GUIDELINES FOR MINIMUM TAX & LOSS RELIEF

COMPANIES

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GUYANA REVENUE AUTHORITY
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<u>Loss Relief & Minimum Corporation Tax Rules</u>

Relief for losses

In support of business development, Section 19 of the Income Tax Act Chapter 81:01 provides for the taxpayer to get a relief in the form of a credit for losses previously incurred. Any person engaged in trade, business, profession, or vocation is eligible to claim relief for losses previously incurred.

How to qualify

File a true and correct return of income from all sources for the current year together with schedule(s) of losses incurred for previous year(s). You are required to prepare a schedule for each source of income. (Refer to Schedule "01 A through E").

General rules

1. Determine the profits from each source of income
2. Calculate tax payable for each source without consideration for losses. If entitled to any credits, these should be deducted.
3. Identify any losses brought forward for each source of income.
4. Losses brought forward for a particular source of income, can only be set off against the profits earned in the same source.
5. The loss relief granted for each source of income should not reduce the tax payable, in respect of that source, (calculated at 2 above) to less than 50%.
6. Calculate the maximum amount of loss that can be set off by dividing 50% of the tax payable for each source (calculated at 2 above) by the prevailing tax rate.
7. The loss relief granted shall be the lesser of:
    a. The maximum amount available (calculated at 6 above)
    b. The actual loss brought forward.
8. Any remaining losses shall be carried forward to subsequent years of assessment until fully recovered.
9. Loss relief utilised as set off against profits for any year of assessment cannot be used as set off against profits in any subsequent years of assessment.

10. Companies engaged in Gold and Diamond mining, companies on tax holiday, companies engaged in petroleum operations and companies liable to pay minimum tax are allowed to claim losses without any limitation
11. Loss relief for any year of assessment can only be computed on losses brought forward and not losses incurred in that particular year of assessment.
12. Since a source of Income may consist of different types of businesses, any Loss arising from one type of business within a source of income can be set-off against profits arising from another type of business within the same source of income. It should be noted that it is the net amount of profit or loss that should be entered in the schedule "01 A through E".

13. Where the income derived from part of the business has been exempt from Corporation Tax under section 2(1)(b) of the Income Tax (in Aid of Industry) Act, and the income derived from any other part of the business is subject to tax, the parts of the business shall be deemed to be separate businesses for the purpose of calculating loss relief. Therefore, separate accounts for the businesses exempt from tax and those subject to tax must be submitted. Each set of accounts will be used to arrive at the taxable profits of the respective businesses against which loss relief can be claimed.

Examples

Set out below are some examples to illustrate how the principles of relief for losses are applied under various scenarios.

Columns in the calculation tables may be excluded as a consequence of space restrictions. Notwithstanding, all columns relevant to a calculation step are included.

Various amendments were introduced over time that impacted rated and procedures. Pay particular attention to the period the example applies to.

Applicable prior to YA 2018.

Example 1 – Showing calculation of loss relief for a non-commercial company with losses brought forward. Remaining losses are carried forward to the subsequent years of assessment.

In year of assessment 2006, Company A Ltd is a non-commercial company which has profits arising from the sources as set out in table 1 below. The company also has losses incurred in previous years under source (A) amounting to $1,500,000 and under source (D) amounting to $350,000.

Table 1

Sources	**Profits**	**Loss B/F**
A	$ 750,000	$1,500,000
B	$1,250,000	
D	$ 200,000	$350,000

Step 1: Determine the profits from each source of income

For the purpose of this example the profit has already been calculated and shown Table 1 above.

Step 2: Calculate tax payable for each source without consideration for losses. If entitled to any credits, these should be deducted.

Table 1.1

Sources	Profits $	Tax Rate %	Tax Assessed $	Credits $	Tax Payable $
A	750,000	35	262,500	0	262,500 – 0 = **262,500**
B	1,250,000	35	437,500	0	437,500 – 0 = **437,500**
D	200,000	35	70,000	0	70,000 – 0 = **70,000**

Step 3: Calculate the maximum amount of loss that can be set off by dividing 50% of the tax payable for each source (calculated at 2 above) by the prevailing tax rate.

