



Tax and Legal News

May 2020

Doubtful debt allowances – More doubtful than ever

On 18 February 2020 the South African Revenue Service (“SARS”) issued a draft interpretation note (draft IN) dealing with the calculation of doubtful debts allowances.

With SARS’ discretion removed from determining the doubtful debt allowance which may be claimed by a taxpayer, it is now much easier to determine these allowances. On the face of it, that statement holds true.

However, practically determining what doubtful debt allowance is available to a taxpayer may be more complicated than ever. While we applaud National Treasury’s efforts to remove discretion from the legislation and align the tax treatment with the accounting concepts in order to simply the application, the current provisions do not always meet these objectives.

This is magnified with the draft IN. We caution taxpayers that the wording of section 11(j) and SARS’ interpretation of the law may be very different to what is expected practically and what makes sense commercially.

Below we highlight some themes of these uncertainties:

Section 11(j) comprises two main subparagraphs, namely, subparagraph (i) which applies to taxpayers who apply IFRS 9 to their debt due for financial reporting purposes

and subparagraph (ii), which applies to taxpayers who do not apply IFRS 9 to their debt for financial reporting purposes.

This raises a number of questions:

- How should insurers, who apply IFRS, but have been temporary exempted from the application of IFRS 9, account for doubtful debt allowances?
- How will applying the so-called “simplified approach” allowed in terms IFRS 9 impact the tax treatment of doubtful debt?
- Will a taxpayer who applies IFRS for SMME’s be impacted negatively?
- Can a taxpayer who applies section 11(jA) fall back on the provisions of section 11(j) where IFRS 9 does not apply to specific debt?

Other concerns noted in the draft IN:

- The draft IN specifically states that no allowances may be claimed in respect of ECL allowances owing to unused facilities. The ECL allowance calculated in respect of used facilities may take available, unused facilities into account. It may be complex to separate ECL allowances where a debtor has both used and unused facilities.
- Even more concerning is the specific exclusion of doubtful debt allowances related to lease receivables when applying IFRS. The REIT industry and asset rental business will be severely impacted by this exclusion.
- The draft IN does not provide any guidance on the application of section 11(jA). We believe that the draft IN should address both these sections to ensure consistent application of the principles.
- The draft IN highlights the continued uncertainty regarding the specific point at which debt will be regarded as “bad” for tax purposes, and how this compares to the timing for accounting purposes.
- It appears as if the extract from the legislation in the draft IN was not updated for the latest changes. Subparagraph (i) correctly refers to the application of IFRS 9; while subparagraph (ii) refers to IFRS in totality – the wording used before the 2019 changes were enacted.

All of the above, before even considering the expected economic impact of COVID-19 on impairments and impairment modelling!

Where does that leave us

As KPMG we have provided our input to the draft IN which was due on 15 May 2020.

Until such a time as the uncertainties above are clarified or the legislation is amended we are in a virtual minefield when it comes to determining doubtful debt allowances.

We have a specialist team with a unique accounting and tax skillset to assist you in obtaining tax certainty in relation to doubtful debt allowances. We are also able to assist with the application for a directive to claim allowances at more favourable rates.

Contact us



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Regards

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