Computation of Case I and II profits or gains of a company

(corporation tax)

Part 04-05-03a

This document should be read in conjunction with sections 2, 4, 26, 27, 76A and 76B and Schedule 17A of the Taxes Consolidation Act, 1997

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The information in this document is provided as a guide only and is not professional advice, including legal advice. It should not be assumed that the guidance is comprehensive or that it provides a definitive answer in every case.

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1 Executive summary

This manual sets out the rules for the computation of the **profits or gains or losses of a trade or profession carried on by a company** for the purposes of Case I or II of Schedule D.

Financial statements (or 'accounts') of Irish incorporated companies are subject to both the requirements of the applicable **accounting framework** (being the framework of accounting rules set out in '**accounting standards**' which a company uses to prepare its accounts) **and** Irish company law. The main accounting frameworks in use in Ireland are: (i) European Union-endorsed International Financial Reporting Standards (**IFRS**); and (ii) United Kingdom and Irish generally accepted accounting practice (**Irish GAAP**). In a limited number of circumstances (see section 6 of **Appendix 2**), Irish companies may use generally accepted accounting practice in the United States of America (**US GAAP**). Unless otherwise specified, references to GAAP in the remainder of this manual mean Irish GAAP.

In general, companies **can choose to apply either IFRS or GAAP** when preparing their individual entity financial statements. As a result of efforts to converge GAAP with IFRS and to simplify the accounting rules for unlisted companies, **current GAAP** (FRS 100 to FRS 105) was **introduced to replace former GAAP** (FRSs, SSAPs, etc.) with effect **for financial reporting periods commencing on or after 1 January 2015**. Each of these accounting frameworks (IFRS, former GAAP and current GAAP) has different rules for the recognition and measurement of income and expenditure. In simple terms, 'recognition' refers to when an item is included in the accounts and how it is recorded (e.g. as income or expense) while 'measurement' determines the value of the item for accounting purposes. Therefore, **the accounting profits of a company are determined by the company's choice of accounting framework**.

It is important to remember that it is the **profits of the company's trade or profession which are assessable to tax under Case I or II** of Schedule D, **not the accounting profits of the company** itself. For example, separate rules apply to the computation of company's chargeable gains (see Tax and Duty Manual Part 04-05-02). It should also be noted that the income of an Irish resident company from a trade carried on wholly abroad, although chargeable to corporation tax under Case III of Schedule D, is computed in accordance with the rules of Case I of Schedule D (see Tax and Duty Manual Part 04-05-04). Similarly, the profits or gains of certain Irish resident securitisation vehicles, although chargeable to corporation tax under Case III of Schedule D, are also computed in accordance with the rules of Case I of Schedule D (see Tax and Duty Manual Part 04-09-01).

Section 76A of the Taxes Consolidation Act, 1997 (**TCA 1997**) consists of five subsections which **set out the methodology for computing a company's Case I or II profits or gains or losses**, each of which is summarised below and discussed in detail at sections **6** to **11**.

- **Subsection 1** contains the '**general rule'** regarding the method of computing trading and professional profits for the purposes of corporation tax. It provides that, for the purposes of **Case I or II** of Schedule D, the **profits or gains** of a trade or profession carried on by a company **must be computed in accordance with GAAP or IFRS, subject to any adjustment required or authorised by law** (including statute law, statutory instruments, any directly applicable European Union law and case law). The 'general rule' is therefore subject to any adjustment required or authorised by law; it cannot override any rule of law. It should also be noted that, for the purposes of section 76A TCA 1997: (i) references to profits or gains include reference to losses; and (ii) Case I and II **losses are computed in the same manner as profits or gains**.
- **Subsection 2** provides that Schedule 17A TCA 1997 shall apply to **changes from former GAAP** to either IFRS or current GAAP. Schedule 17A TCA 1997 legislates for the existing practice that **no taxable income or deductible expenditure should be double counted or fall out of the charge to tax** because of a change of accounting framework from former GAAP to either IFRS or current GAAP. Schedule 17A TCA 1997 also requires companies to calculate a '**transitional adjustment**' and provides that the transitional adjustment is to be taxed or deducted, as the case may be, over a five-year period following the transition; this is commonly referred to as '**spreading**'. The Tax and Duty Manual for Schedule 17A TCA 1997 provides further details; however, as companies are no longer permitted to use former GAAP and hence cannot transition from former GAAP to either IFRS or current GAAP, **Schedule 17A TCA 1997 is now effectively obsolete** (except to the extent that companies are still 'spreading' the 'transitional adjustments' which arose when they changed from former GAAP to either IFRS or current GAAP).
- **Subsection 3** deals with **changes of an accounting policy**. It legislates for the existing practice that there should be neither a tax-free uplift nor a double charge to tax because of a change in accounting policy from one valid basis to another for good commercial reasons.
- **Subsection 4** applies to the adoption of an accounting standard or an amendment of an accounting standard by a company for the first time and **extends the 'spreading' provisions** of Schedule 17A TCA 1997 **to changes of accounting framework between current GAAP and IFRS and to the adoption of new** accounting standards **or amendments of accounting standards without changing accounting framework**.
- **Subsection 5** deals with the **correction of an accounting error**. From a tax perspective, the correction of an accounting error represents a change from an 'invalid basis' of computing profits to a 'valid basis' of computing profits. This subsection legislates for the case law principle that the taxable profits must be recalculated on the new 'valid basis' by changing the tax computations for the affected periods, subject to the normal statutory time limits for the amendment of tax returns.

2 Financial reporting in Ireland

Financial statements (or 'accounts') of Irish incorporated companies are subject to both the requirements of the applicable accounting framework (see **2.2**) **and** Irish company law (see **2.1**).

2.1 Irish company law

Irish company law provides the legal framework within which Irish incorporated companies must operate. Some of the most important accounting-related legislation is discussed at **Appendix 1**. As explained at **Appendix 1**, Irish company law prescribes which 'accounting frameworks' (see **2.2**) are acceptable for Irish company law purposes.

2.2 What is an accounting framework?

The term 'accounting framework' refers to the framework of accounting rules set out in 'accounting standards' (see **10.1**) which a company uses to prepare its accounts. As explained at **Appendix 1**, the **main accounting frameworks in use in Ireland are**: (i) European Union-endorsed International Financial Reporting Standards (**IFRS**); and (ii) United Kingdom (**UK**) and Irish generally accepted accounting practice (**GAAP**). Each of these accounting frameworks has different rules for the recognition and measurement of income and expenditure. In simple terms, '**recognition'** refers to when an item is included in the accounts and how it is recorded (e.g. as income or expense) while '**measurement'** determines the value of the item for accounting purposes.

Therefore, **the accounting profits of a company are determined by the company's choice of accounting framework**.

2.3 GAAP

The suite of accounting standards issued by the UK-based Financial Reporting Council (**FRC**) is known as GAAP. As noted at **Appendix 1**, the FRC is designated as "a body that issues statements of accounting standards" in Ireland for the purposes of The Companies Act 2014.

2.3.1 Pre-2015: former GAAP

The GAAP which **applied to financial reporting periods beginning before 1 January 2015** consisted of the FRC's suite of Financial Reporting Standards (**FRSs**), being FRSs 1 to 30, along with five Statements of Standard Accounting Practice (**SSAPs**) and various Urgent Issues Task Force (**UITF**) Abstracts. The FRC devoted entire FRSs and SSAPs to specific topics (for example, FRS 1 Cash Flow Statements).

In addition, the FRC's Financial Reporting Standard for Smaller Entities (**FRSSE**) was an option for companies/groups qualifying as 'small' under company law (see **Appendix 3**) and other entities (except for building societies) that would qualify as small if they had been incorporated under company law.

2.3.2 2015 onwards: current GAAP

As a result of efforts to converge GAAP with IFRS and to simplify the accounting rules for unlisted companies, **current GAAP** (FRS 100 to FRS 105) was **introduced to replace former GAAP** (FRSs, SSAPs, etc.) with effect **for financial reporting periods commencing on or after 1 January 2015**. As a result, FRSs 1 to 30, the five SSAPs and the various UITF Abstracts were withdrawn with effect for financial reporting periods beginning on or after 1 January 2015 while the **FRSSE** was **withdrawn** with effect for **financial reporting periods beginning on or after 1 January 2016**. Any new abstracts will be known as FRC abstracts while new options were introduced for 'small' and 'micro' entities (as defined in company law – see **Appendix 3**), as explained below.

Appendix 3 contains an overview of FRS 100 to FRS 105. In general, the most commonly used standards are as follows:

- **FRS 101**: for '**qualifying entities**' which want to adopt the **recognition and measurement provisions of IFRS** but benefit from **reduced disclosure requirements** (meaning that their accounts do not need to contain as many notes to the accounts or 'disclosures').
- **FRS 105**: for '**micro**' entities (as defined in company law – see **Appendix 3**) which wish to avail of simplified accounting and financial reporting requirements.
- **FRS 102**: for entities not applying FRS 101 or FRS 105; this is likely to be the majority of companies. **Section 1A** of FRS 102 allows '**small**' and '**micro**' entities (as defined in company law – see **Appendix 3**) to use the recognition and measurement bases of FRS 102 but avail of **reduced disclosure requirements**. **Section 1** of FRS 102 also allows '**qualifying entities**' to avail of some disclosure exemptions. (see **Appendix 3**)

FRS 103 is only applicable for entities that apply FRS 102 and: (i) issue insurance contracts, including reinsurance contracts; (ii) hold reinsurance contacts; and (iii) issue financial instruments with discretionary participation features. **FRS 104** is only relevant for GAAP users which issue interim financial statements.

2.4 IFRS

The IFRS Foundation is a not-for-profit, public interest organisation established to develop a single set of globally-accepted accounting standards known as IFRS and to promote and facilitate their adoption worldwide. IFRS are currently required in over 140 jurisdictions and permitted in many more. IFRS are set by the IFRS Foundation's standard setting body, the International Accounting Standards Board (**IASB**).