Table 1.2

Sources	Profits $	Tax Rate %	Tax Payable $	Max Limit * $
A	750,000	35	262,500	(50% * 262,500)/35% =**375,000**
B	1,250,000	35	437,500	
D	200,000	35	70,000	(50% * 70,000)/35% =**100,000**

* *To arrive at the actual loss amount, the tax payable must be divided by the prevailing tax rate.*

Step 4: The loss relief granted shall be the lesser of:

a) The maximum amount available (calculated at step 3).

b) The actual loss brought forward.

Table 1.3

Sources	Profits $	Tax Rate %	Tax Payable $	Max Limit $	Loss B/F $	Loss Relief Granted $
A	750,000	35	262,500	375,000	1,500,000	**375,000**
B	1,250,000	35	437,500	0	0	**0**
D	200,000	35	70,000	100,000	350,000	**100,000**

Step 5: Any remaining losses shall be carried forward to subsequent years of assessment until fully recovered.

Table 1.4

Sources	Max Limit $	Loss B/F $	Loss Relief Granted $	Loss C/F $
A	375,000	1,500,000	375,000	1,500,000 – 375,000 =**1,125,000**
B	0	0	0	
D	100,000	350,000	100,000	350,000-100,000=**250,000**

Step 6: Compute total tax payable

Table 1.5

Sources	Profits $	Tax Rate %	Tax Payable $	Loss Relief Granted $	Tax Relief for losses $	Tax Due $
A	750,000	35	262,500	375,000	375,000 * 35% = **131,250**	262,500 -131,250 = **131,250**
B	1,250,000	35	437,500	0	0	**437,500**
D	200,000	35	70,000	100,000	100,000 * 35% = **35,000**	70,000 -35,000 = **35,000**
					Total Tax Due	**603,750**

Example 2 – showing calculation of loss relief for a non-commercial company with losses brought forward and fully set off in relation to one source of income.

In year of assessment 2006, Company A Ltd is a non-commercial company which has profits arising from the sources as set out in table 2 below. The company also has losses incurred in previous years under source (A) amounting to $1,500,000 and under source (D) amounting to $50,000.

Table 2

Sources	Profits	Loss B/F
A	$ 750,000	$1,500,000
B	$1,250,000	$ 0
D	$ 200,000	$ 50,000

Step 1: Determine the profits from each source of income
For the purpose of this example the profit has already been calculated and shown Table 2 above.

Step 2: Calculate tax payable for each source without consideration for losses. If entitled to any credits, these should be deducted.

Table 2.1

Sources	Profits $	Tax Rate %	Tax Assessed $	Credits $	Tax Payable $
A	750,000	35	262,500	0	262,500 – 0 = **262,500**
B	1,250,000	35	437,500	0	437,500 – 0 = **437,500**
D	200,000	35	70,000	0	70,000 – 0 = **70,000**

Step 3: Calculate the maximum amount of loss that can be set off by dividing 50% of the tax payable for each source (calculated at 2.1 above) by the prevailing tax rate.

Table 2.2

Sources	Profits $	Tax Rate %	Tax Payable $	Max Limit * $
A	750,000	35	262,500	(50% * 262,500)/35% =**375,000**
B	1,250,000	35	437,500	
D	200,000	35	70,000	(50% * 70,000)/35% =**100,000**

* *To arrive at the actual loss amount, the tax payable must be divided by the prevailing tax rate.*

Step 4: The loss relief granted shall be the lesser of:

a) The maximum amount available (calculated at step 3)

b) The actual loss brought forward.

Table 2.3

Sources	Profits $	Tax Rate %	Tax Payable $	Max Limit $	Loss B/F $	Loss Relief Granted $
A	750,000	35	262,500	375,000	1,500,000	**375,000**
B	1,250,000	35	437,500	0	0	**0**
D	200,000	35	70,000	100,000	50,000	**50,000**

Step 5: Any remaining losses shall be carried forward to subsequent years of assessment until fully recovered.

