

Reporting non-business expenses for corporate tax: which period? 1/35/23

The Corporate Income Tax (CIT) Act requires companies to include their non-business expenses in the taxable base for a particular tax period. Since the tax period is one month, various situations can have you confused about the right period to report such expenses. This article examines four different situations.

CIT rules

Section 4(4) of the CIT Act states that when it comes to determining the taxable base for transactions, the taxpayer should follow the principles for recognising revenues and expenses laid down by the Company and Consolidated Accounts Act or the IFRS.

Paragraph 27 of the Cabinet of Ministers' Rule No. 677 of 14 November 2017, *Application of Provisions of the Corporate Income Tax Act*, states that according to section 4(4) of the CIT Act, expenses representing a taxable item must be included in the taxable base when a liability is made for that item, regardless of the date of payment.

Thus, any non-business expenses must be reported on the CIT return for each month according to this principle.

Practice

Let's now examine four situations where taxpayers might have doubts about the right tax period for including their non-business expenses in the taxable base.

Situation 1

On 18 August 2023 a company was billed for services unrelated to its business. The services were rendered in July 2023. Is it July or August these non-business expenses should go on the CIT return for?

The answer

Facing an invoice dated 18 August for services rendered in July, the company should report these non-business expenses on the CIT return for August.

Situation 2

A company has been invoiced for so-called representation services, and all the costs have to go into the taxable base as non-business expenses. The bill was issued, received and paid on 25 July 2023. It says the services were rendered in April 2023. Is it April or July these non-business expenses should go on the CIT return for?

The answer

Facing a bill dated 25 July for services rendered in April, the company should report these non-business expenses on the CIT return for July.

Situation 3

A company has been invoiced for representation services to the value of EUR 10,000, and all the costs have to go into the taxable base as non-business expenses. The bill was issued and received on 25 August 2023. The company paid an advance of EUR 6,000 on 8 May. The total amount of services was not known when the advance was paid.

On 21 August 2023 the company paid EUR 4,000. The services were received on 1–30 June 2023. Is it May, June or August these non-business expenses should go on the CIT return for? And what amounts need reporting?

The answer

Facing a bill dated 25 August for services rendered on 1–30 June, the entire amount should be reported on the CIT return for August despite the advance paid in May.

Situation 4

A company whose financial year coincides with the calendar year acquired services for EUR 10,000 in December 2022, and these costs are not related to its business. The company received and paid a bill for the services in January 2023.

Is it December 2022 or January 2023 these non-business expenses should go on the CIT return for?

The answer

Where services are received in one financial year and billed in another, the non-business expenses should be included in the last CIT return for the financial year, i.e. December 2022.¹

Considering the different situations and the CIT rules, we can see that non-business expenses should be included in the taxable base for the tax period in which the taxpayer is billed and makes a liability for the taxable item, regardless of the date of payment. The only exception is services that are received in one financial year and invoiced in another. In that case the non-business expenses should be reported on the last CIT return for the financial year.

¹ SRS guidelines for completing the CIT return, example 11