South Africa finally on board the corporate rates reduction train

For over a decade, the South African corporate tax rate has remained unchanged at 28%. This was so even in the face of a global trend which saw many countries reduce corporate tax rates, says Mikateko Mtsetweni, accounting member of the Tax Court and member of the South African Institute of Chartered Accountants (Saica) Northern Region tax committee.

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Many commentators have long called for the corporate tax rate to be lowered to boost the country’s competitiveness and to attract foreign investment. For some time now, National Treasury has expressed intentions to restructure the corporate tax system and grow the tax base.

The minister of finance, Tito Mboweni, has finally headed the call and announced in his #BudgetSpeech2021 that it is proposed that corporate income tax rates will be lowered by 1% from years of assessment commencing from 1 April 2022.

This is coming at a time when most least expected it, especially given the pressures on revenue collections and the massive government debt levels. The revenue shortfall is at a record high and with a debt crisis looming, the timing of the announcement of this rate reduction although unexpected, may help generate much needed business confidence.

Largest contributor

Corporate Income tax stands as the third largest contributor to tax revenue collected by the South African Revenue Services (Sars) and in 2019/2020 that translated into R215bn in revenue collected. Estimates indicate it will remain the third largest contributor for the year 2020/21 although at a much lower contribution of R159bn.

A 1% reduction in the corporate tax rate could see total revenue collected reduced by R6-8bn, therefore it is important that this decrease in the corporate tax rate generates the right taxpayer behaviour and induces companies to invest and contribute towards resuscitating the South African economy and growing the tax base.

This is important especially if we are to see further rate reductions in the future. As a good safety net to manage any potential negative impact on revenue collection, the National Treasury will couple this rate reduction with the implementation of measures to limit interest deductions and assessed loss utilisation and a reduction in incentives that are seen as not delivering on their intended objective.

The impact of this rate decrease will only really be felt by most companies in 2023/24. Based on the report by Sars, 33% of companies have a December year-end and 23% have a February year-end – for these companies, the rate reduction will impact on profits earned starting January 2023 and March 2023, respectively.

What may have been desirable by most companies is more immediate application of the lower rate, but what will require assessment in the immediate future is the impact this change has on deferred tax balances as reported for accounting purposes in the financials as soon as this change is enacted.