Tax planning with Red flags

With the end of the year approaching, it is a good time to review your 2013 e.c income tax situation and take steps to ensure that you are taking full advantage of tax planning strategies available, if not, at least deal with red flags and be on safe side.

Before we get to specific suggestions, keep in mind effective tax planning requires considering both this year and next year, at a minimum.

Gets our yearend tax-planning memo for few tax saving/ red flag ideas for you to consider.

As always, you can message/call on us to help you sort through the options and implement strategies that make sense for you.

i. Sales :

1. If you are a category B taxpayer i.e. if annual revenue is less than 1 million birr before tax, consider trying to defer the receipt of cash up until year-end.
   This is relevant if cash basis of accounting adopted during the year.

2. Make sure incomes taxed at source such as interest income , capital gains on class A or B assets , Dividend from subsidiaries , other schedule D incomes , etc.... not included in current year revenue , to avoid double taxation.

3. Consider deferral of gain on disposal of fixed asset, if you have disposed a depreciable asset during the year and acquired like kind depreciable asset to be used in generating income within six month of disposal. *(See article 71 of ITP 979/2008)*

4. If you are planning to dispose depreciable asset and if this are expected to fetch consideration less than their NBV, dispose them before year-end to utilize the loss.
5. Make sure refunded or other canceled sales during the year, excluded from revenue. Availability of sufficient documents to substantiate canceled/refunded sales is necessary.

6. Ensure all profit tax paid in advance (i.e. during the year) accounted for and supported by relevant 2% or 3% withholding invoices, for local and imports respectively.

7. If stock sales are made and invoiced already, make sure these stocks delivered to buyers before year-end or at least not included in yearend stock count.

8. Make sure sales reported in VAT (the twelve month of 2013) declarations exactly in line with annual ledger or financial statement sales.
   If not, putting in place adequate explanation advised.

9. **Owners account** – Any figure in this account will be considered by tax office as possible sign of unaccounted sales, especially if company's cash position is sound.

   As such if this is a result of loan taken by company from shareholder or other non-financial institution , make sure to have document authentication and registration authority (DARA) authenticated loan agreement accompanied by company issued cash recipte voucher (CRV).

   The requirement is relevant to loans above birr 500.

10. **Cash and Bank** – Ensure total bank deposits during the year , adjusted for non-sales deposit *(such as CPO return ,Bank error Correction , previous year income deposit , this year unearned revenue , additional capital injection during the year , VAT collected on sales , loan from bank or DARA authenticated loan from non-financial person, Equb , Transfers , etc..*) plus not deposited cash sales closely approximate sales figure for the year
    Having adequate explanation for excess of the former is invaluable.

11. Ensure the proper treatment of foreign currency gain and losses, especially if your company deals with transaction denominated in such currencies.

    For example if there is an outstanding liability to be settled in foreign currencies , there is a potential for both transaction/translation foreign currency losses as Ethiopian birr is consistently devaluating against almost all foreign currencies.

ii. Cost and Expenses

1. **Stock** – If your company possesses damaged or similar stocks, make sure you applied for MOR recognition of the same, as soon as possible and obtained confirmation for it before year end.

   The full cost of this stock can be included in cost. (*See directive 152/2011, , for practical steps details @ https://t.me/HIMA_Xpress_Tax/73*)

2. **Stock** – Prepare for a stock take on 30 June/7 July.

   Make sure result of stock count agree with book balances, both in terms of quantity and value

   Make sure sold stocks and those purchase at year-end for which invoice not yet issued for, not included in stock count and valuations.

3. **Depreciation**

   a. If your company is planning to acquire fixed assets, do it now especially if it has significant value. This will ensure one-month depreciation expense deduction.

   b. If assets acquired during the year costs less than birr 2000, make sure, this are expensed.

   c. Review each brought forward fixed asset net book value from 2012 and make sure those with NBV less than birr 2000 are expensed.

   d. If you acquired fixed asset during the year and are category B taxpayer, include the full purchase cost of the asset as depreciation expense. This is a privilege available if cash basis of accounting adopted during the year.

   e. If your company completed constructing some kind building, make sure "Permission to use" certificate obtained from relevant municipal organ especially if you are planning to claim depreciation on it.

4. Ensure nonrefundable Turnover tax, excise tax and unclaimed VAT credits during the year include in cost/expenses.

5. If you are a category b taxpayer and opted for cash basis of accounting, consider settling prepayments and acquiring stocks before year-end.

6. Import – Ensure imported stocks cost built up using customs DPV regardless of invoice amounts.

7. **Bad debt** - If you are carrying bad debts, you should review them before the end of the financial year. If you decide, they are irrecoverable, write off any bad debts before year-end so you can claim them as a deduction.

   A deduction for bad debts allowed if you have previously included the amount in income. The un collectability of this bad receivables must be accompanied by some sort of legal proceedings that verify collection efforts made **though** *(Carefully review ITP 979/2008)*

8. **Purchase Voucher** – Make sure all expense which doesn't have VAT/TOT invoice accompanied by pre numbered Purchase Voucher *(See Directive 149/2011 for list of eligible transactions @ https://t.me/HIMA_Xpress_Tax/78)*

9. Critically review Directive 1/2011 *(can be attached on demand)* to maximize Representation allowance expense, interest expense, entrainment, donation, manufacturing wastes expense , advertising and others possible deductible expenses relevant to your company.

iii. General

1. If your company recorded, losses brought forwarded, for example year 2012 e.c, ensure external auditors had audited this and the report submitted to your tax branch before year-end.

   This will enable you to sett of the loss to current year profit without disallowed by MOR.

   This is relevant given that your company did not utilized its two set loss carry forward rights. If so, see next section.

2. If your company utilized the standard two years losses privilege, consider using the COVID loss carry forward privilege granted by Regulation/Directive 3/2012. *(view directive @ https://t.me/HIMA_Xpress_Tax/79)*
   This enables you to set off year 2012 losses (to year 2013 profits) irrespective of exceptions mentioned in point 2 above.

   Submission of external audit report to MOR to substantiate year 2012 losses is a necessity.

3. Make sure you company 2012 retained profits are either converted to capital of the company before year-end, as such no further tax liabilities or distributed to shareholders as dividend , in which case the corresponding 10% tax paid on it before year end. *(view illustration and directive @ https://t.me/HIMA_Xpress_Tax/116)*