxable	Liability
Asset	Lower	Deductible	Asset
Liability	Higher	Deductible	Asset
Liability	Lower	Taxable	Liability

Practical Considerations- Deferred tax treatment

- Land acquired (Pre and Post 1 February 2009)
- Passenger motor vehicles with cost exceeding B$10,000
- Capital work in progress.
- Financial lease liability.
- Money market investments.
- Equity investments [*Listed investments, Unlisted Investments]*
- Investment in Associates
- Investment in subsidiaries (IAS 12.39-40)
- Goodwill

Practical Considerations- Deferred tax treatment

- Consumable stock [Spares e.t.c].
- Provisions *[Doubtful debts, Provision for dismantling costs , Leave pay]*
- Investment property accounted for at FVTPL.
- Depreciable PPE with a residual value.
- Unrealised exchange gain or losses. [PY and CY].
- Prepayments.
- Income received in advance.
- Treatment of unutilised tax losses *[carry forward, group re-organisation].*

QUESTIONS?

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