The approach taken by the IASB (and its predecessor, the International Accounting Standards Committee) was to **address specific accounting topics in each individual IFRS accounting standard** (for example, IAS 1 Presentation of Financial Statements; IFRS 1 First-time Application of International Financial Reporting Standards). The standards issued by the International Accounting Standards Committee are named "IAS 1" etc. while those issued by the IASB are called "IFRS 1" etc. The IASB adopted the IASC Standards so **IFRS consists of both IASs and IFRSs as well as IFRIC Interpretations and SIC Interpretations**. IFRIC Interpretations are developed by the

IFRS Interpretations Committee (previously the International Financial Reporting Interpretations Committee, **IFRIC**) and are issued after approval by the IASB. SIC Interpretations were previously issued by the Standard Interpretations Committee (**SIC**) and were subsequently endorsed by the IASB. The IFRS Interpretations Committee has reissued SIC Interpretations as it considered necessary.

When a new standard is issued by the IASB, the European Union (**EU**) **needs to endorse it before it comes into force in the EU** (see **Appendix 4** for further details if required). For Irish tax purposes, accounts may be prepared in accordance with the standards, amended standards and interpretations: (i) issued by the IASB; or (ii) endorsed with or without modification(s) by the EU (both of which are regarded as complying with “generally accepted accounting practice”: see section 4(7) TCA 1997). However, only EU-endorsed IFRS are acceptable for Irish company law purposes (as explained at **Appendix 1**).

3 Non-Irish incorporated companies

Only Irish-incorporated companies are subject to the financial reporting provisions of Irish company law as discussed in section **2** above. Therefore, some entities will be within the charge to Irish corporation tax but will not be subject to these company law requirements, including companies incorporated outside of Ireland and:

- which are **resident in Ireland for tax purposes**; or
- which **trade in Ireland through a branch** (although Part 21 of The Companies Act 2014 requires that these branches must be registered with the Companies Registration Office within one month of being established in Ireland and imposes certain filing obligations on these ‘external companies’; however, it is beyond the scope of this Tax and Duty Manual to consider these filing obligations).

For Irish tax purposes, these entities are required to comply with Irish tax legislation, including section 76A TCA 1997. Therefore, if the company or branch’s accounts have not been prepared in accordance with IFRS or GAAP (or, where permitted, an ‘alternative body of accounting standards’ adjusted to comply with Irish company law – see **Appendix 2**), they **must prepare tax computations based on financial statements which comply with IFRS or GAAP**.

For the remainder of this Tax and Duty Manual, **references** to computing, for the purposes of Case I or II of Schedule D, the profits or gains of a trade or profession carried on by **a ‘company’ should be interpreted as including references to** computing such profits or gains of a company trading in Ireland through **a ‘branch’**.

4 Key accounting definitions in TCA 1997

As section 76A TCA 1997 sets out the relationship between a company’s accounting profits and its taxable Case I/Case II profits, it is essential to understand the key accounting definitions contained elsewhere within TCA 1997 before considering the detailed provisions of section 76A TCA 1997 as discussed and illustrated with examples in the remainder of this manual. Please see **Appendix 5** for details.

5 What is assessable under section 76A TCA 1997?

Before considering the detailed provisions of section 76A TCA 1997, it is also important to remember that it is the **profits or gains of the company's trade or profession which are assessable to tax under Case I and Case II** of Schedule D, **not the accounting profits** of the company itself. For example, separate rules apply to the computation of company's chargeable gains (see Tax and Duty Manual Part 04-05-02). **Section 76A TCA97 sets out the methodology for computing Case I and II profits** and can only apply to:

- income which is revenue in nature and which arises in the course of carrying on the trade or profession; and
- expenditure which is revenue in nature and incurred in the carrying on of the trade or profession.

It should also be noted that the income of an Irish resident company from a trade carried on wholly abroad, although chargeable to corporation tax under Case III of Schedule D, is computed in accordance with the rules of Case I of Schedule D (see Tax and Duty Manual Part 04-05-04). Similarly, the profits or gains of certain Irish resident securitisation vehicles, although chargeable to corporation tax under Case III of Schedule D, are also computed in accordance with the rules of Case I of Schedule D (see Tax and Duty Manual Part 04-09-01).

6 Section 76A(1) TCA 1997: the 'general rule'

6.1 Computing trading and professional profits for tax purposes

The method of computing trading and professional profits for the purposes of income tax and corporation tax has been settled for many years. As enunciated by Sir John Pennycuick V-C in the 1971 case of **Odeon Associated Theatres Ltd v Jones (HM Inspector of Taxes)** [1971] 48 TC 257:

For the purposes of Case I or II of Schedule D the profits of a trade, profession or vocation must be computed on an accounting basis which gives a true and fair view, subject to any adjustment required or authorised by law in computing profits for those purposes.

Section 48 of Finance Act 2005 inserted **Section 76A(1) TCA 1997** as follows:

For the purposes of Case I or II of Schedule D the profits or gains of a trade or profession[1] carried on by a company shall be computed in accordance with generally accepted accounting practice subject to any adjustment required or authorised by law in computing such profits or gains for those purposes.

In this context, and as noted at **Appendix 1**, "**generally accepted accounting practice**" is defined in section 4(1) TCA 1997 as IFRS or GAAP. **GAAP** is defined in section 4(1) TCA 1997 as **"generally accepted accounting practice with respect to accounts (other than [IFRS] accounts) of companies incorporated or formed under the laws of the State, being accounts that are intended to give a true and fair view".**

Section 291(2) of The Companies Act 2014 (**the Act**) requires 'Companies Act financial statements' to give a true and fair view of the assets, liabilities and financial position of the company as at the financial year end date and of the profit or loss of the company for the financial year[2]. Furthermore, section 291(5) of the Act requires companies to depart from GAAP where necessary to ensure that the financial statements give a true and fair view of the company's assets, liabilities and financial position as at the financial year end date and of the profit or loss of the company for the financial year. Such departures, known as the '**true and fair override**', are expected to be necessary only in **extremely rare** circumstances and additional disclosures are required where the 'true and fair override' is invoked. Therefore, **GAAP** as defined in TCA 1997 **is equivalent to** the Odeon term "**an accounting basis which gives a true and fair view**".

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[1] It should be noted that section 2 TCA 1997 defines 'profession' as including 'vocation'.

[2] Note: if the financial statements of 'micro' entities have been prepared in compliance with company law and FRS 105, they are presumed in law to present a true and fair view of the company's assets, liabilities and financial position as at the financial reporting date and of its profit or loss for the financial reporting period.

Section 292(2) of the Act states that the **requirement for 'IFRS financial statements' to present fairly** the assets, liabilities, financial position, financial performance and cash flows is **deemed to be equivalent to the true and fair view** required by section 291(2) of the Act. In addition, IAS 1.19 requires companies to depart from IFRS where necessary to ensure that the financial statements present fairly the company's assets, liabilities and financial position as at the financial year end date and the profit or loss of the company for the financial year. Such departures, known as the '**fair presentation override**', are expected to be necessary only in **extremely rare** circumstances and additional disclosures are required where the 'fair presentation override' is invoked. Therefore, **IFRS** as defined in TCA 1997 **is equivalent to** the Odeon term "**an accounting basis which gives a true and fair view**".

Thus, **section 76A(1) TCA 1997 did no more than put the accepted method on a statutory basis**, with "generally accepted accounting practice" being equivalent to "an accounting basis which gives a true and fair view", as explained above.

6.2 Purpose of section 48 of Finance Act 2005

The purpose of putting the **Odeon** principle on a statutory basis was to deal with the introduction of IFRS into Irish company law[3] by confirming that accounts prepared in accordance with IFRS were an acceptable starting point for computing taxable Case I or II profits or gains or losses of a company. In addition, the amendment was necessary to allow the impact of changing from former GAAP to IFRS to be spread over five years, as explained at **7.6** below. Finally, section 48 of Finance Act 2005 inserted section 76B TCA 1997. Section 76B(1)(b) TCA 1997 provides that, for the purposes of section 76A TCA 1997:

(i) **references to profits or gains include reference to losses**; and

(ii) Case I and II **losses are computed in the same manner as profits or gains**.

Please see the Notes for Guidance for section 76B TCA 1997 for further details regarding that section as it is beyond the scope of this Tax and Duty Manual to consider it any further.

6.3 Any adjustment required or authorised by law

The 'general rule' in section 76A(1) TCA 1997 is subject to any adjustment required or authorised by law; it cannot override any rule of law.

[3] IFRS were introduced into Irish company law by *The European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005* (**S.I. No. 116/2005**); see **Appendix 1** for further details if required.

6.3.1 'Law'

The term '**law**' as used in section 76A(1) TCA 1997 is not defined but it would include statute law, statutory instruments, any directly applicable EU law and case law (because case law involves a decision by the courts as to what statute law means). While Revenue-produced materials such as Notes for Guidance and Tax and Duty Manuals explain how Revenue interprets the law, such materials are not law.

Whenever there appears to be a conflict between tax law and what accountants regard as correct accounting practice, tax law prevails for tax purposes. Therefore, if there is a doubt as to whether tax law and accounting principles are aligned:

- taxpayers should make an Expression of Doubt on their Corporation Tax return. To submit a valid Expression of Doubt, taxpayers must complete all relevant sections on their tax return. In addition, documentation in support of the Expression of Doubt must be received on or before the return filing date. (see Tax and Duty Manual Part 41A-03-00 for further details);
- taxpayers and agents should contact their representatives on the Taxes Administration Liaison Committee (**TALC**) or, where appropriate, may submit a query using the Revenue Technical Service (**RTS**) procedure (see Tax and Duty Manual Part 37-00-00a for further details); and
- Revenue staff should contact Revenue's Accounting Standards Unit (part of Business Taxes Policy & Legislation Division) using the RTS procedure (see Tax and Duty Manual Part 37-00-00a for further details).

