Tax accounting impact of COVID-19

The coronavirus (COVID-19) is likely to impact the results of companies' operations. Given the current market conditions and concerns about the growing pandemic, the first quarter may be particularly challenging from a (tax) accounting and reporting perspective for many companies. The potential tax accounting and reporting consequences are summarized below.

For an overview of the accounting implications of the effects of COVID-19, please check out our publication 'In depth: A look at current financial reporting issues'.

Post balance sheet event

For IFRS purposes, the consequences of the coronavirus on the company's business are considered a non-adjusting post balance sheet event for 31 December 2019 year-ends. However, clear disclosure of non-adjusting events is required when this is material to the financial statements. This also applies for companies that report under Dutch GAAP.

Deferred tax asset recognition

Subsequent developments should not be reflected in the measurement of (deferred) taxes in accordance with IAS 12 'Income Taxes' as the measurement of assets and liabilities should reflect only the conditions that existed at the reporting date. As a result, many companies may first report the impacts of COVID-19 in interim financial statements and should then also consider the subsequent impact on their income tax accounting under IAS 12.

Given the rapid change in the economic environment, companies may face circumstances at the end of the first quarter that were not anticipated at the time of issuance of their year-end financial statements. Companies with deferred tax assets should therefore reassess forecast profits and the recoverability of deferred tax assets in accordance with IAS 12 considering the additional uncertainty arising from the virus and the steps taken to control it. Asset impairment may also reduce the amount of deferred tax liabilities and/or create additional deductible temporary differences.

Management also needs to assess whether or not any of these one-off changes to their existing deferred tax balances in relation to the coronavirus should be reported as a discrete event for interim reporting purposes, in accordance with the company's accounting policy.

Outside basis differences

Management might also consider whether the impact of COVID-19 affects its plans to distribute profits from subsidiaries and whether it therefore needs to reconsider the recognition of any deferred tax liability in connection with undistributed profits.

Government Assistance

In response to the COVID-19 pandemic, domestic and international governments are considering, or may have implemented, (tax) legislation to help entities that have experienced financial difficulty stemming from the pandemic. For an overview of the COVID-19 tax response information by territory see PwC's global website link.

Such legislation may be in the form of income-based tax credits or tax relief that are dependent on taxable income or other forms of government assistance that is not dependent on taxable income and may affect deferred taxes and have other tax consequences. In some cases a deferral of payment of tax can be requested to improve the company's liquidity. Under IFRS, the effect of the tax change is included in the measurement of the deferred tax when the legalisation is (substantively) enacted. If the tax credits are based on taxable income and or income tax relief is (potentially) available, the tax credits generally will be in scope of IAS 12. Government assistance that is not dependent on taxable income is generally not within the scope of IAS 12. Careful analysis of the nature of the assistance and the conditions is needed to determine the proper accounting treatment.

To further protect your global tax accounting and reporting positions, the company should consider the following short-term topics.

Interpretation and Advice

Accounting standards related to Income Taxes

- Develop policies with clear guidelines on accounting treatments.
- Gain understanding of new "emergency" rules enacted around the globe and associated impacts for financial reporting purposes
- Assessing viability of critical (deferred) tax assets potentially being under pressure.

Preparation/ Review of tax numbers

- Prepare income tax related figures on a period-end basis with a remote workforce.
- Continuing to monitor your financial reporting of income taxes and related processes.
- Consider adding specific disclosures to the notes of financial statements purposes.

TAX Risk Reporting

- Collect and understand uncertain tax positions and prepare regular tax risk reporting.
- Update your risk assessments to reflect newly emerged tax risks.

Calculation, planning and forecasting

- Ensure that your technology platforms provide safe and secure distribution of total tax contributions, both internally and externally as needed.
- Prepare financial models for expected tax impacts on financial reporting.

Operational Efficiency & Technology

- Think about small-scale automation opportunities to reduce lead times and operational risk. These allow your teams to focus on the substance of the tax accounting work, rather than the process.
- Consider how technology might be used to support with analytics and forecasting.
- Verify that your digital infrastructure will continue supporting your organisation's tax accounting processes.
- Seek out opportunities for your teams to learn about digital technologies and how could support a remote workforce.
- Think about how you could use online collaboration technology to support your work and internal communications with key stakeholders.

Do you have questions? Want more information?
Our tax accounting experts can assist you with the assessment of the (potential) tax (accounting) consequences of the impact of COVID-19 on your financial statements.

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