**Revenue Note for Guidance**

**Schedule 17A**
**[Section 76A]**
**Accounting Standards**

**Overview**

This Schedule provides transitional rules to apply where a company's taxable profits begin to be calculated using IFRS standards, equivalent Irish GAAP standards, or for accounting periods beginning on or after 1st January 2015 'new' Irish GAAP standards to the extent that they embody IFRS. The transitional arrangements apply to each new standard as regards matters covered by the standard. Thus, the rules will be applicable to more than one accounting period where a company's accounts reflect a gradual move to such standards as may be the case as Irish GAAP gradually converges with IFRS. The purpose of the rules is, in the case of revenue recognition and gains and losses on financial assets and financial liabilities, to ensure that, on the move to IFRS/new Irish GAAP, no amounts are double counted for tax purposes and that no amounts fall out of the charge to tax. The Schedule also contains rules for bad debts and bad debts provisions to ensure that, where a debt is written off against a provision that has not been deducted for tax purposes, the write-off of the debt will be deductible for tax purposes.

**Details**

**Definitions**

**par 1**The expression "*relevant accounting standards*" which is used in the schedule is defined as including:

- international accounting standards (IFRS).

- Irish GAAP which is based on published standards that are stated to embody IFRS and the application of which gives substantively the same results as IFRS. This includes a number of Irish GAAP standards issued in December 2004 and which specifically state that they embody IFRS. It is important to note, as respects the operation of the transitional provisions in the context of Irish GAAP converging with IFRS, that, as the opening words of paragraph (1)(b) of Schedule 17A make clear, this second category of "*relevant accounting standards*" is relevant only to matters covered by the published standards concerned.

- for accounting periods beginning on or after 1 January 2015, Irish GAAP based on published standards to the extent that the practice embodies international accounting standards. This addition to the definition of "relevant accounting standards" was introduced in Finance Act 2014 to extend the transitional arrangements to companies who are changing their accounting standards in order to comply with updated Irish accounting standards. This is particularly relevant for companies who are transitioning to the new Irish and UK Financial Reporting Standards (FRS) 102 and FRS 103. The wording in the definition deliberately restricts the transition provisions contained in the schedule to the elements of the practice that embodies IFRS-based standards. While substantial elements of FRS 102 continue to reflect old Irish GAAP, and will not give rise to transitional adjustments, FRS 102 does contain elements that embody international accounting standards and to that extent will give rise to adjustments under this schedule.

Note: If an entity has adopted new Irish GAAP standard FRS 102 or FRS 103, prior to 1 January 2015, the transitional rules contained in the schedule will be applied administratively, as appropriate, to these early adopters.

**Amounts receivable and deductible – transitional rules**

**par 2**Transitional rules in the case of amounts receivable and deductible ensure against double counting or amounts falling out of the system. An example of double counting might be a fee of, say 300, received in respect of a 3 year contract and which is received, accounted for under Irish GAAP and taxed up-front. If, under relevant accounting standards, the fee is to be accounted for over the period of the contract at a rate of 100 per year, and assuming that the company moves to IFRS/new Irish GAAP at the end of year 1, the position might be as follows:

| | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| Old Irish-GAAP Treatment | 300 | | |
| IFRS Treatment/ New Irish GAAP | 100 | 100 | 100 |

As the tax treatment would follow the accounting treatment, 300 would be taxed in year 1, 100 in year 2 and 100 in year 3. In the absence of a transitional measure, this would result in tax being charged on 500 in respect of the fee of 300.

The transitional measure requires the double counted amount (in this case 200) to be identified. The inclusion of that amount in a composite adjustment for tax purposes means in effect that it will be allowed as a deductible amount over a period of 5 years.

**par 2**"*Deductible amounts*" are income amounts that would be double counted and expenses that that would not be counted at all while "*taxable amounts*" are income amounts that would otherwise not be counted and expenses that would be double counted.