Table 2.4

Sources	Max Limit $	Loss B/F $	Loss Relief Granted $	Loss C/F $
A	375,000	1,500,000	375,000	1,500,000 – 375,000 =**1,125,000**
B	0	0	0	
D	100,000	50,000	50,000	50,000-50,000=**0**

Step 6: Compute total tax payable

Table 2.5

Sources	Profits $	Tax Rate %	Tax Payable $	Loss Relief Granted $	Tax Relief for losses $	Tax Due $
A	750,000	35	262,500	375,000	375,000 * 35% = **131,250**	262,500 -131,250 = **131,250**
B	1,250,000	35	437,500	0	0	**437,500**
D	200,000	35	70,000	50,000	50,000 * 35%=**17,500**	70,000-17,500 = **52,500**
					Total Tax Due	**621,250**

Applicable YA 2018 and beyond

With effect from YA 2018, an amendment to the Corporation Tax Act introduced a new method for taxing companies. Prior to this amendment, a company's total profits were subject to a single rate of tax depending on whether it was deemed commercial or non-commercial in nature. This held true notwithstanding the fact that the company may be engaged in both commercial and non-commercial activities. Commercial companies were taxed at a higher rate than non-commercial companies.

A commercial company includes any company which derives at least 75% of its gross income from trading in goods not manufactured by it (but also includes telecommunication companies which have a special rate of tax). A non-commercial company is not specifically defined in the Corporation Tax Act, but is deemed to be any company that does not meet the definition of a commercial company. This determination is required to be made in every year of assessment.

The new amendment applied dual rates of Corporation Tax to the company's profits. While previously the company was required to prepare its financial statements to show the total profits, it is now required to prepare its financial statements to show profits earned from commercial separate from profits earned from non-commercial sources of income. It is the profits from these two sources which are now subject to the dual rates of tax. The new amendment focused on the activities carried out by the company rather than whether the company is deemed commercial or no-commercial in nature.

Notwithstanding this amendment, the classification of a company as commercial or non-commercial is still necessary for the purposes of Minimum Corporation Tax (MCT).

Example 3 - Showing the effect of dual rates of Corporation Tax on the calculation of loss relief for a non-commercial company with losses brought forward and fully set off in relation to two sources of income. One source has losses carried forward.

In year of assessment 2019, Company A Ltd is a non-commercial company which has profits arising from the sources as set out in the table below. The company also has losses incurred in previous years under source (A) amounting to $1,500,000, (B1) amounting to $500,000 and under source (D) amounting to $50,000.

Table 3

Sources	Profits	Loss B/F
A	$ 750,000	$1,500,000
B1*	$1,250,000	$ 500,000
B2*	$ 0	$ 0
D	$ 200,000	$ 50,000

*Note that profits shown at B1 is derived from income earned from **commercial** activities, while B2 is derived from income earned from **non-commercial** activities.

Step 1: Determine the profits from each source of income
For the purpose of this example the profit has already been calculated and shown Table 3 above.

Step 2: Calculate tax payable for each source without consideration for losses. If entitled to any credits, these should be deducted.

Table 3.1

Sources	Profits $	Tax Rate %	Tax Assessed $	Credits $	Tax Payable $
A	750,000	27.5	206,250	0	206,250 – 0 = **206,250**
B1	1,250,000	40	500,000	4000	500,000 – 4000 = **496,000**
B2	0	0	0	0	0
D	200,000	27.5	55,000	0	55,000 – 0 = **55,000**

Table 3.2

Sources	DT Relief* $	Other Credits $	Total Credits $
A			0
B1	4000		4000
B2			0
C			0
D			0
Total Allocated	4000	0	4000

Table 3.2 Showing allocation of credits to sources of income.