7 Section 76A(2) TCA 1997: transition from former GAAP

7.1 Why might companies change accounting frameworks?

Section 290 of The Companies Act 2014 (**the Act**) states that a company may choose to prepare either 'IFRS financial statements' or 'Companies Act financial statements' (as explained at **Appendix 1 and Appendix 2**, the term 'Companies Act financial statements' generally means accounts prepared in accordance with GAAP). However, Irish incorporated parent companies with debt or equity securities listed on a regulated stock exchange are required by law[4] to prepare their consolidated ('group') accounts in accordance with IFRS. In addition, subsidiary companies within the group may elect to use the same accounting framework as the parent because using the same accounting rules throughout the group simplifies the 'consolidation process' (i.e. the process to prepare group accounts). As a result, both parents and subsidiaries often change accounting framework **upon initial listing** by the parent **and** similarly, **upon delisting**.

[4] This is a requirement of *The European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005* (**S.I. No. 116/2005**); please see **Appendix 1** for further details if required.

7.2 Before December 2012: ‘relevant change in circumstances’

Once a company decides to prepare ‘IFRS financial statements’ instead of ‘Companies Act financial statements’, section 148 and 150 of the Companies Act 1963 provides that **it must continue to use IFRS unless**, at any time during or after the first set of IFRS accounts are prepared **there is a ‘relevant change in circumstances’** such that:

a) the company becomes a subsidiary undertaking of another undertaking that does not prepare IFRS accounts;

b) the company, having re-registered as a private company limited by shares, ceases to be a company with securities admitted to trading on a regulated market in an EEA state; or

c) a holding undertaking of the company ceases to be an undertaking with securities admitted to trading on a regulated market in an EEA state.

Section 148/150 of the Act also provides that, where a company has prepared ‘Companies Act financial statements’ following a ‘relevant change of circumstances’, it may choose to subsequently prepare ‘IFRS financial statements’. However, once the choice to prepare ‘IFRS financial statements’ has been made, the company may only revert to preparing ‘Companies Act financial statements’ if there is a ‘relevant change in circumstances’ (as previously defined).

7.3 December 2012 onwards: may change once every five years

Statutory Instrument **510** of **2012**, amended section **148** and **150** of the **Companies Act 1963** and allowed companies which had opted to prepare IFRS individual or group accounts to change to preparing Companies Act individual or group accounts for a reason other than those already allowed by law i.e. a ‘relevant change in circumstances’. Companies availing of this provision may subsequently revert to preparing IFRS individual or group accounts. A change permitted by these Regulations may be made **no more than once** in **every five years.** These Regulations do not apply to the group accounts of a company whose securities are admitted to trading on a regulated market in the European Economic Area.

As noted at **Appendix 1**, The Companies (Accounting) Act 2017 (**the Accounting Act**) was signed into law on 17 May 2017 and generally takes effect from 9 June 2017, with some exceptions. SI 510 of 2012 was revoked by the Accounting Act and the measures contained in Statutory Instrument 510 of 2012 were formally included in the Companies Act 2014 in section 290.

7.4 What is ‘retrospective application’?

When a company changes accounting framework, it is required to apply the new accounting rules ‘retrospectively’, meaning that the opening balances and prior period comparative figures in the financial statements are restated to what they would have been if the new accounting framework had always applied.

7.5 What is a 'prior period adjustment'?

Retrospective application can give rise to large accounting adjustments to previously reported figures for profit or loss; these are commonly referred to as '**prior period adjustments**' (**PPAs**) or '**prior year adjustments**' (**PYAs**).

PPAs represent the **difference between**: (i) the **accounting profit as originally** reported and **taxed**; **and** (ii) the **restated accounting profit**. Companies are required to include in PPAs any deferred tax impact of recalculating profits under the new accounting rules. However, as deferred tax is not a taxable Case I/II receipt or a deductible Case I/II expense, it is ignored for the purposes of computing Case I/II profits or gains or losses.

7.6 Tax treatment when changing from former GAAP

By virtue of section 76A(2) TCA 1997, **Schedule 17A TCA 1997** applies to a change in accounting framework from former GAAP to either IFRS or current GAAP. Schedule 17A TCA 1997 was inserted by Finance Act 2005 and legislates for the existing practice that **no taxable income or deductible expenditure should be double counted or fall out of the charge to tax** because of the change of accounting framework from former GAAP to IFRS.

Schedule 17A TCA 1997 requires companies to calculate a '**transitional adjustment**'. The 'transitional adjustment' is effectively the PPA as adjusted to ensure that **no taxable income or deductible expenditure is double counted or falls out of the charge to tax** because of the change of accounting framework from former GAAP to IFRS. To avoid volatility in corporation tax payments, the Schedule provides that the transitional adjustment is to be taxed or deducted, as the case may be, over a five-year period following the transition; this is commonly referred to as '**spreading**'. This ensures that the large PPAs due to the change of accounting framework (as adjusted to avoid double taxation or double deductions) would be spread over five years to avoid volatility in corporation tax payments (which is undesirable for both individual companies and the Exchequer).

Further additional rules apply to the computation of the allowable Case I/II deduction for bad and doubtful debts and to the tax treatment of gains and losses on financial instruments (where such gains or loss form part of the profits or gains or losses of a trade or profession carried on by a company for the purposes of Case I or II of Schedule D). Comprehensive guidance on the application of the Schedule 17A TCA 1997 can be found in the current version of the Notes for Guidance Schedule 17A TCA 1997.

Schedule 17A TCA 1997 was subsequently amended by Finance Act 2014 to extend the rules to a change in accounting framework from former GAAP to current GAAP. Schedule 17A TCA 1997 therefore applies to transitions from former GAAP to either IFRS or current GAAP. However, as companies are no longer permitted to use former GAAP and hence cannot transition from former GAAP to either IFRS or current GAAP, Schedule 17A TCA 1997 is now effectively obsolete (except to the extent that

companies are still ‘spreading’ the ‘transitional adjustments’ which arose when they changed from former GAAP to either IFRS or current GAAP).

7.7 Tax treatment when changing from current GAAP or IFRS.

Section 22 of Finance Act 2017 inserted **subsection 4 of section 76A TCA 1997** to extend the principles enacted in Schedule 17A TCA 1997 to changes of accounting framework involving a change from IFRS to current GAAP or conversely from current GAAP to IFRS. This technical amendment ensures that the large PPAs due to the change of accounting framework (as adjusted to avoid double taxation or double deductions) would be spread over five years to avoid volatility in corporation tax payments. This is explained at **10** below.

8 Accounting policies, estimates and errors

The technical amendment to section 76A TCA 1997 described at **7.7** above afforded an opportunity to incorporate in statute existing practice regarding other PPAs arising upon:

- a **change in accounting policy** (subsection 3 of section 76A TCA 1997) or
- the **correction of accounting errors** (subsection 5 of section 76A TCA 1997).

The relevant IFRS standard dealing with these topics is **IAS 8** Accounting Policies, Changes in Accounting Estimates and Errors while the relevant GAAP rules are contained in **section 10 of FRS 102** and **section 8 of FRS 105**. The accounting rules for changes in accounting policies, changes in accounting estimates and the correction of accounting errors may be summarised as follows:

	PPA or no PPA?		
Accounting Framework	**Change in accounting policy**	**Change in accounting estimate**	**Correction of accounting error**
IFRS	PPA unless: (i) impracticable; or (ii) another IFRS/IFRIC requires prospective application (see **9.3**).	No PPA.	PPA for material errors only (where not impracticable).
Current GAAP	PPA unless: (i) impracticable; or (ii) another section of FRS requires prospective application (see **9.3**).	No PPA.	PPA for material errors only (where not impracticable).

The **purpose of the Finance Act 2017 amendments** was to:

1. **extend the 'spreading' provisions** to: (i) changes of accounting framework between IFRS and current GAAP; and (ii) the adoption of new accounting standards or amendments of accounting standards. In the absence of the legislative amendment, any resulting PPAs would have been taxable in full in the period of transition/adoption.
2. **legislate for existing practice** regarding other PPAs **for ease of administration** of the tax system.

The Finance Act 2017 amendments dealing with the three different PPAs apply to accounting periods beginning on or after 25 December 2017 (effectively 2018 corporation tax returns). However, **the correct tax treatment of PPAs arising upon a change in accounting policy or the correction of accounting errors prior to that date was never in doubt**. In addition, and to reduce any volatility in corporation tax payments as a result of the early adoption of IFRS 15 Revenue from Contracts with Customers, companies could elect to apply the 'spreading' provisions in their 2017 tax returns, provided that Revenue was notified in writing on or before the specified return date for the 2017 tax return. Such an election may be made in the 'Additional Notes' field in the 'Company Details' screen of the corporation tax return (Form CT1).

The following material is either exempt from or not required to be published under the Freedom of Information Act 2014.

[…]

8.1 Changes in accounting policy

Subsection 3 of section 76A TCA 1997 sets out the tax treatment of changes in accounting policy. The accounting and tax treatment (including an explanation of the terms 'accounting policy' and 'change in accounting policy') are discussed at **9** below.

8.2 Correction of accounting errors

Subsection 5 of section 76A TCA 1997 sets out the tax treatment of corrections of accounting errors. The accounting and tax treatment (including an explanation of the term 'accounting error') are discussed at **11** below.

8.3 Changes in accounting estimates

Definition: a 'change in accounting estimate' is an **adjustment of the carrying amount** of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates **result from new information or new developments** and, accordingly, are **not corrections of errors**. When it is difficult to distinguish a change in an accounting policy (see **9** below) from a change in an accounting estimate, the change is treated

as a change in an accounting estimate. [IAS 8.5 and IAS 8.35 and IAS 8.48/FRS 101/section 10.15 of FRS 102/section 8.11 of FRS 105.]

