# Fixed assets: corporate tax treatment after 2017 (2/43/18)

As a result of the tax reform, the new Corporate Income Tax (CIT) Act effective from 1 January 2018 has dramatically changed the core principles of charging CIT. This charge is no longer based on taxable income, and the tax base comprises specified taxable items, with capital allowances no longer available. This article explores some of the aspects to consider in accounting for fixed assets and charging CIT after 2017.

The legal framework

From 2018, corporate books feature only depreciation because the CIT Act no longer provides for accelerated asset write-offs that stimulated investment. However, the tax reform certainly facilitates the work of accountants because accounting for fixed assets and claiming capital allowances was one of the most complicated areas under the old CIT assessment model.

Also, an asset revaluation made after 2017 will not have a direct effect on the tax base because revaluation results do not constitute taxable items.

CIT treatment of business assets and non-business assets

Under the new CIT model, depreciation charges for business assets are exempt from CIT, and the tax base needs no adjustment. However, we need to consider the depreciation principles laid down by the Company and Consolidated Accounts Act and the Cabinet of Ministers' Regulation No. 775, *Application of the Company and Consolidated Accounts Act*, or by IFRS[1] if the company is applying them.

Under the old model, capital allowances could be claimed only on assets a taxpayer used in business, so a company using non-business assets could not take this advantage. From 2018 the company should expect extra CIT costs associated with acquisition cost and depreciation charges since non-business expenses under section 8 of the CIT Act include –

- the acquisition cost of assets acquired after 2017 and used for non-business purposes as well as their maintenance expenses;
- depreciation charges on assets acquired before 2018 and used for non-business purposes, or their impairment loss and maintenance expenses;
- so-called representation expenses and staff sustainability event expenses above the statutory 5% limit, including expenses incurred on social infrastructure items (buildings and facilities) that are not directly related to the taxpayer's business.

So the tax burden has significantly increased on a company that acquires a non-business asset after 2017, including all its running expenses, with CIT payable at an effective rate of 25%. Moreover, tax is due on the entire acquisition cost in the next month after the asset was acquired. This principle also applies to the acquisition cost of an executive luxury vehicle.[2]

If a company buys a fixed asset for non-business use and makes a prepayment, the acquisition cost should be reported on the CIT return for the month in which an invoice was received, not the month in which the prepayment was made.

## Key takeaway

The new CIT Act has made it more expensive for companies to use their non-business assets.

[1] International Financial Reporting Standards
[2] Article 8(2)(8) of the CIT Act