* Double Tax Agreement (DTA) Relief represents relief claimed for taxes paid in a foreign country where the company earned income and is also required to pay taxes here. It is therefore given as a credit.

Step 3: Calculate the maximum amount of loss that can be set off by dividing 50% of the tax payable for each source (calculated at 3.1 above) by the prevailing tax rate.

Table 3.3

Sources	Profits $	Tax Rate %	Tax Payable $	Max Limit * $
A	750,000	27.5	206,250	(50% * 206,250)/ 27.5% =**375,000**
B1	1,250,000	40	496,000	(50% * 496,000)/40% =**620,000**
B2	0	27.5	0	0
D	200,000	27.5	55,000	(50% * 55,000)/ 27.5% =**100,000**

* *To arrive at the actual loss amount, the tax payable must be divided by the prevailing tax rate.*

Step 4: The loss relief granted shall be the lesser of:
a) The maximum amount available (calculated at step 3)
b) The actual loss brought forward.

Table 3.4

Sources	Profits $	Tax Rate %	Tax Payable $	Max Limit $	Loss B/F $	Loss Relief Granted $
A	750,000	27.5	206,250	375,000	1,500,000	**375,000**
B1	1,250,000	40	496,000	620,000	500,000	**500,000**
B2	0	27.5	0	0	0	**0**
D	200,000	27.5	55,000	100,000	50,000	**50,000**

Step 5: Any remaining losses shall be carried forward to subsequent years of assessment until fully recovered.

Table 3.5

Sources	Max Limit $	Loss B/F $	Loss Relief Granted $	Loss C/F $
A	375,000	1,500,000	375,000	1,500,000 – 375,000 =**1,125,000**
B1	620,000	500,000	500,000	
B2	0	0	0	
D	100,000	50,000	50,000	50,000-50,000=**0**

Step 6: Compute total tax due

Table 3.6

Sources	Profits $	Tax Rate %	Tax Payable $	Loss Relief Granted $	Tax Relief for losses $	Tax Due $
A	750,000	27.5	206,250	375,000	375,000 * 27.5%=**103,125**	206,250 -103,125 = **131,250**
B1	1,250,000	40	496,000	500,000	500,000 * 40% = **200,000**	496,000 – 200,000 = **296,000**
B2		27.5	0	0		
D	200,000	27.5	55,000	50,000	50,000 * 27.5%=**13,750**	55,000 -13,750 = **41,250**
					Total Tax Due	**440,375**

Minimum Corporation Tax

Minimum Corporation Tax (MCT) is a corporation tax using a different set of rules meant to ensure that certain companies pay at least a minimum amount of tax.

The three major steps to determine the relationship of MCT to tax payable for **each year of assessment** are as follows:

1. Establish basis of payment
2. Calculation of MCT credits
3. Calculation of MCT Relief

General rules

Establish basis of payment

a. MCT only applies to commercial companies

   It is important to note that for **each year of assessment** a determination is required to be made as to whether the company **is liable to pay minimum tax** or not. This must be done by verifying that the various sources of income conform with the definition of a "Commercial Company" in accordance with the Corporation Tax Act.

b. The company must have a turnover of no less than $1,200,000

c. Turnover in relation to a commercial company means gross receipts of a commercial company whether received in Guyana or not (Section 10 A Subsection (7)(b) of Corporation Tax Act)

d. MCT is not an assessed tax, it is a payment computed at a rate of 2% of turnover (including income from both commercial and non-commercial sources). The GRA is still required to assess a company on its chargeable profits

e. Calculate 2% on turnover

f. Calculate tax on chargeable profits

g. Compare 2% tax on turnover with tax on chargeable profits and determine which is higher

h. Payment must be made on the basis of the higher amount

Calculation of MCT credits

i. If the basis of payment of Corporation Tax is 2% on turnover then the credit carried forward for that year will be the difference between that amount and tax on chargeable profits

j. MCT relief cannot be obtained in the same year when the basis of payment is 2% on turnover

k. MCT credits are carried forward until fully relieved

l. MCT credits cannot be refunded

m. In no instance will the company be eligible for MCT credits if the actual tax has **not** been paid in full