"*Deductible amount*" is defined as—

- **par 2(1)(a)**so much of any amounts receivable that are included in profits taxable under Case I or II by virtue of using relevant accounting standards as was also included in profits taxable under Case I or II *before* the move to relevant accounting standards, and
- so much of expenses of a company that would have been deductible in computing income under Case I or II if incurred in a relevant accounting period as:
    - was not deducted before the move to relevant accounting standards, and
    - **par 2(1)(b)**is also not be deductible *after* the move to relevant accounting standards.

"*Taxable amount*" is defined as—

- **par 2(1)(a)**so much of an amount receivable by a company and that would have been taxable under Case I or II if it had accrued in a relevant accounting period, as is not taken into accounting computing income under Case I or II either before or after the move to relevant accounting standards, and

- **par 2(1)(b)**so much of any expenses of the company that are deductible in calculating income taxable under Case I or II for an accounting period after the move to relevant accounting standards as was also deducted in computing income for an accounting period before the move to relevant accounting standards.

**Taxable amount exceeds deductible amount**

**par 2(2)(a)**If the "*taxable amount*" exceeds the "*deductible amount*" for a company, the excess is to be treated as a trading receipt for the company for its first accounting period for which relevant accounting standards are used.

**par 2(2)(b)**The treatment is modified, however, by providing that the excess is not to be taxed fully in the first such accounting period. Instead, the excess is taxed in accounting periods falling wholly or partly into the period of 5 years beginning at the commencement of the accounting period in which the change is made. The amount is to be allocated on a time basis to such accounting periods.

**par 2(2)(c)**Where any accounting period for which such an amount is assessable is the last accounting period in which the company concerned carried on a trade or profession, any untaxed balance of the excess is to be taxed in that accounting period.

**Deductible amount exceeds taxable amount**

**par 2(3)**If the "*deductible amount*" exceeds the "*taxable amount*" for a company, the excess is to be treated as a deductible trading expense of the company for its first accounting period for which relevant accounting standards are used. The treatment is modified, however, by providing that the excess is not to be deducted fully in the first such accounting period. Instead, the excess is deducted in accounting periods falling wholly or partly into the period of 5 years beginning at the commencement of the accounting period in which the change is made. The amount is to be allocated on a time basis to such accounting periods.

**par 2(3)(c)**Where any accounting period for which such an amount is deductible is the last accounting period in which the company concerned carried on a trade or profession, any unallowed balance of the excess is to be deducted in that accounting period.

**par 2(4)**The rules do not apply to any amount which is dealt with in paragraph 4 of the Schedule – which provides transitional rules in the case of financial assets or liabilities.

Bad debts provisions are not covered by paragraph 2 or 4. Special rules for these are contained in paragraph 3 (see below)

**Bad Debts Provisions – transitional rules**

**Summary**

Special transitional rules are applied in the case of bad debts provisions. The interaction between tax law and accounting practice means that provisions for doubtful debts are divided into specific provisions (which relate to estimations on specific debts) and general provisions. Any adjustment to such provisions is not taken into account for tax purposes to the extent that it relates to general provisions. Under relevant accounting standards the manner of calculating a provision for doubtful debts is more specific than heretofore and adjustments to such provisions which are properly calculated in accordance with the new standards will, in future, be treated as deductible for tax purposes. No adjustment to taxable profits is being made in respect of the restatement of the doubtful debts provision at the point of transition to relevant accounting standards. However, in the event that at any time the level of the provision for doubtful debts falls below its level at the point of moving to relevant accounting standards, an adjustment to taxable profits will be made at that time to ensure that there is no loss of deductibility for actual bad debts incurred.

**Details**

***Definitions***

**par 3(1)**"*current bad debts provision*" is defined in relation to an accounting period for which relevant accounting standards apply. It means the value of debts due to the company at the end of the accounting period that are estimated to be impaired (using the measure of impairment as set out in those standards).

"*first relevant period of account*" is defined in relation to a company as the first period for which the company prepares accounts on the basis of relevant accounting standards.

"*opening bad debts provision*" is the value of debts due to the company that are estimated to be impaired (using the measure of impairment as set out in these standards) at the beginning of the company's first relevant period of account (i.e. its opening bad debts provision under relevant accounting standards).

