Income tax reconciliation and things to watch out for:

Accounting profit /(Loss) will not be the same as taxable profit / (Loss). Some income will be treated as a non assessable income for Income Tax Purpose. Some expenses will be treated as disallowable expenses for Income Tax Purpose.

Things to follow while preparing Tax Reconciliation :-

While Preparing tax reconciliation, please check and update the below things:

Generally add back the following expenses in tax reconciliation if it is reflected in Profit and Loss account:

1. Entertainment Expenses
2. Penalties and Fines
3. Legal Costs (non – business and capital in nature)
4. Late Superannuation Payments

Depreciation:

1. Add back: Accounting Depreciation
2. Deduct: Tax Depreciation

Sale of Fixed Assets:

1. Deduct: Profit on Sale of Fixed Asset - Accouting
2. Add back: Loss on Sale of Fixed Asset - Accouting
3. Add back: Profit on Sale of Fixed Asset -Tax
4. Deduct: Loss on Sale of Fixed Asset - Tax

Add back the following movements in provisions:

1. Increase in Superannuation payable (between previous year and current year superannuation payable)
2. Increase in provision for Annual Leave
3. Increase in Provision for Long Service Leave
4. Increase in Provision for Doubtful Debts

Deduct the following movements in provisions:

1. Decrease in Superannuation payable (between previous year and current year superannuation payable)
2. Decrease in provision for Annual Leave
3. Decrease in Provision for Long Service Leave
4. Decrease in Provision for Doubtful Debts

Deduct the following boost calcutions (Applicable for the FY 2024 and only for certain entities)

1. Small Business Skills and Training Boost
2. Small business energy incentive

In Capital Gain /Loss

1. Add back: Capital Gain as per Tax
2. Deduct: Profit on Sale of Investment as per Books
3. Add back: Loss on Sale of Investment as per Books

Distribution Received

1. Add: Tax Distribution as per Annual Tax Statement
2. Deduct: Accounting Distribution

Others:

If taxable profits there in books during the current year and tax loss is there in the previous years, adjust the tax loss with taxable income.