Calculation of MCT Relief

n. If the company is required to pay corporation tax on the basis of chargeable profits, the company is still required to pay an initial amount equivalent to 2% of its turnover

o. The difference between the tax assessed on chargeable profits and the 2% tax on turnover can be claimed as MCT relief. This is done by utilising available credits in so far as these are sufficient to cover the liability.

p. In cases where available credits are not sufficient, the company is required to pay the difference in addition to the amount at (a) above

q. In cases where available credits exceed credits utilised as relief, the difference is carried forward to subsequent year(s) of assessment.

Examples

Set out below are some examples to illustrate how the principles of Minimum Corporation Tax (MCT) are applied under various scenarios.

Columns in the calculation tables may be excluded as a consequence of space restrictions. Notwithstanding, all columns relevant to a calculation step are included.

Various amendments were introduced over time that impacted rated and procedures. Pay particular attention to the period the example applies to.

Example 4 – Showing calculation of MCT Credits created in a particular year of assessment and carried forward to be set off in subsequent year(s) of assessment.

In year of assessment 2017, Company A Ltd is a company which has profits arising from the sources as set out in table 4 below.

Table 4

Sources	Turnover	Profits	% Turnover
A	$ 750,000	$ 150,000	8
B	$8,000,000	$ 200,000	82
D	$1,050,000	$ 50,000	10
Total	**$9,800,000**	**$ 400,000**	

Step 1: Establish whether 75% or more of the total turnover is derived from commercial sources.

It has been determined that 82% of the turnover is derived from commercial sources, therefore the company is a commercial company for year of assessment 2017.

Step 2: Establish whether the total turnover is less than $1,200,000

It has been determined that the turnover is $9,800,000 which is greater than $1,200,000 therefore the company fulfills the second requirement.

Step 3: Calculate the tax on turnover at the rate of 2%

Tax on turnover = 2% * $9,800,000 = **$196,000**

Step 4: Calculate tax on chargeable profits at the rate of 40%

Tax on chargeable profits = 40% * $400,000 = **$160,000**

Step 5: Compare 2% tax on turnover with tax on chargeable profits and determine which is higher.

Tax on turnover is **$196,000** and Tax on chargeable profits is **$160,000.**
Tax on turnover is greater and therefore forms the basis of payment. The tax payable will be **$196,000**.

Step 6: Calculate MCT credits.

MCT credits = $196,000 - $160,000 = **$36,000**

In this example, MCT Relief is not applicable. The company's tax liability is **$196,000** and MCT credits of **$36,000** will be carried forward to be relieved in subsequent year(s) of assessment**.**

Example 5 – Showing the utilisation of MCT Relief and calculation of MCT Credits carried forward.

In year of assessment 2018, Company A Ltd from example (5) above has profits arising from the sources as set out in the table below.

Table 5

Sources	Turnover	Profits	% Turnover	MCT Credit B/F
A	$ 790,000	$ 150,000	8	
B1*	$7,500,000	$ 400,000	79	36,000
B2*	$ 0	$ 0	0	
D	$1,200,000	$ 50,000	13	
Total	**$9,490,000**	**$ 500,000**		

*Note that profits shown at B1 is derived from income earned from **commercial** activities, while B2 is derived from income earned from **non-commercial** activities

Step 1: Establish whether 75% or more of the total turnover is derived from commercial sources.

It has been determined that 79% of the turnover is derived from commercial sources, therefore the company is a commercial company for year of assessment 2018.

Step 2: Establish whether the total turnover is less than $1,200,000

It has been determined that the turnover is $9,490,000 which is greater than $1,200,000 therefore the company fulfills the second requirement.