"*specific bad debts provision*" is defined as the company's closing specific provision at the end of its last accounting period before the move to relevant accounting standards.

**par (2)**The transitional rule applies for a period of account for which accounts of a company are prepared on the basis of relevant accounting standards.

**The relief**

**par 3(3)**The first step in calculating relief is to compare the opening (IFRS) bad debts provision with the higher of -

- the current bad debts provision (i.e. the closing provision for the current year), and
- the specific provision (i.e. the closing specific provision before the move to relevant accounting standards).
- If the opening provision is greater than the higher of those two amounts, the excess is to be treated as a trading expense for the current accounting period. However, that amount is to

be reduced by any amount treated as a trading expense by reference to this relief (i.e. under paragraph 3(3)) for any previous accounting period.

*Example:*

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|
| (a) Current BD Provision | 80 | 90 | 60 | 55 | 40 |
| (b) Specific BD Provision | <u>50</u> | <u>50</u> | <u>50</u> | <u>50</u> | <u>50</u> |
| Higher of (a) and (b) | 80 | 90 | 60 | 55 | 50 |
| Opening BD Provision | 70 | 70 | 70 | 70 | 70 |
| Treated as a trading expense | N/A | N/A | 10 | 5 | 5 |
| | | | (70–60) | (70–55 less 10) | (70–50 less 15) |

**par 3(4)Bar on double relief**

A debt which is taken into account under the bad debts transitional rules is not to be taken into account under the transitional rules relating to financial instruments.

**Transitional rules for gains and losses on financial assets and liabilities**

**Summary**

Transitional measures relating to gains and losses on financial assets and liabilities are provided for. Prior to the application of section 76B, gains and losses on financial assets and liabilities were generally computed for tax purposes on a realised basis. Thus, where such an instrument was purchased for 100 and sold for 140, the gain of 40 was included in taxable income at the time of sale. Under relevant accounting standards, gains and losses on such instruments will be accounted for on the basis of the movement in the fair values of such instruments in accordance with the Income Statement – and that basis will also apply for tax purposes in accordance with section 76B. For example, if the instruments cost 100 in year 1, rose in value to 110 by the end of year 1, fell in value to 95 by the end of year 2 and was sold in year 3 for 140, the taxable amounts would be as follows:

| | | |
|---|---|---|
| Year 1 | 10 increase | (110 – 100) |
| Year 2 | 15 loss | (95 – 110) |
| Year 3 | 45 increase | (140 – 95) |

Where a company moves from a realised basis for tax purposes to an effective unrealised basis (in accordance with the fair value movement reflected in the Income Statement), part of a gain or loss could fall out of account for tax purposes. For example, a company acquires a financial instrument for 100 in year 1, at the end of year 1 the instrument has a value of 120, in year 2 it rises in value to 130 and it is sold in year 3 for 150. If the company moves to relevant accounting standards for year 2, the taxable amount will be as follows:

| | | |
|---|---|---|
| Year 1 (GAAP) | Nil | (because realised basis applies) |
| Year 2 (IFRS) | 10 | (130 – 120) |
| Year 3 (IFRS) | 20 | (150 – 130) |

The increase in value of 20 in year 1 falls out of account for tax purposes.

To deal with this, the paragraph identifies the amount of gains or losses, which could be either double counted, or fall out of account, for tax purposes. Once these amounts are calculated, a net adjustment is taken into account for tax purposes over a period of 5 years.

Where, prior to the move by a company to relevant accounting standards, trading income of a company in respect of particular financial assets and liabilities was computed for tax purposes on a "*mark to market*" basis, rather than the general realised basis, and after the move that income is computed on the basis of fair values, it is unlikely that there would be substantial change for the company in computing that income. Nonetheless, there may be instances where "*fair value*" under relevant accounting standards does not equal market value used previously. Where this gives rise to a prior year adjustment on the move to relevant accounting standards, any such adjustment will be dealt with under the transitional measures contained in this paragraph.