Accounting treatment: in general, the effect of a change in an accounting estimate is **recognised prospectively** by including it in profit or loss in: (a) the period of the change, if the change affects that period only; or (b) the period of the change and future periods, if the change affects both. [IAS 8.36/FRS 101/section 10.16 of FRS 102/section 8.12 of FRS 105.] In other words, changes in accounting estimates **never result in PPAs**. The nature and the amount of a change in accounting estimate should be disclosed, unless impracticable to estimate the amount of the effect in future periods (and if impracticable, that fact should be disclosed). [IAS 8.39 and IAS 8.40/FRS 101/section 10.18 of FRS 102.]

Tax treatment: under section 76A(1) TCA 1997, the profits for the relevant 'period of account' as computed in accordance with GAAP or IFRS [i.e. the accounting profits] are the Case I/Case II profits for the applicable 'accounting period' [i.e. the taxable profits], subject to any adjustment required or authorised by law. The effect of the change in accounting estimate is therefore **included in the corporation tax return relating to the 'period of account' in which the change in estimate was recognised** (and future tax returns, if the change affects future periods of account). No amendments to previous corporation tax returns are required or permitted.

9 Section 76A(3) TCA 1997: change in accounting policy

9.1 What is an accounting policy?

Accounting policies are the specific principles, bases, conventions, rules and practices applied by a company in preparing and presenting financial statements [IAS 8.5 and IAS 8.35/FRS 101/section 10.2 of FRS 102/section 8.2 of FRS 105]. Section 321 of the Act **requires companies to disclose the accounting policies** applied in preparing the financial statements.

For **example**, where a company sells goods, it needs an accounting policy for valuing its closing inventory (stock on hand). In accordance with both IFRS [IAS 2.9] and GAAP [FRS 101/section 13.4 of FRS 102/section 10.3 of FRS 105], inventory should generally be valued at the lower of cost and net realisable value. The company's accounting policy for inventory therefore needs to confirm that it complies with this principle and to specify how cost is to be measured, for example, on a first in, first out (**FIFO**) or weighted average basis. Irish company law (paragraph 30 of Part III of Schedule 3 of the Act) prohibits the use of last in, first out (**LIFO**) for stock valuation, as do IFRS [IAS 2.25] and GAAP [FRS 101/section 13.18 of FRS 102/section 10.17 for FRS 105].

9.2 Why do companies change accounting policies?

In accordance with IFRS and GAAP, an entity is only allowed to change an accounting policy if the change is required by the relevant accounting standard or the change **results in** the financial statements providing **reliable and more relevant information** about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows [IAS 8.14/FRS 101/section 10.8 of FRS 102/ section 8.7 of FRS 105].

Paragraph 13 of Part III of Schedule 3 of the Act **requires companies to apply accounting policies consistently** from one financial year to the next. The Accounting Act also inserted section 321(3) of the Act, which introduced a new requirement to **explain** in the financial statements the **reason** for, **and** any **financial impact** of, a **change** in accounting policy.

9.3 What is the accounting treatment?

The general principle under **current GAAP and IFRS** is that changes in accounting policy are **usually applied retrospectively** (i.e. as a PPA) by restating the comparative amounts for the prior period(s) presented as if the new accounting policy had always been applied [IAS 8.19 and IAS 8.22/FRS 101/sections 10.11 and 10.12 of FRS 102/sections 8.9 and 8.10 of FRS 105].

However, the **requirement to apply the new accounting policy retrospectively does not apply where**:

- it is **impracticable to determine the individual period-specific effects** of the change in accounting policy on comparative information for one or more prior periods presented, in which case the entity shall apply the new accounting policy to the opening balances of assets, liabilities, and equity for the earliest period for which retrospective restatement is practicable (which may be the current period) [IAS 8.24/FRS 101/section 10.12 of FRS 102/section 8.10 of FRS 105]; or
- it is **impracticable to determine the cumulative effect**, at the beginning of the current period, of applying the new accounting policy to all prior periods, in which case the entity must restate the comparative information to apply the new policy prospectively from the earliest date practicable [IAS 8.25/FRS 101].

In this context, '**impracticable**' means that it cannot be done after "making every reasonable effort to do so" [IAS 8.5/FRS 101/Appendix I to FRS 102/ Appendix I to FRS 105]. IAS 8.5 elaborates further and notes that, for a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively if:

(a) the effects of the retrospective application are not determinable;

(b) the retrospective application requires assumptions about what management's intent would have been in that period; or

(c) the retrospective application requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

  (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and

  (ii) would have been available when the financial statements for that prior period were authorised for issue from other information.

In addition, where a **change in accounting policy is required by a new or revised IASB standard or IFRIC interpretation**, the change is accounted for in accordance with the transitional provisions, if any, specified in the amendment [IAS 8.19/FRS 101]. Similarly, where the **change in accounting policy results from a new or revised FRC standard or FRC Abstract**, the change is accounted for in accordance with the transitional provisions, if any, specified in the amendment [section 10.11 of FRS 102/section 8.9 of FRS 105]. However, if there are **no specific transitional provisions** in the new or amended standards/interpretations/abstracts, then the change in accounting policy is applied retrospectively, unless impracticable [IAS 8.19/FRS 101/ section 10.11 of FRS 102/section 8.9 of FRS 105].

9.4 What is the tax treatment?

Subsection 3 of section 76A TCA 1997 legislates for existing practice which provides that there should be neither a tax-free uplift nor a double charge to tax because of a change in accounting policy for good commercial reasons. Specifically, it provides that, 'Subject to the Tax Acts', an amount representing the 'retrospective effect of a change in accounting policy' is adjusted to ensure that there is neither a tax-free uplift nor a double charge to tax because of the change and this adjusted amount is

taxable or deductible (as the case may be) in computing the taxable profits for the 'relevant period'. Each of the key terms is considered further below.

- '**Subject to the Tax Acts**' means that the provisions of section 76A(3) TCA 1997 are subordinate to the rest of the Tax Acts. In other words, section 76A(3) TCA 1997 cannot transform non-taxable income into taxable income nor taxable income into non-taxable income. Similarly, section 76A(3) TCA 1997 cannot transform non-deductible expenditure into deductible expenditure nor deductible expenditure into non-deductible expenditure.
- The '**retrospective effect of a change in accounting policy which is recognised in opening reserves**' means the PPA in the accounts. This amount is only deductible to the extent that no deductions have been made in respect of that amount (or part of that amount) in a previous accounting period and/or the company did not benefit from a tax relief in respect of that amount (or part of that amount) in a previous accounting period. Similarly, this amount is only taxable to the extent that it (or part of it) was not treated as taxable in previous accounting periods.
- The '**relevant period**' is the 'accounting period' beginning on the first day of the 'period of account' in which the change of accounting policy is adopted for the first time.
    - The legislation requires the use of this precise and somewhat complex language because a change in accounting policy is reflected in a set of accounts (which are prepared for a 'period of account') but taxed or deducted in an 'accounting period'. Therefore, strictly speaking, a change in accounting policy does not take place in an 'accounting period'.
    - In simple terms, however, the PPA (as adjusted to avoid double taxation or double deductions) is usually taxable or deductible in the tax return for the same period in which the change in accounting policy is adopted. If a set of accounts is made up for a period longer than 12 months, the 'relevant amount' is taxable or deductible in the earliest accounting period. The examples below illustrate this point.

Period of account	Accounting period(s)
year ended 31/12/2016	2016: year ended 31 December 2016 (12 months) Relevant period is the year ended 31 December 2016
18-month period ended 30/06/2018	2017: year ended 31 December 2017 (12 months) 2018: period ended 30 June 2018 (6 months) Relevant period is the year ended 31 December 2017

9.5 Example 1: change in accounting policy

Company A carries on a trade selling consumer goods and prepares its accounts to 31 December each year. Following a review by the company and its auditors, it changed its accounting policy for measuring inventory from FIFO to weighted average. This resulted in a PPA with a cumulative effect of increasing opening reserves as at 1 January 2017 (the start of the financial reporting period) by €50,000 (pre-tax). The Statement of Changes in Equity shows that €5,000 of the PPA relates to the 2016 financial year while the balance of €45,000 relates to earlier periods. As a result, the prior period comparatives in the financial statements for the year ended 31 December 2017 differ from those originally reported in the accounts for the year ended 31 December 2016. Specifically, opening reserves as at 1 January 2016 are €45,000 higher while the profit for that year has increased by €5,000 and closing reserves as at 31 December 2016 are €50,000 higher.

- **Is the PPA taxable?** Yes, because the PPA affects cost of sales as follows:

DR Inventory	€50,000
CR Reserves (Cost of sales)	€50,000

  In accordance with section 76A(1) TCA 1997, the Case I profits or gains of the trade carried on by Company A are computed in accordance with GAAP subject to any adjustment required or authorised by law in computing such profits or gains. No adjustment is required in the current case.

- **Was any part of the PPA treated as taxable or deductible in an earlier period?** No. The valuation of inventory at each financial reporting date determines the cost of sales figure for the financial reporting period ending on that date. Therefore, this amount has not been taxed previously.
- **What is the ‘relevant period’?** The relevant period is 2017.

Conclusion: the PPA of €50,000 relating to cost of sales is taxable in the corporation tax return for 2017.

10 Section 76A(4) TCA 1997: adoption of accounting standards and amendments of accounting standards

10.1 What is an accounting standard?

Accounting **frameworks** such as IFRS and GAAP (see **2** above) **consist of suites of accounting standards**. Accounting standards set out the **detailed accounting rules** for recognising and measuring income and expenses, assets and liabilities in a company’s financial statements. Accounting standards provide a standardised way of describing the company’s financial performance, thus allowing comparisons over time and between companies.

10.2 Why do companies adopt accounting standards/ amendments of accounting standards?

As explained at **2** above, financial statements of Irish incorporated companies are subject to both the accounting standards of the applicable accounting framework and the accounting requirements of Irish company law. As noted at **7.2** above, SI 510 of 2012 amended the Act to permit a company to change its accounting framework (from current GAAP to IFRS or from IFRS to current GAAP) once every five years (previously a company could choose to change accounting frameworks but could not change back unless there was a 'relevant change of circumstances': see **7.2** above). Where a company **changes accounting framework**, this results in the adoption of the accounting standards of the new framework.

