Corporate tax return: mistakes in reporting general provisions (2/40/18)

General provisions are among the items that are covered by new reporting procedures according to the new Corporate Income Tax (CIT) Act, with transition rules in place for writing off provisions appearing on the balance sheet as at 31 December 2017. This article explores a few mistakes in reporting general provisions on the CIT return, pointed out by the State Revenue Service (SRS) and detected by PwC.

Details of provisions on the tax return do not match SRS information

Provisions made before 2018 and disclosed on the CIT return do not match the information held by the SRS. Such a discrepancy may be due to unclear rules. We have had questions about the right way of identifying an excess of provisions for 2017 over provisions for 2016. Should we measure them all together or by type of provision? Should we use balance-sheet amounts, provisions made during the year, or movements in provisions during the year? Neither the CIT Act nor the Cabinet of Ministers' Regulation No. 677 offers a clear approach to analysing provisions. And the SRS has yet to issue a statement explaining these issues, which could have caused and are likely to cause more discrepancies if an explanation is not issued or inserted in the legislation. We wrote about some issues in the CIT treatment of general provisions in our article of 31 July 2018 titled "CIT treatment of provisions made before 2018."

A coefficient of 0.75 has not been applied to provisions

The SRS points out that the taxpayer has ignored the requirement that those provisions should be reported after applying a coefficient of 0.75. Paragraph 19 of the transition rules of the CIT Act provides that provisions multiplied by a coefficient of 0.75 may be deducted from taxable income. The transition rules relating to provisions as at 31 December 2017 do not set a time limit for reducing taxable income but restrict the taxable income that can be reduced.

Provisions made after 2017 are not recorded separately from others

Remember that a taxpayer who fails to keep a separate record of provisions made before and after 1 January 2018 may be denied the right to deduct provisions from taxable income for the tax period according to the transition rules.

Accruals should not be reported as provisions

We have seen in practice that companies still attribute to general provisions any amounts calculated against employees for accrued unclaimed vacation days in the financial year. However, under paragraph 164 of the Cabinet of Ministers' Regulation No. 775 of 22 December 2015, *Application of Company and Consolidated Statements Act*, effective from 1 January 2016, estimated liabilities against employees for accrued unclaimed vacation days in the financial year should be recorded on the balance sheet under "Accrued liabilities." This means that accrued liabilities should not be reported on the CIT return.

On detecting any mistake on the CIT return filed, the taxpayer may file adjustments within three years after the due date for payment prescribed by the CIT Act. No further liability will arise when adjusting balances of provisions carried as at 31 December 2017 unless the taxpayer has failed to deduct this reduction in provisions from taxable income on the monthly tax return. The CIT Act provides that late fees are not charged on any additional CIT payment following adjustments to the tax return for the tax period relating to the last month of the financial year if those adjustments are made according to changes that arose in the process of preparing an annual report filed with the SRS by the due date.

We should also remember that newly made provisions in 2018 no longer affect taxable income.