

SRS denies corporate tax relief on provision for impairment loss (2/14/19)

In March 2019 the State Revenue Service ("SRS") published an anonymised advance tax ruling on the corporate income tax ("CIT") treatment of provisions made before 2018. This article explores the SRS's conclusions about the CIT treatment where a company reported a balance of provision for slow-moving inventory at 31 December 2017.

We have recently written about issues around types of provisions eligible for reducing the taxable base under the new CIT system.

Background

A company's balance sheet carried a provision of EUR 662,008 for non-liquid assets at 31 December 2017. The company says annual changes to provisions have affected its CIT calculation and increased its taxable income. In 2018, the company sold some of those non-liquid assets and reduced the provision to EUR 591,934.

Under paragraph 17 of the transitional rules of the CIT Act, a provision that is carried at 31 December 2017 and reduced after that date may be deducted from the CIT base after applying a coefficient of 0.75 on the following conditions:

- The provision was added to taxable income in the period it was made;
- The provision is recorded separately from other provisions after 2017.

Based on this information, the SRS was asked whether a provision for impairment loss may be deducted from the CIT base.

The SRS view

The SRS explains that paragraph 125 of the Cabinet of Ministers' Regulation No. 677, *Applying provisions of the CIT Act*, provides that paragraph 17 of the transitional rules of the CIT Act applies to provisions carried at 31 December 2017 and made for taking certain steps under a court order, under a contract, or under an obligation arising from practice in line with the legislation on provisioning.

In reply to the company's question, the SRS also invokes section 32 of the Company and Consolidated Accounts Act, which states that a provision cannot be used to adjust the carrying amount of an asset, as well as invoking paragraphs 146 and 147.1 of the Cabinet of Ministers' Regulation No. 775, *Applying the Company and Consolidated Accounts Act*. Paragraph 147.1 implies that the conditions listed in paragraph 146 for making, measuring and recognising provisions does not apply to a provision for impairment loss. This type of provision is recognised in the books and used in the financial statements to reduce the carrying amount of an asset at the balance sheet date.

The SRS's advance tax ruling ("ATR") states that a provision for slow-moving inventory is not considered a provision under section 32 of the Company and Consolidated Accounts Act and is ineligible for relief. A provision for inventory impairment that reduces the carrying amount is considered an expense incurred in

remeasuring inventory.

PwC comment

The ATR of 20 February 2019 resolves the issue of applying the transitional rules of the CIT Act to provisions used for adjusting the carrying amount of an asset (including slow-moving inventory) carried at 31 December 2017 and reduced after that date.

However, the ATR does not permit companies to deduct a reduction in this provision from the CIT base and the old CIT scheme required them to add this type of provision to taxable income, which creates disproportionate restrictions on companies having added this type of provision to taxable income in earlier tax periods.