In addition, where the **IASB** issues a new accounting standard or makes changes to an existing accounting standard, companies using **IFRS** (**and FRS 101**) are **obliged to adopt the new standard or the amendment of the accounting standard to remain compliant with IFRS/FRS 101**. Similarly, the **FRC** intends to carry out **triennial reviews** to identify any required improvements to their standards, having regard to users' experience of applying the previous versions of the standards as well as developments in IFRS. Following each review, the FRC issues updated versions of its existing accounting standards and companies using GAAP are **obliged to adopt the amendment of the relevant accounting standard to remain compliant with GAAP**. These are examples of adopting a new accounting standard or an amendment of accounting standard without changing accounting framework.

10.3 What is the tax treatment?

Subsection 4 of section 76A TCA 1997 applies to the adoption of an accounting standard or an amendment of an accounting standard by a company. It **applies the principles of Schedule 17A TCA 1997** (which is only relevant for changes from former GAAP) **to changes of accounting framework between IFRS and current GAAP** (whether a change from IFRS to current GAAP or conversely from current GAAP to IFRS). The reason for extending the 'spreading' provisions to **changes between IFRS and current GAAP** is to be consistent with the treatment of changes from former GAAP to either IFRS or current GAAP (as set out in **Schedule 17A TCA 1997**).

In addition, **section 76A(4) TCA 1997 extends the 'spreading' provisions to the adoption** of an accounting standard or an amendment of an accounting standard **within the company's current accounting framework** (whether IFRS or current GAAP). The logic for extending the 'spreading' provisions to the **adoption of new accounting standards or amendments of accounting standards** is in recognition that: (i) the resulting accounting adjustments can be material; and (ii) both IFRS and GAAP continue to develop and this is likely to result in new accounting standards or amendments to accounting standards.

Existing practice provides that **there should be neither a tax-free uplift nor a double charge to tax** because of: (i) the adoption of a new accounting standard or an amendment of an accounting standard; and (ii) a change of accounting framework

for good commercial reasons. Section 76A(4) TCA 1997 ensures that the resulting **PPAs** (as **adjusted** to avoid double taxation or double deductions) are **spread over five years** to avoid volatility in corporation tax payments (which is undesirable for both individual companies and the Exchequer). Therefore, the **same rules apply** to the adoption of an accounting standard **upon a change** of accounting framework **and within the company's current accounting framework**.

Specifically, section 76A(4) TCA 1997 provides that, 'Subject to the Tax Acts', an amount representing the 'retrospective effect of adopting an accounting standard' is adjusted to ensure that there is neither a tax-free uplift nor a double charge to tax because of adopting the accounting standard and this adjusted amount (the 'relevant amount') is taxable or deductible (as the case may be) in computing the taxable profits over a five-year period. Each of the key terms in the subsection is considered further below.

- '**Subject to the Tax Acts**' means that the provisions of section 76A(4) TCA 1997 are subordinate to the rest of the Tax Acts. In other words, section 76A(4) TCA 1997 cannot transform non-taxable income into taxable income nor taxable income into non-taxable income. Similarly, section 76A(4) TCA 1997 cannot transform non-deductible expenditure into deductible expenditure nor deductible expenditure into non-deductible expenditure.
- The '**retrospective effect of adopting an accounting standard which is recognised in opening reserves**' means the PPA in the accounts. It should be noted that the subsection uses the **term 'adopting an accounting standard'** to **encompass both** the **adoption of an accounting standard and** the adoption of **an amendment of an accounting standard**. Therefore, for the remainder of this Tax and Duty Manual, references to 'adopting an accounting standard' should be interpreted as including the adoption of an amendment of an accounting standard.
- The '**relevant amount**' is the PPA as adjusted to ensure that there is neither a tax-free uplift nor a double charge to tax because of adopting the accounting standard. This means that the PPA is only deductible to the extent that no deductions have been made in respect of that amount (or part of that amount) in a previous accounting period and/or the company did not benefit from a tax relief in respect of that amount (or part of that amount) in a previous accounting period. Similarly, the PPA is only taxable to the extent that it (or part of it) was not treated as taxable in previous accounting periods. The PPA as adjusted in this manner is known as the 'relevant amount'.
- The '**relevant period**' is the 'accounting period' beginning on the first day of the 'period of account' in which the accounting standard is adopted for the first time.
    - The legislation requires the use of this precise and somewhat complex language because an accounting standard is adopted in a set of accounts (which are prepared for a 'period of account') but taxed or deducted by reference to 'accounting periods'. Therefore, strictly speaking, an accounting standard is not adopted in an 'accounting period'.

- The examples below illustrate the relationship between 'periods of account' and 'accounting periods'.

Period of account	Accounting period(s)
year ended 31/12/2016	2016: year ended 31 December 2016 (12 months) Relevant period is the year ended 31 December 2016
18-month period ended 30/06/2018	2017: year ended 31 December 2017 (12 months) 2018: period ended 30 June 2018 (6 months) Relevant period is the year ended 31 December 2017

- The '**relevant amount**' is not taxed or deducted in the '**relevant period**', instead a portion of the relevant amount is taxed or deducted in each accounting period falling wholly or partly within the period of five years starting at the commencement of the relevant period; this is commonly referred to as '**spreading**'. The amount of the relevant amount taxable in any given accounting period is proportional to the length that the accounting period bears to the overall five-year period. The examples below illustrate this point.

10.4 Example 2: adoption of an accounting standard

Company B makes up accounts to 31 December each year and uses IFRS in the preparation of those accounts. In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers' to take effect for annual reporting periods beginning on or after 1 January 2018. On 12 April 2016, clarifying amendments were issued that have the same effective date as the standard itself. The EU endorsed IFRS 15 on 31 October 2017 with the same effective date. Therefore, Company B is obliged to adopt IFRS 15 in its financial statements for the year ended 31 December 2018. This resulted in a PPA which increased opening reserves by €1,000,000 (pre-tax).

- **Is the PPA taxable?** Yes, because the PPA affects revenue as follows:

DR Trade receivables	€1,000,000
CR Reserves (Retained earnings)	€1,000,000

In accordance with section 76A(1) TCA 1997, the Case I profits or gains of the trade carried on by Company B are computed in accordance with GAAP subject to

any adjustment required or authorised by law in computing such profits or gains. No adjustment is required in the current case.

- **Was any part of the PPA treated as taxable or deductible in an earlier period?** No. IFRS 15 has resulted in Company B's revenue being recognised at a faster rate than previously, bringing it forward into earlier periods when previously it would have been recognised in a later period. Therefore, this amount has not been taxed before.
- **What is the 'relevant amount'?** The relevant amount is the PPA of €1,000,000 as adjusted to avoid any double taxation or double deduction. As there is no such double-counting in this case, the 'relevant amount' is €1,000,000 (the same as the PPA).
- **What is the 'relevant period'?** The relevant period is 2018.

Conclusion: the PPA of €1,000,000 is taxable but 'spreading' applies over five years (60 months) as shown below. All tax computations within the five-year 'spreading' period should include a schedule showing the calculation of the 'relevant amount' and how it is taxed/deducted over the five years.

Period of Account [Accounts]	**Accounting Period [Tax return]**	**Length of Accounting Period**	**Proportion of Relevant Amount Taxed in each Accounting Period**	**Amount Taxed in each Accounting Period**
y/e 31/12/2018	2018	12 months	12 ÷ 60 = **20%**	20% x €1,000,000 = **€200,000**
y/e 31/12/2019	2019	12 months	12 ÷ 60 = **20%**	20% x €1,000,000 = **€200,000**
y/e 31/12/2020	2020	12 months	12 ÷ 60 = **20%**	20% x €1,000,000 = **€200,000**
y/e 31/12/2021	2021	12 months	12 ÷ 60 = **20%**	20% x €1,000,000 = **€200,000**
y/e 31/12/2022	2022	12 months	12 ÷ 60 = **20%**	20% x €1,000,000 = **€200,000**

10.5 Example 3: adoption of an accounting standard followed by a change in accounting date

The facts are the same as in **10.4** except that in 2021 Company B is acquired by Group Z, an EEA incorporated company which requires its subsidiaries to prepare accounts to 30 June each year.

- This means that Company B had to prepare accounts for the 18-month period ended 30 June 2022 rather than the 12-month period to 31 December 2021 (as provided for by section 288(10) of the Act). As an accounting period cannot exceed 12 months, the 18-month period of account spans two tax returns and the periods of account and accounting periods were as follows:

Period of Account [Accounts]	**Accounting Period [Tax return]**	**Length of Accounting Period**	**Proportion of Relevant Amount Taxed in each Accounting Period**	**Amount Taxed in each Accounting Period**
y/e 31/12/2018 [12 months]	2018	12 months	12 ÷ 60 = **20%**	20% x €1,000,000 = **€200,000**
y/e 31/12/2019 [12 months]	2019	12 months	12 ÷ 60 = **20%**	20% x €1,000,000 = **€200,000**
y/e 31/12/2020 [12 months]	2020	12 months	12 ÷ 60 = **20%**	20% x €1,000,000 = **€200,000**
p/e 30/06/2022 [**18** months]	2021	12 months	12 ÷ 60 = **20%**	20% x €1,000,000 = **€200,000**
p/e 30/06/2022 [**18** months]	2022	6 months	6 ÷ 60 = **10%**	10% x €1,000,000 = **€100,000**
y/e 30/06/2023 [12 months]	2023	12 months	6* ÷ 60 = **10%**	10% x €1,000,000 = **€100,000**

* The "relevant period" is 1 January 2018 to 31 December 2018. Therefore, the "period of 5 years beginning at the commencement of the relevant period" is the period 1 January 2018 to 31 December 2022. Accordingly, the last "accounting period falling wholly or partly within the period of 5 years beginning at the commencement of the relevant period" is the 12-month accounting period ending on 30 June 2023. However, only the first six months of that accounting period falls "within the period of 5 years beginning at the commencement of the relevant period". Hence, the proportion of the relevant amount taxed in the 2023 accounting period is 10% (6 ÷ 60).

