

New rules on dissolution of company or its business unit 3/48/21

We have already informed our MindLink subscribers about the new Accounting Act effective from 1 January 2022, which will result in relevant regulations being changed or a new one issued. This article explores the Cabinet of Ministers' new Rule 590, which explain how a company's assets and liabilities should be valued in its books and presented in its financial statements if the company or its business unit is dissolved. [Rule 590](#) has been issued under section 21(3) of the new Accounting Act and replaces [Rule 583](#).

Key amendments

Adopted on 31 August 2021, Rule 590 will come into force on 1 January 2022 together with the new Accounting Act and several related regulations. Rule 590 amends the current regulations.

1. Rule 590 explains in more detail how assets and liabilities should be valued and presented on the balance sheet and in the profit and loss account as part of the closing financial statements.

Any surplus assets should be presented under balance-sheet assets, while liquidation capital – an amount that matches the surplus assets and serves as a basis for preparing the property distribution plan and for computing the liquidation quota – should be presented under balance-sheet liabilities in the closing financial statements.

2. Rule 590 includes a reference to particular paragraphs of [Rule 775, "Application of the Company and Consolidated Accounts Act,"](#) which lays down procedures for valuing the assets and liabilities and preparing the closing financial statements.

Draft Rule 590 states that [Rule 775](#) needs more amendments to eliminate discrepancies with Rule 590 and [section 21\(1\) of the new Accounting Act](#) when it comes to preparing the closing financial statements in the case of a company's dissolution.

3. [Paragraph 2 of Rule 583](#) included only one case that was not covered by Rule 590, i.e. companies that are liquidated by reorganising a group if its parent or another subsidiary fully takes over the assets and liabilities of the company in liquidation.

This paragraph has now been revised to add two cases that are not covered by Rule 590:

- A municipality, a budget institution, a partly state-funded, derived public person, and a non-state-funded institution ceases to exist by going into reorganisation or dissolution.
- A company with single-entry bookkeeping under section 10(3) of the Accounting Act is dissolved.

4. Rule 590 includes procedures for valuing assets and liabilities not only in the case of liquidation but also for dissolution in the case of insolvency proceedings.

Paragraph 8 of current Rule 583 is not included in Rule 590 because the profit and loss account is no longer used as a basis for preparing the corporate income tax return from 2018.

What parts of the current regulations will be included in Rule 590?

- No changes are made to how the profit and loss account should be prepared and how shareholders' equity should be computed and presented on the balance sheet.
- There is still an exemption from valuing tangible and intangible assets at net revenue owned by sole traders, farm or fishery operations, associations, foundations, trade unions, political parties and religious organisations that are being dissolved. In those cases there are no creditor claims to be satisfied, so there is no need to sell assets – the sole owner of the company in liquidation or another person will take over the entire property (including liabilities).
- The rules for valuing assets and liabilities on the dissolution of a company's business unit are retained.

Information about draft Rule 590 is published on [the Finance Ministry's website](#), and [the State Revenue Service issued guidance](#) on 6 September 2021.