

5. CORPORATE INCOME TAX SETTLEMENT

Corporate Income Tax Settlement Scheme

- **Accounting Profit before Taxes**
 - +/- Adjustments to Accounting Profit
- = **Taxable Profit = Preliminary Taxable Base**
 - Tax losses from previous years
 - Reserve reductions (Capitalisation and Levelling)
- = **Taxable Base**
 - X Tax Rate
- = **Gross Tax Liability**
 - Deductions and Tax Reliefs
- = **Net Tax Liability**
 - Withholdings and payments on account
- = **Differential Tax Liability (tax due or refundable)**

1) Adjustments to profit

- Quantitative (permanent) or timing (temporary) differences between tax rules and accounting rules.
- We determine the taxable profit (for tax collection purposes), which differs from the accounting profit (equity-based, true and fair view).
- Positive adjustments:
 - Accounting expense > Tax expense (remove the expense)
 - Accounting income < Tax income (increase the income)
- Negative adjustments: the other way round

1.A) Permanent adjustments

- CASES:

- Penalties and fines: not tax-deductible (Diff +)
- Donations and gifts: not deductible (Diff +)
- Dividend exemption with more than 5% ownership (Diff –)

1.B) Temporary adjustments

- They are reversible: every positive difference gives rise to a negative one in future years, and vice versa.
- CASES:
 - Instalment sales
 - Free depreciation: new fixed assets + hiring of staff; small fixed assets (< €300)
 - Accelerated depreciation: new fixed assets
 - Leasing: treated as a lease for tax purposes
 - Non-deductible impairments and provisions

2) Tax Losses (Negative Taxable Bases)

- The right to deduct, in a year with a positive taxable profit, the losses incurred in previous years.
- Taxation is based on the aggregate result

3) Reductions

- **Capitalisation Reserve:** Reduce the taxable base by up to 10%, of 10% of the increase in equity from the previous year not distributed as dividends, if:
 - An unavailable reserve is set up for the amount of the reduction
 - Commitment not to distribute dividends in the following 5 years
- **Levelling Reserve:** Reduce the taxable base by 10% to create a reserve to cover possible future losses.
 - After 5 years it is reversed if there were no losses.

4) Deductions and Tax Reliefs

- Reductions in the tax liability and incentives to encourage certain activities
- With limits on the Gross Tax Liability.
- **CASES:**
 - Double taxation of international dividends
 - Investment in technology and the environment
 - Income obtained in Ceuta and Melilla
 - Hiring of special categories of staff

5) Withholdings and payments on account

- Accounting account: (473) «Public Treasury, withholdings and payments on account» Asset account, for the «advances» on account of Corporate Income Tax.
- Withholdings: Borne on receipts
 - Rentals
 - Dividends
 - Interest
- Instalment payments (form 202): 3 quarterly payments