

# Reporting non-business expenses in appropriate tax period (2/10/19)

Under the Corporate Income Tax (CIT) Act, non-business expenses should be included in the tax base for each tax period. Since the tax period is one month, it might sometimes be unclear which period such expenses should be reported in. This article explores three different situations.

## CIT rules

Section 4(4) of the CIT Act provides that the tax base for transactions is measured according to the principles for recognising revenues and expenses prescribed by the Company and Consolidated Accounts Act or International Financial Reporting Standards.

Paragraph 27 of the Cabinet of Ministers' Regulation No. 677 of 14 November 2017, *Applying provisions of the Corporate Income Tax Act*, provides that any expense representing a taxable item under section 4(4) of the CIT Act should be included in the tax base when a liability is recognised for that item, regardless of when payment is made.

## Practical situations

We will describe three situations that may arouse doubts about the tax period in which non-business expenses should be included in the tax base.

### *Situation 1*

A company was invoiced on 21 February 2019 for non-business services supplied on 15–31 January 2019. Do we report this non-business expenditure on the CIT return for January or February?

### *The answer*

If an invoice is received on 21 February for services supplied on 15–31 January, the non-business expenditure appearing on the invoice should be reported on the CIT return for February.

### *Situation 2*

A company is invoiced for representation services, all of which are non-business expenses to be included in the tax base. The invoice was issued, received and paid on 25 November 2018 and says the services were supplied on 1–31 May 2018. Do we report this non-business expenditure on the CIT return for May or November?

### *The answer*

If an invoice is received on 25 November 2018 for representation services supplied on 1–31 May, the invoice amount should be reported on the CIT return for November.

### *Situation 3*

A company is invoiced for representation services of EUR 10,000, all of which are non-business expenses to be included in the tax base. The invoice was issued and received on 25 November 2018. The company prepaid EUR 6,000 on 7 May 2018, when the total amount of services was not yet known.

The balance of EUR 4,000 was paid on 25 November 2018. The services were supplied on 1–30 June 2018. Do we report this non-business expenditure on the CIT return for May, June or November, and what is the right amount?

### *The answer*

If an invoice is received on 25 November 2018 for representation services supplied on 1–30 June, the total invoice amount should be reported on the CIT return for November, regardless of the prepayment in May.

Having considered the three situations and the CIT rules, we see that a taxable item should be included in the tax base for the tax period in which the taxpayer received an invoice and recognised a liability for that item, regardless of the payment date.