Step 3: Calculate the tax on turnover at the rate of 2%

Tax on turnover = 2% * $9,490,000 = **$189,800**

Step 4: Calculate tax on chargeable profits at the applicable rates

Tax on chargeable profits = (40% * $400,000) + (27.5% * $200,000)
= $160,000 + $55,000
= **$215,000**

Step 5: Compare 2% tax on turnover with tax on chargeable profits and determine which is higher.

Tax on turnover is **$189,800** and Tax on chargeable profits is **$215,000.**
Tax on chargeable profits is greater and therefore forms the basis of payment. The tax payable will be **$215,000**.

Step 6: Calculate MCT credits arising in the year of assessment.

In this example, there will be no new MCT credits arising in this year of assessment.

Step 7: Calculate MCT Relief

MCT Relief that can be claimed = $215,000 - $189,800 = **$25,200**

In this year of assessment, the company will settle its liability of $215,000 by:

Description	Amount $
Payment of 2% on turnover (General rules 3a)	189,800
Claimed MCT Relief	25,200
Total	**215,000**

Step 8: Calculate MCT Credit carried forward

Description	Amount $
MCT Credit brought forward	36,000
MCT Credit utilised	25,200
MCT Credit carried forward	10,800

Loss Relief & Minimum Corporation Tax

Table 6 below illustrates four scenarios under which commercial companies are required to pay MCT:

A. Earned a profit though tax on chargeable profit is less than 2% on turnover
B. Earned a profit though tax on chargeable profit is greater than 2% on turnover the company has losses to be relieved which reduces the net tax on profit to below 2% on turnover
C. Earned profit and tax on chargeable profit is less than 2% on turnover the company has losses to be relieved which reduces the net tax liability further below the 2% on turnover
D. Company incurred a loss resulting in no tax on chargeable profit and consequently pays taxes on the basis of 2% on turnover.

Table 6

	Tax on CP	Loss Incurred	Tax Relief for Loss B/F	Net Tax on CP	2% on turnover	MCT Credit
A	3,800,000	0	0	3,800,000	4,000,000	200,000
B	4,200,000		500,000	3,700,000	4,000,000	300,000
C	2,600,000		400,000	2,200,000	4,000,000	1,800,000
D	0	100,000	0	0	4,000,000	4,000,000

This section examines the impact of MCT on a company's corporation tax liability when Loss Relief has to be taken into consideration.

The major steps are as follows:

1. Compute the tax on chargeable profits as if provisions relating to MCT were not applicable. Loss relief should be granted having regard to the 50% limitation rule

2. Compare the resulting tax on chargeable profits with 2% tax on turnover. Whichever is the greater amount, becomes the basis for the payment of corporation tax for that year of assessment.

3. If it is determined that the basis of payment is the MCT, then the company will be allowed to setoff losses brought forward against chargeable profits without the 50% limitation.

4. At no time should the total amount of loss relief granted exceed an amount which would reduce chargeable profits to below zero.

Examples

Example 6 – Showing correct tax computation when company is liable to minimum and can relieve maximum losses.

In year of assessment 2017, Company A Ltd is a company that has turnover and profits arising from various sources as set out in the table below. The company also has losses incurred in previous years under source (A) amounting to $1,500,000, (B) amounting to $500,000 and under source (D) amounting to $50,000.

Table 7

Sources	Turnover	Profits	% Turnover	Loss B/F	MCT Credit B/F
A	$ 790,000	$150,000	8	$1,500,000	
B	$7,500,000	$400,000	79	$ 500,000	36,000
D	$1,200,000	$ 50,000	13	$ 50,000	
Total	**$9,490,000**	**$600,000**			

Step 1: Establish whether 75% or more of the total turnover is derived from commercial sources.

It has been determined that 79% of the turnover is derived from commercial sources, therefore the company is a commercial company for year of assessment 2016.

Step 2: Establish whether the total turnover is less than $1,200,000

It has been determined that the turnover is $9,490,000 which is greater than $1,200,000 therefore the company fulfills the second requirement.

Step 3: Calculate the tax on turnover at the rate of 2%

Tax on turnover = 2% * $9,490,000 = **$189,800**

Step 4: Calculate tax on chargeable profits at the applicable rates without any consideration for loss relief.

