# Corporate tax treatment of debts 3/29/22

Amendments to section 9 of the Corporate Income Tax Act came into force on 21 April 2022. The Act's transition rules now have paragraphs 47 and 48, and there is a different CIT treatment of debts appearing on the balance sheet at 31 December 2017 and ones incurred after this date for which provisions were made before 2022 and later. This article offers an updated summary of the CIT treatment of bad debts in different situations.

## Tax-base implications

Section 9 of the CIT Act applies to debts appearing on the balance sheet from 1 January 2018 that might have to be added to the tax base if the conditions of section 9 are not satisfied.

Debts appearing on the balance sheet at 31 December 2017 may be deducted from the tax base if the conditions of section 9(3) are satisfied.

The tables below present a summary of information on possible actions or events associated with debts appearing on the balance sheet at 31 December 2017 and from 1 January, as well as potential CIT implications.

### Debts on the balance sheet at 31 December 2017

| Action/Event | CIT implications |
| --- | --- |
| A provision is made for a debt appearing on the balance sheet at 31.12.17. | No implications under paragraph 28 of the transition rules. |
| A debt appearing on the balance sheet at 31.12.17 is expensed from provisions made before 2018. | The tax base may be reduced only if the section 9(3) conditions are satisfied.<br>*Report this on line 21 of the CIT return for the tax period (the debt x 0.75).*<br>NB! These provisions must be recorded separately from the rest! |
| A debt appearing on the balance sheet at 31.12.17 is expensed from provisions made after 2017. | No implications – the CIT Act doesn't expressly allow the tax base to be reduced if a provision was made after 2017. |
| A debt appearing on the balance sheet at 31.12.17 is expensed directly. | The tax base may be reduced only if the section 9(3) conditions are satisfied.<br>*Report this on line 21 of the CIT return for the tax period (the debt x 0.75) and reduce the retained earnings at 31.12.17 (if any still available) by completing the column "Debts that reduced the tax base" in table 1.1.*<br>NB! If the company has no retained earnings at 31.12.17 available the tax base cannot be reduced! |
| The company recovers a debt appearing on the balance sheet at 31.12.17 that was added to taxable income earlier. | The company should ask the State Revenue Service to confirm it may reduce the tax base. The CIT Act doesn't expressly allow a taxpayer to deduct a recovered debt or a reduction in the special provision if that debt was added to taxable income in any of the financial years preceding 2018 – the transition rules don't refer to section 9(5). |

### Debts incurred after 2017, including ones provisioned before 2022 (governed by the amendments of March 2022 to the CIT Act stating that CIT implications arise once a provision reaches 60 months)

| Action/Event | CIT implications |
| --- | --- |
| A provision is made for a debt incurred after 2017. | No implications – making a provision per se has no CIT implications. |
| A provision made between 01.01.2018 and 31.12.21 for a debt incurred after 2017 that remains outstanding and is not eligible under section 9(3), reaches 60 months. | This must be included in the tax base.<br>*Report this on line 6.2 of the last CIT return for the financial year.*<br>For example, if you made a provision in June 2018 but the debt remains outstanding by July 2023 (and throughout 2023) and none of the section 9(3) exemptions is available, then report that provision on line 6.2 of the CIT return for December 2023. |

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| A debt incurred after 2017 is expensed from provisions made between 01.01.2018 and 31.12.21, before reaching 60 months. | This must be included in the tax base if the section 9(3) conditions are not satisfied.<br>*Report this on line 6.2 of the last CIT return for the financial year.* |
| A debt incurred after 2017 is expensed directly. | This must be included in the tax base if the section 9(3) conditions are not satisfied.<br>*Report this on line 6.2 of the last CIT return for the financial year.* |
| A debt incurred after 2017 is recovered after the debt or the provision was included in the tax base. | The company may reduce the tax base or recover the CIT paid if the debt was included in the tax base earlier.<br>*Report this on line 20 of the last CIT return for the tax period or the financial year if there is any tax base to reduce, and/or on line 31 as a tax overpayment (stating the tax paid earlier).* |
| The section 9(3) conditions are satisfied after a debt arising after 2017 or a provision was included in the tax base. | The company may reduce the tax base or recover the CIT paid if the debt was included in the tax base earlier.<br>*Report this on line 20 of the last CIT return for the tax period or the financial year if there is any tax base to reduce, and/or on line 31 as a tax overpayment (stating the tax paid earlier).* |
| Bad debt provisions are made under IFRS 9 *Financial Instruments*. | CIT implications may arise on a debt for which a provision has been made if this has been expensed to the profit and loss account and the debt remains outstanding for 60 months, counting from the date the customer should have paid the supplier, and it doesn't qualify for a section 9(3) exemption.<br>*The State Revenue Service is expected to prepare and publish guidance on how the CIT Act's rules should be applied in practice!*<br>NB! All the requirements of section 9(7) must be satisfied! |

## Debts incurred after 2017, including ones provisioned after 2021

| Action/Event | CIT implications |
|---|---|
| A debt incurred after 2017 remains outstanding and is not subject to the section 9(3) conditions, and a provision made after 2021 reaches 36 months. | This must be included in the tax base.<br>*Report this on line 6.2 of the last CIT return for the financial year.*<br>For example, if you made a provision in June 2022 but the debt remains outstanding by July 2025 (and throughout 2025) and none of the section 9(3) exemptions is available, then report that provision on line 6.2 of the CIT return for December 2025. |
| A debt incurred after 2021 remains outstanding, the debtor has started insolvency proceedings, and the provision made for that debt reaches 36 months. | No need to do anything – CIT implications arise in 60 and not 36 months' time under section 9(1)(1). |