

Corporate tax treatment of receivables 2/19/21

Our customers have been wondering about differences in the corporate income tax ("CIT") treatment of receivables on the balance sheet at 31 December 2017 and those arising at a later date. This article summarises the CIT treatment of receivables in various situations.

Tax base implications

What we need to remember in general is that section 9 of the CIT Act applies to receivables on the balance sheet from 1 January 2018 onwards, and those may have to be added to the tax base unless the conditions of section 9 are met.

On the other hand, receivables that were on the balance sheet at 31 December 2017 may be deducted from the tax base if the conditions of section 9(3) are met.

The table below offers a summary of information about possible actions or events around receivables on the balance sheet at 31 December 2017 and later, as well as the respective CIT implications.

Receivables on the balance sheet at 31 December 2017

Action/Event

A provision is made for the receivable.

CIT implications

No CIT implications under paragraph 28 of the transitional provisions of the CIT Act.

The tax base may be reduced if the conditions of section 9(3) are met.

The receivable is expensed against provisions made before 2018.

The amount must appear on line 21 of the CIT return for the tax period (the receivable times 0.75).

NB! These provisions must be recorded separately from others!

The receivable is expensed against provisions made after 2017.

No CIT implications because the law does not provide for reducing the tax base if the provision was made after 2017.

The tax base may be reduced if the conditions of section 9(3) are met.

The amount must be reported on line 21 of the tax return for the period (the receivable times 0.75) and deducted from the retained earnings at 31/12/2017 (if still available) by completing the column "Receivables deducted from the tax base" in table 1.1 of the tax return.

The receivable is expensed immediately.

NB! If the company does not have any retained earnings available at 31/12/2017 the tax base cannot be reduced!

No CIT implications because the law does not provide for deducting the recovered debt or the reduction in the special provision from the tax base if the debt was included in taxable income in an earlier financial year because the transitional provisions make no reference to section 9(5).

The receivable is recovered.

Receivables on the balance sheet from 1 January 2018

Action/Event

A provision is made for the receivable.

CIT implications

No CIT implications when the provision is made.

<p>The provision made for the receivable reaches 36 months.</p>	<p>If the debt remains unrecovered or if section 9(3) does not apply, the amount must be added to the tax base. <i>The amount must appear on line 6.2 of the last tax return for the financial year.</i></p>
<p>The receivable is written off against provisions before reaching 36 months.</p>	<p>For example, if the provision was made in June 2018 and the debt remains unrecovered by July 2021 (and by the end of the year) and if none of the section 9(3) exemptions is available, the provision must appear on line 6.2 of the tax return for December 2021. The amount must be added to the tax base unless the conditions of section 9(3) are met. <i>The amount must appear on line 6.2 of the last tax return for the financial year.</i></p>
<p>The receivable is expensed directly.</p>	<p>The amount must be added to the tax base unless the conditions of section 9(3) are met. <i>The amount must appear on line 6.2 of the last tax return for the financial year.</i></p>
<p>The debt is recovered after the debt or provision was added to the tax base.</p>	<p>The tax base may be reduced or the CIT charge recovered if the debt was added to the tax base earlier. <i>The amount must appear on line 20 of the tax return for the period, or of the last tax return for the financial year, if there is any tax base to reduce, and/or on line 31 as a tax overpayment (stating the CIT charge paid earlier, in whole or in part).</i></p>
<p>The conditions of section 9(3) are met after the debt or provision was added to the tax base.</p>	<p>The tax base may be reduced or the CIT charge recovered if the debt or provision was added to the tax base. <i>The amount must appear on line 20 of the tax return for the period, or of the last tax return for the financial year, if there is any tax base to reduce, and/or on line 31 as a tax overpayment (stating the CIT charge paid earlier, in whole or in part).</i></p>