

## Accrued expenses and tax-deductible costs

In October 2008 a new accounting standard was adopted, which can influence the moment of settlement of tax-deductible costs. This standard will probably come into force by the end of the current year and may influence the tax base and tax due for 2008.

### A new Polish accounting standard

On 14 October 2008 the Polish Committee of Accounting Standards passed Resolution No. 7/08 concerning the implementation of Polish accounting standard no. 6 "Provisions, accrued expenses, conditional liabilities". This standard will come into force on the day of announcement in the Official Journal of the Ministry of Finance, which should take place by the end of 2008.

The standard specifies the rules for creation, settlement and presentation of the abovementioned positions in financial statements. Additionally, it defines provisions for costs and accrued expenses. Liabilities resulting from supplies and services received but not invoiced have been excluded from the category of accrued expenses. These liabilities have been reclassified under the category of liabilities resulting from supplies and services, including cases when their value is only estimated.

Additionally, the costs of not completed agreements concerning services (including building services mentioned in the Polish accounting standard no. 3 "Not completed building services"), have been excluded from the category of accrued expenses.

An analysis of the new standard indicates that these regulations may highly influence CIT settlements. In our view this creates opportunities for tax optimization by means of bringing forward the moment of recognition of tax-deductible costs.

### The new standard and the CIT Act

According to Article 15 clause 4e of the CIT Act, the day when a tax-deductible costs is incurred is deemed to be the day as of which the cost is entered in the accounting books on the basis of an invoice received, or the day as of which the cost is booked on the basis of another document (in the absence of an invoice), except for cases relating to provisions or accrued expenses shown as costs. In practice the above means that both provisions and accrued expenses cannot be treated as tax-deductible.

The CIT Act does not define the abovementioned items, referring to definitions binding for accounting purposes. In view of the above, the correct accounting classification of provisions and accrued expenses presented in the accounting books has a key impact on CIT settlements. The new Polish standard no. 6 means that received but not invoiced services which could be included within liabilities from supplies and services (rather than accrued expenses) would be, under Article 15 clause 4e of the CIT Act, recognized in an earlier period than under the current regulations.

For most taxpayers the end of the calendar year is regarded as the end of the tax year. Optimal settlement of tax-deductible costs can decrease the CIT burden.

It should also be taken into account that assignment of a tax-deductible cost to the improper period can be questioned by tax authorities.

We are ready to discuss the above issue in detail.

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