Conversion into Law of the so-called August Decree – Option to suspend the depreciation/amortisation process

In brief

At the time of conversion of Italian Decree Law 104/2020, art. 60 was amended to give those who do not adopt international accounting standards the option not to apply annual depreciation and amortisation to tangible and intangible assets in the Profit & Loss Account of the 2020 Financial Statements.

The details

Persons who may benefit from the suspension

The regulation expressly states that companies who prepare their financial statements according to the rules of the Italian Civil Code and the OIC national accounting standards may avail of the suspension, while it is not available to those who prepare their financial statements in accordance with international accounting standards (IAS/IFRS).

How the depreciation/amortisation suspension works, and associated obligations

Depreciation and/or amortisation amounts associated with tangible and intangible fixed assets not applied in 2020 will be deferred until 2021, with subsequent amounts also being deferred according to the same criteria. This effectively results in a one-year extension of the original depreciation/amortisation schedule for the assets.

Establishment of a restricted reserve

An amount corresponding to the depreciation or amortisation not recognised in the Profit & Loss Account must be allocated to a restricted profit reserve.

If the profit for the financial year is less than the deferred depreciation/amortisation amount, the reserve will need to be supplemented using profit reserves carried forward or other available capital reserves. Any additional shortfall must be addressed through specific allocation of profits from future financial years.

Information recorded in Explanatory Notes

The Explanatory Notes to the 2020 Financial Statement must include a specific note covering the following information:

- quantification of the depreciation and/or amortisation not recognised;
- impact on the equity and financial situation and the profit or loss for the financial year;

amount allocated to the corresponding restricted reserve.

Micro-enterprises that are exempt from the obligation to prepare Explanatory Notes are advised to include the aforementioned information in a note at the end of the Financial Statements.

Tax considerations and establishment of a deferred tax reserve

The amortisation and/or depreciation amount not recognised in the Profit & Loss Account is eligible for deduction under the same conditions and subject to the same limitations provided for by articles 102, 102-bis and 103 of the Italian Income Tax Consolidation Act (TUIR). A similar provision applies for IRAP purposes.

The tax deduction associated with not recognising the depreciation and/or amortisation in the Profit & Loss Account gives rise to a temporary difference. A deferred tax reserve must therefore be established, which will be reabsorbed in the final year of statutory depreciation or amortisation of the asset.

To keep in touch with us, or for more information, contact us at studio@ctep.it