Consideration of decreased corporate tax in the accounting

Guidance

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1 Introduction

The Swedish Government ("Regeringen") has written a proposal for new tax rules. The proposal, named *Nya skatteregler för företagssektorn (*New tax legislation for the corporate sector*)* was published the 3rd of May 2018. The proposal includes a number of legislative changes concerning tax rules, but this guidance mainly seeks to explain the accounting effects following that the corporate tax will be decreased in two steps. The first from the current 22% to 21.4%, applicable to financial years starting the 1st of January 2019 or later, and the second to 20.6%, applicable to financial years starting the 1st of January 2021 or later. The Swedish Parliament ("Riksdagen") is expected to endorse the proposal on the 13th of June 2018.

2 Short summary

Given that the Swedish Parliament endorses the proposal on the 13th of June to change the tax rate as planned, this should be taken into consideration in the year-end closing as well as in the interim reports per the 30th of June 2018 and thereafter. That means that deferred taxes will be revalued based on the tax rate applicable at the time when the deferred tax is expected to be realized.

3 Accounting effect by a decreased tax rate

In regards to the accounting, a decreased tax rate means that deferred tax liabilities/assets will have to be revalued. This revaluation shall be recognized in the income statement[1] according to IAS 12 p 58. The exception from recognition in the income statement is when the underlying transaction has been recognized in other comprehensive income (e.g. for financial instruments with value changes recognized in other comprehensive income) or directly in equity (e.g. certain transaction related to share based benefits).

The equivalent rules can be found in K3 p 29.22, i.e. that the revaluation shall be recognized in the income statement. The exception from recognition in the income statement is when the underlying transaction has been recognized directly in equity. Other comprehensive income is not applicable in K3.

Note, however, that reversion of tax allocation reserves made during a year with lower corporate tax shall be adjusted upwards in order to balance the lower tax. That means that a reversion of the tax allocation reserves after 2018 is made with a tax rate that is very close to 22 %. A revaluation of a deferred tax related to the tax allocation reserve is made depending on whether or not this amount is material.[2]

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[1] The revaluation of deferred tax that has arisen in connection to an acquisition analysis shall also be recognized in the income statement.

[2] Assume that an allocation of 100 to a tax allocation reserve has been recognized 2018 or earlier. In case it is reversed 2018 or 2019, it is reversed with 103%, i.e. 21.4 * 1.03 = 22.04. In case it is reversed 2021 or later, it is reversed with 106%, i.e. 20.6 * 1.06 = 21.84. Assume that a deferred tax liability of 22 is recognized in the year-end closing of 2017 and is expected to be reversed for taxation in 2021. Whether or not the deferred tax liability shall be revalued to 21.84 after a decision to change tax rate is taken, should depend on if the revaluation amounting to 0.16 (22-21.84) is material or not.

It can further be noted that the decreased tax rate leads to additional disclosures, such as an explanatory row in the tax note with reconciliation of effective tax rate in the year-end closing.

4 Effects of a gradual decrease in tax rate and which takes place in an interim reporting period

As mentioned above, the proposal means that the tax rate is gradually decreased. Deferred tax assets and deferred tax liabilities are revalued according to the tax rate that is expected to be applicable in the period when the deferred tax will be realized, according to IAS 12.47. According to our judgment, it is therefore required to make a judgment of when the deferred tax is expected to be realized. If the judgment is that this is expected to be realized 2021 or later, it is accounted for based on a tax rate of 20.6%. If the judgment is that it will be realized 2019 or 2020, it is accounted for based on a tax rate of 21.4%, while no revaluation is made if it is expected to be realized in 2018. It can also be the case that certain deferred taxes are expected to be realized gradually.

4.1 Example:

Assume that in the year-end closing 2017, a deferred tax of 88 related to a loss-carry forward of 400 is recognized. The company makes the judgment that it is probable that the loss-carry forward[3] will be utilized with 100 yearly through 2018-2021. That judgment is also applicable to the year-end closing and to the interim-report per the 30th of June 2018. A revaluation is recognized according to the following:

Loss-carry forward	Expected to be realized in	Tax rate	Deferred tax asset
100	2018	22 %	22
100	2019	21.4 %	21.4
100	2020	21.4 %	21.4
100	2021	20.6 %	20.6
Sum			85.4

In the year-end closing and in the interim report per the 30th of June 2018, a deferred tax asset of 85.4 is recognized. A deferred tax expense of 2.6 is recognized since the deferred tax asset has been revalued from 88 to 85.4. The entire deferred tax expense of 2.6 is recognized in the interim reporting period 1st January – 30th June 2018. In the quarterly closing, the entire deferred tax expense is recognized in the period 1st April to

[3] Note that this is just a quantitative example to illustrate the accounting effects of the decreased tax rate. The purpose of the example is not to demonstrate whether loss-carry forwards should be recognized or not.

30th June 2018. In the first quarter, no deferred tax expense could be recognized since the new tax rate was endorsed after the 31st of March.

4.1.1 Alternative accounting in the interim reports

According to the example above, the entire effect of the deferred tax is recognized in the second quarter. We do, however, make the judgment that recognition of the deferred tax over more than one quarter can be possible in certain situations.

We conclude that the equivalent accounting should be performed according to K3.

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