Impact of the 2023 National Budget on Financial reporting.

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It is that time of the year which is busy for those in the financial reporting space; the time of the year comes with preparations for year-end financial reporting, strategy revisits, budgeting for the next year, and preparation for the annual shut down. Part of the inputs to these activities is the budget pronouncement by the Minister of Finance and Economic Development.

The budget statement for 2023 was enunciated by the Minister of Finance and Economic Development – Honorable Professor Mthuli Ncube – in his national budget statement presented on Thursday 24 November 2022. While the National Budget is awaiting assent by the two-chamber Legislative Assembly and approval by His Excellency the President as per procedure, the post budget period is time to reflect on several dimensions. In this article, we delve into some of the financial reporting implications of the 2023 National Budget.

First, it is important to note that the National Budget will by its nature, as a statement of the fiscal intent, have an impact on taxation and on macroeconomic variables such as economic growth, inflation, exchange rates, and investment. To the extent that the national budget affects the level of inflation, it may affect financial reporting if the economy exits the hyperinflationary phase. Once the economy is no longer considered to be hyperinflationary, Accountants will cease hyperinflating annual financial statements in line with the provisions of International Accounting Standard 29 (IAS 29). While the 2023 National Budget will likely result in a progressive reduction of the annual rate of inflation from the current 260 plus percent if the budget outturn is as per plan, it is unlikely that Zimbabwe will technically cease being a hyperinflationary economy in 2023. Thus, from an IAS 29 perspective, there is unlikely to be an impact on financial reporting in 2023 as Accountants will probably still be required to restate annual financial statements for entities whose functional currency will be assessed as ZWL. Thus, it is imperative that entities continue to assess what their functional currency is regularly.

Given the budget proposes amendments to the various tax acts in Zimbabwe, there are going to be implications for financial reporting from the budget arising from IAS 12 *Income Taxes*. Below is an outline of the budget proposals that are likely to impact financial reporting from a taxation perspective.

Measures to preserve value of tax debts

To preserve the value of tax debts, the Honourable Minister has proposed to convert all outstanding ZWL tax debts to their foreign currency equivalents at the time that the debt is incurred. Payment of the outstanding tax will however be made in local currency using the prevailing interbank exchange rate at the time of payment. From an IAS 21 perspective, it means that accountants will now need to account for the effects of changes in foreign currency exchange rates on the tax debts. The impact of this is that entities cannot necessarily use delay remittances of taxes as a way of working capital management, as this means that the amounts owed to ZIMRA will be increasing on a weekly basis in relation to the interbank rate. Management will now need to prioritise tax payments. In addition to this, there is a proposal in the same budget to hike the interest on ZWL tax debts from 25% to 200% in line with the bank policy rate, resulting in higher payments when entities eventually settle their taxes.

Re-basing of unredeemed capital allowances

Corporates are allowed to redeem investment in capital assets over several years by claiming wear and tear allowances when computing their taxable income, these are deducted at rates determined by the type of asset in which investment was done. Noting that inflation has been eroding the unredeemed balances qualifying for deduction in successive years, Treasury is proposing that all unredeemed capital allowances as at 1 January 2023 be rebased to the local currency equivalent of the outstanding foreign currency invoice value at the beginning of each year. This will likely impact on financial reporting as the Income Tax Value (Tax base) of assets will change, thereby affecting the deferred tax assets or deferred tax liabilities. Thus, accountants would need to recalculate the tax bases of their assets for calculation of deferred tax at for the current year end.

Entrenching and sustaining macro – economic stability

The Minister has maintained the bank policy rate at 200% to reduce speculative borrowing. A contractionary fiscal policy characterised by a targeted budget deficit of 1.5% of Gross Domestic Product (GDP) and funding of the targeted deficit through issuance of United States Dollar denominated medium term bonds on the Victoria Falls Stock Exchange is also meant to reduce the inflationary impact of government spending and budget deficit financing. It is expected that the bank policy rate and the fiscal stance will lead to narrowing of premiums between the interbank exchange rate and the parallel market exchange rates and ultimately leading to full convergence of the two. The expected convergence of exchange rates will likely impact financial reporting by reducing the use of significant judgements by management in determining appropriate exchange rates for use in translating USD denominated balances and transactions thereby enhancing comparability of annual financial statements economy wide.

Measures to enhance compliance to fiscalisation

Value Added Tax registered operators that do not receive fiscalised tax invoices for the goods and services they acquire will not be allowed to claim input VAT on those items. From a financial reporting perspective, it will mean that whatever expenditure an entity incurs and cannot get a fiscalised invoice for, the cost to be recorded in the financial statements would be the full amount inclusive of VAT and not exclusive of it as is usually the case.

The above is merely a snippet of the full impact of financial reporting and one would need to read the 2023 National Budget to fully grasp the impact it will have on their financial reporting.

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