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Tax accounting and the Corona outbreak: considerations and opportunities

The Corona outbreak may have certain effects on tax accounting. But it may have positive effects on the cash flow position.

Mireille Hendrikx, tax accounting expert of Atlas Tax Lawyers, explains: *"It goes without saying that current tax positions are likely to be affected by the Corona pandemic. Assessments made for IFRS purposes are often based on criteria that differ from the relevant criteria applied for Dutch corporate income tax purposes. Consequently, deferred tax positions are also expected to be affected."*

For Dutch corporate income tax purposes we advise to consider to what extent impairments of assets such as stock, trade receivables, etc. may be substantiated and recognized.

Mireille continues: *"Depending on the circumstances, it could be argued to report a provision in the tax books for the year 2019, which could result in a lower taxable amount. Through a reduction of the preliminary corporate income tax assessment for 2019, there could be positive effects on the cash flow position."*

Furthermore, we advise to consider to what extent Corona related issues are expected to result in future expenditures, such as costs resulting from the termination of labor contracts and other contracts for which provisions may be recognized. In principle, penalties incurred upon early termination of contracts are considered deductible for Dutch corporate income tax purposes.

Issues to be considered include:

- **Events after the reporting period**. The coronavirus outbreak occurred at a time close to reporting date and has continued to evolve throughout the time line crossing 31 December 2019. Management is to assess to what extent the event qualifies as an adjusting or non-adjusting event. Adjusting events are reflected in the financial statements. For non-adjusting events, the management is to assess what additional disclosures are to be provided.
- **Fair value measurement**. When making the critical assessments and judgements for measuring fair value, it is to be considered what conditions and corresponding assumptions were known or knowable to market participants. The impact would depend on the evaluation of whether the severity of the outbreak at the reporting date would have impacted market participants' valuation assumptions at that date.
- **Expected credit loss ("ECL") assessment**. ECL is a probability weighted amount that is determined by evaluating a range of possible outcomes. Accordingly, management is required to ensure that there is reasonable and supportable consideration of past events, current conditions and forecast of future economic conditions when making that assessment.

- **Impairment assessment**. An asset is impaired when an entity is not able to recover its carrying value, either by using or selling it. The recoverable amount of the asset is to be estimated. Events after the reporting period are to be considered in the impairment indicator assessment if they provide additional evidence of conditions that existed at the end of the reporting period.
- **Disclosure requirements.** It is to be considered to what extent disruptions caused by Corona affects the business and to disclose information about assets and liabilities that are subject to significant estimation uncertainty.

The items listed are by no means intended to be exhaustive. As you may appreciate, implications of the Corona outbreak vary depending on an entity's specific situation.

Addressing above described issues can be quite complex and time consuming.
Should you require further assistance or should you simply wish to discuss the above in more detail with regard to your specific situation, please contact Mireille Hendrikx (at mh@atlas.tax or +31 6 1035 8864) or your own contact person within Atlas.