

## **All provisions are no longer deductible for CIT**

Businesses make provisions of expected losses or expenses when such would have not yet been incurred. The provisions are meant to ensure that the financial statements of any business correctly reports its liabilities, even when such have not yet been paid, as an example a company can provide for bonuses, severance pay, leave pay, gratuity based on various measurement methods such as a number of months worked, number of weekdays accrued or contracts that would have been signed. The above-mentioned provisions will be on commencement of the recently passed Income Tax Bill, being a thing of the past when the new law becomes effective. In this article words importing the masculine shall be deemed to include the feminine.

### **Current tax treatment of provisions**

Currently provisions are deductible if they meet the test incurred. The word incurred means that a business would have derived an unconditional liability to pay for an expense in the future whether or not actual cash payment is made at year-end, as an example, a company may have in its contracts with employees a clause which stipulates that a thirteenth check is paid, say in April each year for a financial year ending on the 31<sup>st</sup> of December of the previous year. For accounting purposes, the thirteenth check provision would be considered as an expense and it reduces the profits which are subject to Corporate Income Tax.

For tax purposes the thirteenth check provision means the incurred test and it's supposed to be allowed on that basis no matter what will happen. it is a contractual payment which the company will have to pay. As stated above, this is soon going to be a thing of the past as the new Income Tax law seeks to abolish any provision for expected losses or costs.

### **The new law.**

Under the new law, the Income Tax Bill no.36 of 2025, which is expected to commence on the 1<sup>st</sup> of July 2026, a provision for expected losses or expenses will not be allowed as a tax deduction. In other words, only amounts where actual invoices have been received will be allowed as a tax deduction. This will therefore take out expenses such as severance pay provisions, gratuity or gratuity performance bonus or thirteenth check provisions as tax deductions. What this means is that they may be provided for from an accounting perspective but there will not be tax deductible. The effect of this is to increase Corporate Income Tax in the year in which the provision is made and only allows for such an expense in the year in which actual payment is made.

### **Conclusion**

The said law will result in higher CIT bills through the elimination of all provisions of tax deductions. Further it will require companies to keep an edging analysis of provisions made

in a prior year which were not allowed so that the taxpayers will be able to claim the said expenses in the year in which actual cash payment is made.

**Tax hint:** If you have never had a tax audit/review conducted by a tax consultancy firm to check whether you are tax compliant, or should it be apparent that you are not certain that your tax affairs are in good order, then don't wait for the taxman to pounce on you, as that can be very costly. Contact us today so we can help you fix your tax affairs whilst you still have time.

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