Table 7.1

Sources	Profits $	Tax Rate %	Tax Payable $
A	150,000	40	60,000
B	400,000	40	160,000
D	50,000	40	20,000

Step 5: Calculate tax on chargeable profits at the applicable rates including loss relief with 50% limitation.

Table 7.2

Sources	Profits $	Loss Relief Granted * $	Adjusted CP after loss relief	Tax on Adjusted CP
A	150,000	75,000	75,000	30,000
B	400,000	200,000	200,000	80,000
D	50,000	25,000	25,000	10,000
		Total tax on Adjusted CP		120,000

***Refer to Steps (3) (4) and (5) in Example 4 above for the methodology for the computation of loss relief to be granted.**

Alternatively, total tax due can be arrived at by using tax relief for losses methodology as set out in the table 7.3 below:

Table 7.3

Sources	Tax Payable $	Tax Relief for losses $	Tax Due $
A	60,000	30,000	30,000
B	160,000	80,000	80,000
D	20,000	10,000	10,000
		Total Tax Due	120,000

Step 6: Compare 2% tax on turnover with **tax on adjusted chargeable profits** and determine which is higher.

Tax on turnover is **$189,800** and Tax on adjusted chargeable profits is **$120,000.**
Tax on turnover is greater and therefore forms the basis of payment. The tax payable will be **$189,800**.

Table 7.4

	Losses B/F $	Chargeable Profits $	Loss Relief Granted * $	Losses C/F $
A	1,500,000	150,000	150,000	1,350,000
B	500,000	400,000	400,000	100,000
D	50,000	50,000	50,000	0

* Note that loss relief granted is equal to 100% of the chargeable profits. The Tax on chargeable profits is therefore zero.

Since the company is liable to pay tax on the basis of the MCT in this instance, an amount equal to 2% of the turnover must be paid. Further the company would be entitled to claim losses without the 50% limitation. The difference between the tax on adjusted chargeable profits and the MCT is carried forward as credits to be set off against future corporation tax liabilities

Table 7.5

	Tax Payable on CP $	Tax Relief for losses $	Tax Payable on CP $	MCT Paid $	MCT Credits $	MCT Credits B/F $	MCT Credits C/F $
A	60,000	60,000	0	189,800	189,800	36,000	225,800
B	160,000	160,000	0				
D	20,000	20,000	0				

Example 7 – Showing correct tax computation when company is liable to minimum and can relieve maximum losses in relation to some sources of income.

In year of assessment 2017, Company A Ltd is a company that has turnover and profits arising from various sources as set out in the table below. The company also has losses incurred in previous years under source (A) amounting to $1,500,000, (B) amounting to $500,000 and under source (D) amounting to $50,000.

Table 8

Sources	Turnover	Profits	% Turnover	Loss B/F	MCT Credit B/F	DTA Credit	Other Credit
A	$ 790,000	$150,000	19	$1,500,000			$2,000
B1	$7,500,000	$600,000	75	$ 500,000	225,800	$3,000	
B2							
D	$1,200,000	$ 50,000	6	$ 50,000			
Total	**$9,490,000**	**$800,000**					

Step 1: Establish whether 75% or more of the total turnover is derived from commercial sources.

It has been determined that 75% of the turnover is derived from commercial sources, therefore the company is a commercial company for year of assessment 2018.

Step 2: Establish whether the total turnover is less than $1,200,000

It has been determined that the turnover is $9,490,000 which is greater than $1,200,000 therefore the company fulfills the second requirement.

Step 3: Calculate the tax on turnover at the rate of 2%

Tax on turnover = 2% * $9,490,000 = **$189,800**

Step 4: Calculate tax on chargeable profits at the applicable rates without any consideration for loss relief.

Table 8.1

Sources	Profits $	Tax Rate %	Tax Payable $
A	150,000	27.5	41,250
B1	600,000	40	237,000
D	50,000	27.5	13,750

Step 5: Calculate tax on chargeable profits at the applicable rates including loss relief with 50% limitation.

