Bill bad news for non-bank lenders

Non-bank lenders may find they are at a competitive disadvantage under a proposed amendment to the Taxation Laws Amendment Bill, which, in essence, discriminates between banks and non-bank lenders in the taxation of doubtful debt. According to a **Moneyweb** report, Patricia Williams, a partner at Bowmans, says the Bill proposes the replacement of the current discretionary allowance (which may be as high as 100% of the doubtful debt) with a flat rate of 25%. Currently, taxpayers are entitled to a tax allowance for debts that the South African Revenue Service, in its discretion, considers doubtful. She says this is an important tax provision to address the mismatch between the taxation of income, which is ordinarily on an 'accrual' basis, and bad debts which are ordinarily deductible on a 'realised' basis. 'The doubtful debts tax allowance addresses this imbalance by giving a tax allowance for income that has accrued, but which is anticipated to be unrecoverable,' explains Williams. **'This prevents a taxpayer from having to pay tax on amounts that have not been and will never be received.'** The Income Tax Act was amended last year providing a doubtful debt regime for banks whereby they may use a sliding scale for the different stages of debtors according to the International Financial Reporting Standards. This is far more favourable than the flat rate that is now proposed, which will affect non-bank lenders who are not part of the doubtful debt regime introduced into the Act. The SA Institute of Tax Professionals says in a submission to National Treasury that there is a 'significant concern' that non-bank lenders will be at a competitive disadvantage. 'Legitimate non-bank lenders who provide credit and are subject to the National Credit Act and other regulations will be affected,' warns Lesley Bosman, chair of Sait's business tax workgroup. These include various stores as well as non-deposit-taking lenders.