10.6 Example 4: adoption of an accounting standard followed by ceasing to be within the charge to Irish corporation tax

The facts are the same as in **10.4** except that Company B ceases to trade on 31 December 2021.

- This means that 2021 is the last 'accounting period' of Company B. Therefore, the amounts taxable in each accounting period were as shown overleaf.

Period of Account [Accounts]	Accounting Period [Tax return]	Length of Accounting Period	Proportion of Relevant Amount Taxed in each Accounting Period	Amount Taxed in each Accounting Period
y/e 31/12/2018	2018	12 months	12 ÷ 60 = **20%**	20% x €1,000,000 = **€200,000**
y/e 31/12/2019	2019	12 months	12 ÷ 60 = **20%**	20% x €1,000,000 = **€200,000**
y/e 31/12/2020	2020	12 months	12 ÷ 60 = **20%**	20% x €1,000,000 = **€200,000**
y/e 31/12/2021	2021	12 months	100% - 20% -20% - 20% = **40%**	40% x €1,000,000 = **€400,000**

10.7 Election to apply spreading provisions for 2017 returns

Section 76A(4) TCA 1997 applies to accounting periods beginning on or after 25 December 2017. However, companies may avail of the 'spreading' provisions where they have adopted an accounting standard (or an amendment of an accounting standard) in their 2017 accounts, provided that such election is made in writing to Revenue on or before the specified return date for the 2017 tax return. Such an election may be made in the 'Additional Notes' field in the 'Company Details' screen of the corporation tax return (Form CT1).

11 Section 76A(5) TCA 1997: correction of accounting errors

11.1 What is an accounting error?

Errors are **omissions** from, and **misstatements** in, an entity's financial statements for one or more prior periods **arising from a failure to use, or misuse of, reliable information that**:

(a) **was available** when financial statements for those periods were authorised for issue; **and**

(b) **could reasonably be expected to have been obtained and taken into account** in the preparation and presentation of those financial statements [IAS 8.5/FRS 101/ Appendix I to FRS 102/Appendix I to FRS 105].

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts and fraud [IAS 8.5/FRS 101/section 10.20 of FRS 102/section 8.15 of FRS 105].

Former GAAP differentiates between ‘fundamental errors’ (see **11.2**) and other errors while current GAAP and IFRS distinguish between ‘material errors’ (see **11.3**) and other errors.

11.2 What is a ‘fundamental error’?

Former GAAP defined a ‘**fundamental error’** as an error of such significance as to destroy the truth and fairness and hence validity of a set of financial statements [FRS 3.63]. The **concept of a ‘fundamental error’ does not exist in current GAAP or IFRS**.

11.3 What is a ‘material error’?

Materiality is an accounting concept. Omissions or misstatements of items are ‘material’ if **they could, individually or collectively, influence the economic decisions of users** taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor. [IAS 8.5[5]/FRS 101/Appendix I to FRS 102/Appendix I to FRS 105]

11.4 What is the accounting treatment?

11.4.1 IFRS and current GAAP

Financial statements do not comply with **IFRS/FRS 101** if they contain either:

- **material errors**; or
- **immaterial errors made intentionally** to achieve a particular presentation of an entity's financial position, financial performance or cash flows [IAS 8.41/FRS 101].

Similarly, financial statements shall not be described as complying with **FRS 102** unless they comply with all the requirements of FRS 102 (including the correction of errors) [section 3.3 of FRS 102]. Likewise, to avail of the micro-entities regime (see **Appendix 3**), financial statements must comply with all the requirements of **FRS 105** (including the correction of errors) [section 3.14 of FRS 105].

[5] On 31 October 2018, the IASB announced that the IFRS definition of materiality has been amended with effect from 1 January 2020 (although companies can choose to apply the new definition before that date). The new definition states that information is ‘material’ if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements which provide financial information about a specific reporting entity.

The **general position** under current GAAP and IFRS is that:

1. **prior period errors that are not material** are accounted for in the period they are identified (i.e. the correction is **included in the profit and loss account** for that period); and
2. **all material prior period errors must be corrected retrospectively** (i.e. as a **PPA**) in the first set of financial statements authorised for issue after their discovery by:
    - restating the comparative amounts for the prior period(s) presented in which the error occurred; or
    - if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented [IAS 8.42/FRS 101/section 10.21 of FRS 102/section 8.16 of FRS 105].

However, the **requirement to correct material errors retrospectively does not apply where**:

- it is **impracticable to determine the individual period-specific effects** of the error on comparative information for one or more prior periods presented, in which case the entity shall restate the opening balances of assets, liabilities, and equity for the earliest period for which retrospective restatement is practicable (which may be the current period) [IAS 8.44/FRS 101/section 10.22 of FRS 102/section 8.17 of FRS 105]; or
- it is **impracticable to determine the cumulative effect**, at the beginning of the current period, of the error on all prior periods, in which case the entity must restate the comparative information to correct the error prospectively from the earliest date practicable [IAS 8.45/FRS 101].

In this context, '**impracticable**' means that it cannot be done after "making every reasonable effort to do so" [IAS 8.5/FRS 101/Appendix I to FRS 102/Appendix I to FRS 105]. IAS 8.5 elaborates further and notes that, for a particular prior period, it is impracticable to correct an accounting error retrospectively if:

(a) the effects of the retrospective application are not determinable;

(b) the retrospective application requires assumptions about what management's intent would have been in that period; or

(c) the retrospective application requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

    (iii) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and
    (iv) would have been available when the financial statements for that prior period were authorised for issue from other information.

If a **current period error** is discovered before the financial statements are authorised for issue, it is corrected in the current period [IAS 8.41/sections 32.4 and 32.5(e) of FRS 102/ sections 26.4 and 26.5(e) of FRS 105].

11.4.2 Former GAAP

Where a 'fundamental error' was identified, former GAAP required that this be accounted for by restating the prior period comparative figures (i.e. as a PPA) [FRS 3.63]. By contrast, errors which were not considered fundamental were accounted for in the period they were identified [FRS 3.63].

11.5 What is the key difference from former GAAP?

As noted at **11.4** above, current GAAP and IFRS require retrospective correction for 'material' errors (see **11.3**) whereas former GAAP only required retrospective corrections of 'fundamental' errors (see **11.2**), with all other errors being corrected in the profit and loss account for the period of discovery. Therefore, **PPAs to correct prior period errors are likely to be more frequent under current GAAP and IFRS** than under former Irish GAAP (because the 'material' threshold is much lower than the previous 'fundamental' threshold).

11.6 Does the company issue revised accounts for prior periods?

Restatement of the financial statements for prior years does not necessarily mean that the company must withdraw and amend the financial statements that it is has already issued, approved and filed with the Companies Registration Office for the affected periods. Although Chapter 17 of the Act provides a mechanism for revising and re-issuing defective accounts, **a company would not normally re-issue accounts** under that Chapter **where it has corrected material errors by way of a PPA** in the latest financial statements.

However, **if a company chooses to withdraw and amend** the financial statements for the relevant prior periods, the company **would not need to include a PPA** to correct the material prior period error in the current period's accounts because the comparative figures would be the correct (i.e. revised) figures per the amended accounts. In addition, where **revised financial statements** are issued for earlier periods, they will essentially **replace the previous ones** issued – **for both accounting and tax purposes**.

11.7 What is the tax treatment?

From a tax perspective, the correction of an accounting error represents a change from an 'invalid basis' of computing profits to a 'valid basis' of computing profits – regardless of whether the error is 'fundamental', 'non-fundamental', 'material' or 'non-material' from an accounting perspective. Where the financial statements include the correction of an error (whether in the current year profit and loss account, as a PPA or through the issue of revised accounts for prior periods), existing practice provides that the **taxable profits must be recalculated on the new 'valid basis'**. **Subsection 5 of section 76A TCA 1997 legislates for this case law principle**. Any adjustments which need to be made to compute taxable profits for earlier periods on the 'valid basis' must be done **by changing the tax computations** for those periods. However, the tax computations may only be amended **subject to the normal statutory time limits** for amending returns.

As previously noted, current GAAP and IFRS distinguish between ‘material errors’ (see **11.3**) and other errors, while former GAAP differentiates between ‘fundamental errors’ (see **11.2**) and other errors. Therefore, section 76A(5) TCA 1997 sets out the tax treatment of ‘fundamental errors’ because, for many companies, their 2013, 2014 and 2015 ‘accounting periods’ were still within the statutory time limit for amending returns when the Finance Act 2017 amendment was enacted. As a result, the accounts for those years could have been prepared in accordance with former GAAP and could potentially have included ‘fundamental’ errors.

Section 76A(5) TCA 1997 provides that, ‘Subject to the Tax Acts’, an amount representing the ‘retrospective effect of correcting either **a material error or a fundamental error**’ is adjusted to ensure that there is neither a tax-free uplift nor a double charge to tax because of correcting the error and the adjusted amount is known as the ‘relevant amount’. Similarly, section 76A(5) TCA 1997 provides that, ‘Subject to the Tax Acts’, an amount representing the ‘effect of correcting an error which is **neither a material error nor a fundamental error**’ is adjusted to ensure that there is neither a tax-free uplift nor a double charge to tax because of correcting the error and the adjusted amount is also known as the ‘relevant amount’. The ‘relevant amount’ is not taxed or deducted in the ‘relevant period’; instead, any adjustments which need to be made to compute taxable profits on the valid basis must be done **by changing the tax computations** for the affected periods (**subject to the normal statutory time limits** for amending returns). Each of the key terms in the subsection is considered further below.

