

The impact of the new annual report regulation on adjustments to corporate income tax calculations for provisions

Previously general practice was that companies made provisions for unused vacation days of their employees and when preparing the corporate income return, according to Article 6 of the law "On corporate income tax", adjusted taxable income for changes in provisions during the taxation year. Increases in the provision compared to the previous year resulted in higher taxable income and decreases resulted in lower taxable income.

1 January 2016 is the effective date of Cabinet Regulation No 775 of 22 December 2015 "On the rules of application of the Annual Reports and Consolidated Annual Reports Law" (hereinafter – Regulation No. 775), where Article 164 states that "estimated amounts of liabilities to employees for unused vacation days accrued during the reporting year are recognised in the balance sheet item "Accrued liabilities"". The new regulation effectively brings an end to different interpretations by stating that vacation liabilities are considered accrued liabilities rather than provisions.

Starting from 2016 there is no requirement to make adjustments in the corporate income tax return for the amounts of these deferred liabilities. For the purposes of calculating corporate income tax, expenses for unused vacation provisions are recognised in the taxation period when the employees are expected to use their vacation according to the Labour Law rather than in the subsequent periods when the employees actually use it.

Where a company has a provision for vacations on its books as at 1 January 2016 and taxable income in the previous taxation periods has been increased by the amount in question (i.e. the amount was non-deductible for tax purposes) in the return for 2016, taxable income should be decreased by the entire amount of provision for vacations as at 1 January 2016.

Article 164 of the Regulation No. 775 shall be applicable when preparing financial statements for year which begins on 1 January 2016. If the reporting period of a company is, for example, from 1 October 2015 to 30 September 2016, Article 164 is not yet applied. Accordingly, when preparing financial statements for financial year beginning on 1 October 2016 and ending on 30 September 2017, the new Regulation No. 775 shall be applied.



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