Table 8.2

Sources	Profits $	Adjusted CP $	Loss Relief Granted * $	Adjusted CP after loss relief	Tax Rate %	Tax on Adjusted CP
A	150,000	142,727	71,363	71,364	27.5	19,625
B1	600,000	592,500	296,250	296,250	40	118,500
D	50,000	50,000	25,000	25,000	27.5	6,875
				Total tax on Adjusted CP		145,000

***Refer to Steps (3) (4) and (5) in Example 4 above for the methodology for the computation of loss relief to be granted.**

Alternatively, total tax due can be arrived at by using tax relief for losses methodology as set out in the table 8.3 below:

Table 8.3

Sources	Tax Payable $	Tax Relief for losses $	Tax Due $
A	39,250	19,625	19,625
B1	237,000	118,500	118,500
D	13,750	6,875	6,875
		Total Tax Due	145 ,000

Step 6: Compare 2% tax on turnover with tax on adjusted chargeable profits and determine which is higher.

Tax on turnover is **$189,800** and Tax on adjusted chargeable profits is **$145,000.**
Tax on turnover is greater and therefore forms the basis of payment. The tax payable will be **$189,800**.

Table 8.4

	Losses B/F $	Chargeable Profits $	Adjusted CP $ *	Loss Relief Granted ** $	Losses C/F $
A	1,500,000	150,000	142,727	71,363	1,428,637
B1	500,000	600,000	592,500	296,250	203,750
D	50,000	50,000	50,000	25,000	25,000

* The adjusted chargeable profit is arrived at by adjusting the chargeable profit of the company factoring in any credits before loss relief is considered. In this example credits under source A is $2,000. This figure should be divided by the appropriate tax rate to arrive at the corresponding chargeable profit (2,000/27.5% = **7,273**). The sum of 7,273 is then deducted from the original chargeable profit attributed to this source to arrive at the adjusted chargeable profit 150,000 – 7,273 = **142,727**.

Similarly, in relation to income source B1, the credits available is $3,000. This figure should be divided by the appropriate tax rate to arrive at the corresponding chargeable profit (3,000/40% = **7,500**). The sum of 7,500 is then deducted from the original chargeable profit attributed to this source to arrive at the adjusted chargeable profit 600,000 – 7,500 = **592,500**.

Alternatively, the same result can be arrived at using the adjusted tax liability related to each source of income divided by the appropriate tax rate. In the case of source, A $39,250 /27.5% = **142,727**. In case of source B $237,000/40% **= 592,500.**

** Note that loss relief granted is equal to 100% of the chargeable profits in relation income sources A and D. Source of income B1 however, does not have sufficient losses to be fully set off against chargeable profits. Therefore, a residual amount of $92,500 of chargeable profits will be subject to tax at the rate of 40%.

Since the company is liable to pay tax on the basis of the MCT in this instance, an amount equal to 2% of the turnover must be paid. Further the company would be entitled to claim losses without the 50% limitation. The difference between the tax on adjusted chargeable profits and the MCT is carried forward as credits to be set off against future corporation tax liabilities

Table 8.5

<table>
<tr><th></th><th>Tax Payable on CP
$</th><th>Tax Relief for losses
$</th><th>Net Tax Payable on CP
$</th><th>MCT Paid
$</th><th>MCT Credits
$</th><th>MCT Credits B/F
$</th><th>MCT Credits C/F
$</th></tr>
<tr><td>A</td><td>39,250</td><td>39,250</td><td>0</td><td rowspan="3">189,800</td><td rowspan="3">149,800</td><td rowspan="3">36,000</td><td rowspan="3">185,800</td></tr>
<tr><td>B1</td><td>237,000</td><td>200,000</td><td>37,000</td></tr>
<tr><td>D</td><td>13,750</td><td>13,750</td><td>0</td></tr>
</table>