**Details**

**par 4 (1)**"*changeover day*" is defined as the last day of the final accounting period before the move by the company to relevant accounting standards covering profits or gains or losses on financial assets or financial liabilities.

**par 4(1)***Deductible amount*

"*deductible amount*" contains two elements:

- an unrealised loss which is not counted at all for tax purposes, and
- an unrealised gain which might be counted twice for tax purposes.

**Move from realised basis to unrealised basis**

Paragraph (a) of the definition deals with the more common situation where a company will have been taxed on a "*realised basis*" up to the move to relevant accounting standards and then moves to an effective "*unrealised basis*" in accordance with the fair value movement reflected in the Income Statement.

| | | |
|---|---|---|
| Example: | A financial instrument cost | 100 in 2004. |
| | It had a fair value of | 80 at December 2004. |

| | | |
|---|---|---|
| | It was sold for | 110 in 2005. |
| <u>Result</u>: | Before relevant accounting standards the company is taxed on a realised basis. As nothing was realised, the loss of 20 does not crystallise for tax purposes. | |
| | *After the move to* relevant accounting standards the company is taxed on movements in fair value reflected in the Income Statement. Fair value has increased from 80 to 110 in 2005 so the company becomes taxable on 30. | |
| | This means that, overall, the company would be taxed on 30 even though it only made a gain of 10 (110–100). This is because the fair value loss in 2004, being unrealised, was <u>ignored.</u> | |
| <u>Solution</u>: | The loss of 20 is identified as a "*deductible amount*". | |

**Move from unrealised basis to realised basis**

Paragraph (b) of the definition deals with an unusual situation where a company was effectively taxed on an "*unrealised (mark to market) basis*" before the move to relevant accounting standards and on an effective "*realised basis*" after the move to relevant accounting standards (because the assets concerned are categorised under relevant accounting standards as "*available for sale*" assets and as such, subject to impairment, any gain of loss will generally be recycled to the Income Statement on realisation.)

| | | |
|---|---|---|
| <u>Example</u>: | A financial instrument cost | 100 in 2004. |
| | It had a fair value of | 130 at December 2004. |
| | It was sold for | 150 in 2005. |
| <u>Result</u>: | Before relevant accounting standards the company was taxed on a "*mark to market*" basis on the increase in value of 30 in 2004. | |
| | After relevant accounting standards the company is taxed on an effective realised basis in accordance with the profit reflected in the Income Statement so that when the asset is sold in 2005, 50 is taxed (150–100). | |
| | This means that, overall, the company would be taxed on 80 (30 in 2004 and 50 in 2005) even though it made a gain of only 50. | |
| <u>Solution</u>: | The doubly-taxed amount of 30 is identified as a "*deductible amount*". | |

**par 4(1)Taxable amount**

"*taxable amount*" contains two elements:

- unrealised gains which might fall out of the system, and
- unrealised losses which might be taken into account twice for tax purposes.

**Move from realised basis to unrealised basis**

Paragraph (a) deals with the more common situation where a company will have been taxed on a "*realised basis*" up to the move to relevant accounting standards and then moves to an effective "*unrealised basis*" in accordance with the fair value movement reflected in the Income Statement.

| | | |
|---|---|---|
| Example: | A financial instrument cost | 100 in 2004. |
| | It had a fair value of | 130 at December 2004. |
| | It was sold for | 150 in 2005. |
| Result: | Before relevant accounting standards the company was taxed on a realised basis. As nothing was realised, the increase in value of 30 does not crystallise for tax purposes. | |
| | After the move to relevant accounting standards the company is taxed on movements in the fair value reflected in the Income Statement. Fair value has increased in 2005 so that the company becomes taxable on 20. This means that, overall, the company is taxed only on 20 even though it made a gain of 50. | |
| Solution: | The 30 that would otherwise not have been counted is identified as a "*taxable amount*". | |