- ‘**Subject to the Tax Acts**’ means that the provisions of section 76A(5) TCA 1997 are subordinate to the rest of the Tax Acts. In other words, section 76A(5) TCA 1997 cannot transform non-taxable income into taxable income nor taxable income into non-taxable income. Similarly, section 76A(5) TCA 1997 cannot transform non-deductible expenditure into deductible expenditure nor deductible expenditure into non-deductible expenditure.
- The ‘**retrospective effect of** correcting either **a material error or a fundamental error**’ means the PPA in the accounts. As previously noted, errors which are neither material nor fundamental are included in the profit and loss account for the period of correction (they are not corrected retrospectively). Errors which are material but are not required to be corrected retrospectively due to it being impracticable to determine the precise account period(s) to which the error relates (see 11.4.1), should be corrected in the tax return(s) for the earliest period which is practicable, as determined for accounting purposes, subject to the statutory time limits for amending returns.
- The ‘**relevant amount**’ is:
    - o in the case of the correction of either a ‘material error’ or a ‘fundamental error’: the PPA as adjusted to ensure that there is neither a tax-free uplift nor a double charge to tax as a result of the correction of the error. This means that the PPA is only deductible to the extent that no deductions have been made in respect of that amount (or part of that amount) in a previous accounting period and/or the company did not benefit from a tax relief in respect of that

amount (or part of that amount) in a previous accounting period. Similarly, the PPA is only taxable to the extent that it (or part of it) was not treated as taxable in previous accounting periods. The PPA as adjusted in this manner is known as the 'relevant amount'.

- in the case of the correction of an error which is neither material nor fundamental: the amount of the error included in the profit and loss account for the period as adjusted to ensure that there is neither a tax-free uplift nor a double charge to tax as a result of the correction of the error. This means that the amount representing the correction of the error is only deductible to the extent that no deductions have been made in respect of that amount (or part of that amount) in a previous accounting period and/or the company did not benefit from a tax relief in respect of that amount (or part of that amount) in a previous accounting period. Similarly, the amount representing the correction of the error is only taxable to the extent that it (or part of it) was not treated as taxable in previous accounting periods. The amount representing the correction of the error as adjusted in this manner is known as the 'relevant amount'.

- The '**relevant period**' is the 'accounting period' beginning on the first day of the 'period of account' in which the error is corrected for the first time.
  - The legislation requires the use of this precise and somewhat complex language because an accounting error is corrected in a set of accounts (which are prepared for a 'period of account') but taxed or deducted by reference to 'accounting periods'. Therefore, strictly speaking, an accounting error is not corrected in an 'accounting period'.
  - The examples below illustrate the relationship between 'periods of account' and 'accounting periods'.

Period of account	**Accounting period(s)**
year ended 31/12/2016	2016: year ended 31 December 2016 (12 months) Relevant period is the year ended 31 December 2016
18-month period ended 30/06/2018	2017: year ended 31 December 2017 (12 months) 2018: period ended 30 June 2018 (6 months) Relevant period is the year ended 31 December 2017

- The ‘**relevant amount**’ is not taxed or deducted in full in the ‘**relevant period**’. Instead, the ‘relevant amount’ is taxed or deducted in the ‘accounting period’ to which it relates (which may include the ‘relevant period’ and will often include preceding accounting periods), **subject to statutory time limits** for amending returns. Section 959V(6) TCA 1997 imposes a general four-year time limit (with some exceptions) so this would operate to impose the same time limit on section 76A(5)(h) TCA 1997.
- Section 76A(5)(h) TCA 1997 refers to ‘an accounting period which commences on or after 1 January 2013’ and ‘an accounting period which commenced before 1 January 2013’.
    - The **legislation requires a distinction between accounting periods commencing before and on or after 1 January 2013 because** new assessing rules were introduced in Finance Act 2012 (Part 41A TCA 1997) to replace the previous rules (Part 41 TCA 1997) which applied to accounting periods beginning before 1 January 2013. **Part 41A TCA 1997 introduced a system of ‘full’ self-assessment** for direct taxes which applies from the 2013 tax years (for income tax) and for accounting periods commencing on or after 1 January 2013 (for corporation tax).
    - Part 41A TCA 1997, including section 959V TCA 1997 refers to a ‘return’ and a ‘self-assessment’ for a ‘chargeable period’ (which, for a company, is an ‘accounting period’ – see section 959A TCA 1997).
    - However, **‘full’ self-assessment did not exist prior to 1 January 2013**. Therefore, for section 959V TCA 1997 to apply to accounting periods beginning before 1 January 2013, the references to ‘self-assessment’ must be deleted and references to section 959Z TCA 1997 must be replaced with references to section 956 TCA 1997 (the equivalent section which applied before the introduction of ‘full’ self-assessment).

11.8 Examples: correction of non-material errors

Example 5a: correction of a non-material error with no tax impact

Company C makes up accounts to 31 December each year and uses FRS 101 in the preparation of those accounts. On 27 March 2018, the directors approved the financial statements for the year ended 31 December 2017. However, when the 2018 corporation tax computation was being prepared in September 2018, Company C’s tax agent identified that Company C’s accountant had made some incorrect assumptions regarding the deductibility for tax purposes of certain expenditure. As a result, the deferred tax asset in the balance sheet as at 31 December 2017 was overstated. As the overstatement was not material, it was corrected in the 2018 accounts (DR Profit and loss account – deferred tax; CR Deferred tax asset).

- As movements in deferred tax are not taken into account for corporation tax purposes, the correction of the error had no tax impact.

Example 5b: correction of a non-material error with a tax impact

Company D makes up accounts to 31 December each year and uses FRS 102 in the preparation of those accounts. During the audit of the financial statements for the year ended 31 December 2017, the auditors identified that inventory on hand at 31 December 2017 was overstated by €25,000 due to errors in the standard costing system used to value inventory. This audit finding was reported to the directors, who were satisfied that inventory was not materially over-valued. The auditors agreed that, in the specific circumstances and having regard to the company's turnover and assets, the overstatement €25,000 was not material for financial reporting purposes. On 27 March 2018, the directors approved the financial statements for the year ended 31 December 2017 and the auditors issued an unqualified audit opinion on those accounts. It was agreed that the error would be corrected in the financial statements for the year ended 31 December 2018.

- **Is the error deductible?** Yes, because the error affects revenue costs as follows:

DR Cost of sales	€25,000
CR Inventory	€25,000

  In accordance with section 76A(1) TCA 1997, the Case I profits or gains of the trade carried on by Company D are computed in accordance with GAAP subject to any adjustment required or authorised by law in computing such profits or gains. No adjustment is required in the current case.

- **Was any part of the error treated as taxable or deductible in an earlier period?** No. The valuation of inventory at each financial reporting date determines the cost of sales figure for the financial reporting period ending on that date. Therefore, this amount has not been taxed previously.
- **What is the 'relevant amount'?** The relevant amount is the amount of the error, namely €25,000, as adjusted to avoid any double taxation or double deduction. As there is no such double-counting in this case, the 'relevant amount' is €25,000 (the same as the amount of the error).
- **What is the 'relevant period'?** The relevant period is 2018.

Conclusion: the error of €25,000 relating to cost of sales is deductible by reference to the 'accounting periods' to which it relates and subject to normal statutory time limits for amendment of returns (which do not prevent the amendment of the return in this specific instance). The total allowable Case I deduction in 2017 is therefore €25,000 and the return should be amended accordingly. When Company D amends the 2017 tax return, a supporting tax computation, including a schedule showing the calculation of the 'relevant amount' and the accounting period to which it relates, should be submitted. Company D must also ensure that the amount is excluded from the 2018 tax return and should include a note to that effect in the 'Additional Notes' field in the 'Company Details' screen of the corporation tax return (Form CT1).

11.9 Example: correction of a material error

Example 6: correction of a material error – 'statutory time limits'

Company E makes up accounts to 31 December each year and uses FRS 102 in the preparation of those accounts. In March 2018, Company E's internal audit team uncovered unreported income as a result of the deliberate suppression of sales, which resulted in a material misstatement of Company E's financial position and performance as presented in the financial statements for the 2012 to 2017 financial years inclusive.

FRS 102 requires that this material error be corrected retrospectively and the internal audit team has determined that opening retained earnings for 2018 will need to be increased by €3 million (pre-tax), which is the cumulative amount of the adjustment relating to the 2012 to 2017 financial years as shown below. The independent firm of auditors has confirmed the accuracy of these figures.

Financial year	Unreported Income
y/e 31/12/2012	€500,000
y/e 31/12/2013	€500,000
y/e 31/12/2014	€500,000
y/e 31/12/2015	€500,000
y/e 31/12/2016	€500,000
y/e 31/12/2017	€500,000

- **Is the PPA deductible?** Yes, because the PPA affects revenue as follows:

  DR Bank €3,000,000

  CR Revenue €3,000,000

  In accordance with section 76A(1) TCA 1997, the Case I profits or gains of the trade carried on by Company E are computed in accordance with GAAP subject to any adjustment required or authorised by law in computing such profits or gains. No adjustment is required in the current case.

- **Was any part of the PPA treated as taxable or deductible in an earlier period?** No. The income was not reported and therefore not taxed in any period.
- **What is the 'relevant amount'?** The relevant amount is the PPA of €3,000,000 as adjusted to avoid any double taxation or double deduction. As there is no such double-counting in this case, the 'relevant amount' is €3,000,000 (the same as the PPA).
- **What is the 'relevant period'?** The relevant period is 2018.

