Rules for applying Company and Consolidated Accounts Act to be amended (2/10/18)

In an earlier article we informed our MindLink subscribers about changes in accounting for deferred tax and explained that the new CIT Act effective from 1 January 2018 eliminates all temporary differences between the net book value and tax written-down value of assets and liabilities, with the result that deferred tax assets will no longer be realised nor deferred tax liabilities settled. This means that in general no deferred tax asset or liability will be recognised on the balance sheet as at 31 December 2017.

Proposed amendments

Although the 2017 reporting season has been here for a couple of months, on 13 February 2018 the Cabinet of Ministers debated proposals for amending Cabinet Regulation No. 775 of 22 December 2015, *Application of the Company and Consolidated Accounts Act (CCAA).*

Amendments are being proposed to address a problem with derecognising deferred tax assets and liabilities, which will push shareholders' equity down in the case of derecognising an asset and up in the case of derecognising a liability. The problem is caused by the tax calculation model prescribed by the new CIT Act, which is very different from the old one, and by the rules of International Accounting Standards (IAS) governing the recognition and measurement of deferred tax assets and liabilities in financial statements.

To mitigate the adverse effect of reduced shareholders' equity on companies that are not financial institutions but are governed by the CCAA, the proposals offer a new option to gradually write off from the balance sheet a deferred tax asset balance calculated on an accumulated tax loss that remains unutilised.

These amendments could apply to large companies and other entities that are governed by the CCAA and have elected to apply IAS 12, including state-owned companies.

According to the tax statistics for FY2016 –

- four state-owned companies carried deferred tax assets totalling €3.8 million, and
- 26 state-owned companies carried deferred tax liabilities totalling €184 million.

These amendments do not affect financial institutions, *Altum* Financial Institution for Development and companies that are governed by the CCAA but whose transferable securities are admitted to trading on a regulated market because –

- section 3(4) of the CCAA provides that this Act does not apply to credit institutions, savings and loan associations, insurance companies, reinsurance companies, private pension funds, investment brokerage firms, asset management companies, and alternative investment funds established as companies or partnerships;
- paragraph 2 of the Cabinet Regulation provides that this Regulation does not apply to the institutions specified by section 3(5) CCAA – *Altum* Financial Institution for Development and companies whose transferable securities are admitted to trading on a regulated market.

According to the tax statistics for FY2016 –

- 40 financial institutions carried deferred tax assets totalling €39.5 million, and

- 82 financial institutions carried deferred tax liabilities totalling €194.6 million.