TAX TALKS

Australia's Tax News Podcast - The Podcast for Australian Tax Professionals

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71 | Income Tax Payable and Provision for Income Tax

Your Statement of Financial Position usually shows two income tax positions: An income tax payable and a provision for income tax. What is the difference?

Income Tax Payable and Provision for Income Tax

No matter how you operate – whether as a sole trader, company, trust or even an SMSF (which is a specific form of trust) – anybody paying income tax will have these two positions. You might not recognise either – for example when you use cash accounting – but in theory you do have both a liability and a provision.

Income Tax Payable

The income tax payable is what the ATO already knows about and has assessed. It is the legally enforceable right they have against you. The income tax payable is usually your outstanding liability for previous years.

If you paid PAYG instalments, your income tax payable might actually be an asset. The asset will represent the instalments you paid for the current year. You have a legally enforceable right against the ATO to use these instalments against any income tax payable.

Provision for Income Tax

The provision for income tax is what you most likely have to pay in tax for the relevant financial year.

Your accounting software might calculate this amount for you. Class for example does for an SMSF.

The software calculates how much tax the relevant entity has to pay for that relevant financial year.

It is the full amount of the tax liability for that year. Without considering any income tax instalments you might have paid. Payments reduce your income tax payable, not your provision for income tax.

For an SMSF the provision for income tax does not include the supervisory levy. The levy goes straight into the income tax payable but only upon lodgement of the return.

The provision for income tax becomes an income tax payable in the subsequent year. And your tax payments are then netted against this payable.

Provision v Liability

You could debate whether the provision for the relevant year is really a provision or rather a liability. The obligation already exists. We just haven't told the ATO yet how much it is.

But since the ATO only obtains a legally enforceable right upon issue of an assessment, the right as such has not come yet into existence. Hence the word provision.

Div 293

The Div 293 tax assessment is a tax you pay personally. It is not a tax your SMSF pays. So if you pay the Div 293 tax assessment out of your SMSF, it is treated as a withdrawal. As a result the Div 293 payment will neither show up in your income tax payable nor in your provision for income tax.

MORE

Active Asset Test

Div 7A UPE

UPE in the Maximum Net Asset Value Test

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