**Move from unrealised basis to realised basis**

Paragraph b deals with an unusual situation where a company has been taxed on an "*unrealised (mark to market) basis*" before the move to relevant accounting standards and on an effective "*realised basis*" after the move to relevant accounting standards (because the assets concerned are categorised under relevant accounting standards as "*available for sale*" assets" and as such, subject to impairment, any gain or loss will generally be posted directly to equity and recycled to the Income Statement on realisation).

| | | |
|---|---|---|
| Example: | A financial instrument cost | 100 in 2004. |
| | It had a fair value of | 80 in December 2004. |
| | It was sold for | 90 in 2005. |
| Result: | Before relevant accounting standards the company was taxed on a "*mark to market*" basis and would have been given relief for the loss of 20 in 2004. | |
| | After relevant accounting standards the company is taxed on an effective "*realised basis*" in accordance with the accounting treatment and will be entitled to relief for the loss of 10 (100–90), reflected in the Income Statement. | |
| | This means that, overall, the company would get loss relief of 30 (20 in 2004 | |

| | |
|---|---|
| | and 10 in 2005) even though it actually made a loss of only 10. |
| Solution: | The doubly relieved amount of 20 is identified as a "*taxable amount*". |

**Taxable amount exceeds deductible amount**

**par 4(2)(a)**If the "*taxable amount*" exceeds the "*deductible amount*" for a company, the excess is to be treated as a trading receipt for the company for its first accounting period for which relevant accounting standards covering financial assets and liabilities are used

**par 4(2)(b)**The excess is not to be taxed fully in the first such accounting period. Instead, the excess is to be taxed in accounting periods falling wholly or partly into the period of 5 years beginning at the commencement of the accounting period in which the change is made. The amount is to be allocated on a time basis to such accounting periods.

**par 4(2)(c)**However, where any accounting period for which such an amount is assessable is the last accounting period in which the company concerned carried on a trade or profession, any untaxed balance of the excess is to taxed in that accounting period.

**Deductible amount exceeds taxable amount**

**par 4(3)(a)**If the "*deductible amount*" exceeds the "*taxable amount*" for a company, the excess is to be treated as a deductible trading expense of the company for its first accounting period for which relevant accounting standards covering financial assets and liabilities are used.

**par 4(3)(b)**However, the excess is not to be deducted fully in the first such accounting period. Instead, the excess is to be deducted in accounting periods falling wholly or partly into the period of 5 years beginning at the commencement of the accounting period in which the change is made. The amount is to be allocated on a time basis to such accounting periods.

**par 4(3)(c)**Where any accounting period for which such an amount is deductible is the last accounting period of the company in which the company carried on a trade or profession, any unallowed balance of the excess is to be deducted in that accounting period.

**Spreading of certain losses**

**par 4(4)(a)**An anti-avoidance measure prevents a company avoiding the spreading of losses under the above provision by realising losses on financial assets and liabilities before the move to relevant accounting standards.

Although the measure is not made conditional on there being a tax avoidance motive, in practice it will be accepted that a company need not apply the measure to financial assets and liabilities the taxable profit on which was calculated on a mark to market basis prior to the move to relevant accounting standards as there is unlikely to be a significant advantage in such circumstances.

The measure applies to losses incurred by a company on the disposal in the course of a trade or profession of financial assets and liabilities which the company replaces with similar instruments within a period of 4 weeks before or 4 weeks after the disposal. Disposals are caught by the provision if they take place within a period of 6 months before the first accounting period of the company for which its accounts are prepared using relevant accounting standards in relation to financial assets and liabilities. However, a disposal before 1 January 2005 is not affected by the provision.

**par 4(5)(a)**The losses are not to be deducted fully in the accounting period in which they arise. Instead, the loss is to be allowed in accounting periods falling wholly or partly into the period of 5 years beginning at the commencement of the accounting period in which the change is made. The amount is to be allocated on a time basis to such accounting periods.

**par 4(5)(b)**Where any accounting period for which such an amount is deductible is the last accounting period in which the company carried on a trade or profession, any unallowed balance of the loss is to be deducted in that accounting period.

**Relevant Date: Finance Act 2015**