Conclusion: the PPA of €3,000,000 is taxable by reference to the 'accounting periods' to which it relates and subject to normal statutory time limits for amendment of returns. As a result of normal statutory time limits, only the 2014 to 2017 tax computations may be amended because the portion of the PPA relating to 2012 and 2013 (€1,000,000) was out of time by the date the error was discovered. The total additional Case I income over the period 2014 to 2017 is therefore €2,000,000 as follows:

Period of Account [Accounts]	Accounting Period [Tax return]	Amount of Error	Time Limit	In Time?
y/e 31/12/2012	2012	€500,000	31/12/2016	No
y/e 31/12/2013	2013	€500,000	31/12/2017	No
Out-of-time portion of PPA		**€1,000,000**	**Not allowable**	
y/e 31/12/2014	2014	€500,000	31/12/2018	Yes
y/e 31/12/2015	2015	€500,000	31/12/2019	Yes
y/e 31/12/2016	2016	€500,000	31/12/2020	Yes
y/e 31/12/2017	2017	€500,000	31/12/2021	Yes
In-time portion of PPA		**€2,000,000**	**Total additional Case I taxable income**	

When Company E amends the 2014 to 2017 tax returns, supporting tax computations, including a schedule showing the calculation of the 'relevant amount' and the accounting periods to which it relates, should be submitted.

Section 959Z TCA 1997 provides a general right for Revenue officers to make enquiries within a four year time limit linked to the chargeable period in which the return was made. Enquiries can be made outside the four year time limit from the tax year in which the return is filed where Revenue has reasonable grounds for believing that a return was completed in a fraudulent or negligent manner or the

return does not contain a full and true disclosure (section 959Z (4)(b) TCA 1997). In this example Revenue may reopen the 2012 and 2013 returns to capture the unrecorded income relating to those accounting periods.

The taxpayer may make a "Qualifying Disclosure" to Revenue. Please refer to The Code of Practice for Revenue Audit and other Compliance Interventions (**the Code**) for full details of the opportunities for regularising tax and duty defaults and the resulting liability to interest and penalties that may arise.

11.10 Are there any circumstances in which tax returns need not be reopened and amended to correct accounting errors?

Revenue's role is to collect the correct amount of tax and duty in accordance with the appropriate legislation. As previously noted, the correction of an accounting error represents a change from an 'invalid basis' of computing profits for tax purposes to a 'valid basis' of computing taxable profits. Where the financial statements include the correction of an error (whether in the current year profit and loss account, as a PPA or through the issue of revised accounts for prior periods), case law principles and section 76A(5) TCA 1997 provide that any adjustments which need to be made to earlier periods to compute taxable profits on the 'valid basis' must be done by changing the tax computations for those periods, subject to the normal statutory time limits for amending returns. This approach ensures that, regardless of any tax reliefs a taxpayer has availed of in those earlier periods, the tax liability for those periods is recalculated to ensure that the correct amount of tax is paid and reliefs are not granted which, when taxable profits are computed on the 'valid basis', ultimately are not due.

Examples of reliefs which could be affected by the recalculation of Case I profits include excess payable tax credits for research and development expenditure (sections 766, 766A and 766B TCA 1997), double taxation relief (sections 77(6A) and 77(6B) and Schedule 24 TCA 1997) and capital allowances for 'specified intangible assets' (section 291A TCA 1997).

Please refer to The Code of Practice for Revenue Audit and other Compliance Interventions (**the Code**) for full details of the opportunities for regularising tax and duty defaults and the resulting liability to interest and penalties that may arise. When correcting accounting errors, taxpayers may be eligible to avail of the benefits of 'self-correction without penalty', as discussed at 2.2 of the Code, provided these corrections take place within twelve months of the due date for the filing of the returns.

In addition, and consistent with section 2.5 of the Code, Revenue will not require the amendment of prior year returns where the taxpayer has proven to the satisfaction of Revenue that no loss to the Exchequer will occur if the applicable portion of the accounting error is corrected in the tax return for the 'relevant period' (i.e. the 'accounting period' beginning on the first day of the 'period of account' in which the error is corrected for the first time). In this context, the 'applicable portion of the error' means the part of the error relating to accounting periods which, in accordance with the normal statutory time limits for amending returns, may be

corrected. There can be no question of overriding the normal statutory time limits and all the conditions set out in section 2.5 of the Code must be satisfied before a ‘no loss of revenue’ claim will be accepted by Revenue, thereby permitting the ‘applicable portion of the error’ to be corrected in the tax return for the ‘relevant period’.

Statutory interest may be sought, but this will be limited to any period during which there was a temporary loss of revenue. Liability to a penalty arises in all ‘no loss of revenue’ cases except where the ‘innocent error’ or ‘technical adjustment’ criteria are met.

Appendix 1: Overview of Relevant Irish Company Law

1. Statutory Instrument No. 116/2005 and 'the Regulation'

The European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005 (**S.I. No. 116/2005**) were made to give full effect to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 (referred to in section 4 of the Taxes Consolidation Act, 1997 (**TCA 1997**) as '**the Regulation**'). S.I. No. 116/2005 introduced the **requirement for entities** with securities which have been admitted to **trading on a regulated market of any EEA State**[6] **to prepare their consolidated** ('group') **accounts in accordance with** European Union-endorsed International Financial Reporting Standards (**IFRS**) as follows: (i) **entities with listed equity securities**: for years beginning on or after 1 January **2005**; and (ii) **entities with listed debt securities**: for years beginning on or after 1 January **2007**. In addition, S.I. No. 116/2005 introduced the **choice for all other companies to prepare individual entity and consolidated accounts as 'Companies Act financial statements' or 'IFRS financial statements**' and this choice has been retained under The Companies Act 2014, as discussed at **2** below.

S.I. No. 116/2005 therefore introduced IFRS into Irish company law, which prompted the enactment of section 48 of the Finance Act 2005 (which inserted sections 76A and 76B and Schedule 17A into TCA 1997). Since S.I. No. 116/2005 took effect, the **main accounting frameworks in use in Ireland are IFRS and** Irish generally accepted accounting practice (**GAAP**) and section 48 of the Finance Act 2005 confirmed that accounts prepared in accordance with IFRS were an acceptable starting point for computing the taxable Case I or II profits or gains or losses of a company.

2. The Companies Act 2014

The Companies Act 2014 (**the Act**) was commenced on 1 June 2015 and, with limited exceptions, the accounting and auditing related provisions apply to financial statements approved on or after 1 June 2015. Section 7 of the Act defines a '**company**' as including any body corporate.

The Act consolidated the pre-existing Irish Companies Acts and many of the related statutory instruments into a single statute while simultaneously introducing significant reforms to Irish company law[7]. The S.I. No. 116/2005 options for companies to prepare individual entity accounts as 'Companies Act financial statements' (see **2.1** below) or 'IFRS financial statements' (see **2.2** below) were retained under sections 290 and 293 of the Act.

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[6] 'EEA State' means a State, including Ireland, which is a Contracting Party to the EEA Agreement (the Agreement on the European Economic Area signed at Oporto on 2 May 1992, as adjusted by the Protocol signed at Brussels on 17 March 1993 and by subsequent amendments).

[7] It is beyond the scope of this Tax and Duty Manual to consider these reforms.

2.1. 'Companies Act financial statements'

'Companies Act financial statements' are accounts prepared in accordance with the accounting rules of Irish company law and 'applicable accounting standards'. Section 275 of the Act defines 'accounting standards' as statements of accounting standards and any written interpretation of those standards issued by a body or bodies prescribed under section 943(1)(h) of that Act. Sections 291(7)(a) and 294(7)(a) of the Act also require companies to state whether their accounts have been prepared in accordance with 'applicable accounting standards' and to identify those standards.

In the past, accounting standards issued by the United Kingdom's Financial Reporting Council (**FRC**) and its predecessors (i.e. UK and Irish GAAP) have been given effect in Ireland by virtue of an agreement between the Department of Industry and Commerce (now the Department of Business, Enterprise and Innovation), the FRC and the Institute of Chartered Accountants in Ireland (**ICAI**), such that the ICAI would promulgate the FRC's accounting standards in Ireland. However, on 21 March 2018, the Minister for Business, Enterprise and Innovation signed the Companies Act 2014 (Accounting Standards) (Prescribed Body) Regulations 2018 which **designate the FRC as "a body that issues statements of accounting standards" in Ireland** (for the purposes of the definition of 'accounting standards' in section 275(1) of the Act). This means that: (i) '**applicable accounting standards' definitively and explicitly includes GAAP**; and (ii) from 28 March 2018 it will no longer be necessary for ICAI to act as the designated promulgator of GAAP in Ireland.

As explained at **Appendix 2**, while the term 'Companies Act financial statements' generally means accounts prepared in accordance with GAAP, it may also refer to accounts prepared in accordance with an 'alternative body of accounting standards'.

2.2. 'IFRS financial statements'

'IFRS financial statements' are accounts prepared in accordance with **IFRS** and which include some mandatory disclosures (e.g. notes to the accounts) under Irish company law.

GAAP and **IFRS** are discussed further at **2.3** and **2.4** of this Tax and Duty Manual.

2.3. The 'true and fair' requirement

Section 291(2) of the Act requires 'Companies Act financial statements' to give a **true and fair view** of the assets, liabilities and financial position of the company as at the financial year end date and of the profit or loss of the company for the financial year. In addition, section 292(2) of the Act states that the requirement for 'IFRS financial statements' to **present fairly** the assets, liabilities, financial position, financial performance and cash flows is deemed to be equivalent to the true and fair view required by section 291(2) of the Act. Section 289 of the Act provides that **company directors must not approve financial statements unless they give a true and fair view** of the company's assets, liabilities and financial position, as at the end of the financial year, and profit or loss, for the financial year.

The **true and fair requirement has been fundamental to accounting in the UK and Ireland for many years**, even though there is no statutory definition of the term. The concept of 'true and fair view' **was adopted at European Community level** in the Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies. This Directive was repealed with effect from 18 July 2013 and was replaced by Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (**the 2013 Accounting Directive**). The requirement that accounts give a true and fair view remains a fundamental principle under the 2013 Accounting Directive.

However, the position is slightly different in the case of 'micro' companies. Micro companies are those which satisfy two or more of the following qualifying conditions for at least two consecutive years: (i) turnover no greater than €0.7 million; (ii) balance sheet total no greater than €0.35 million; and (iii) an average of 10 or fewer employees. Certain "ineligible entities" do not qualify as micro companies, even if they meet the qualifying conditions (e.g. credit institutions, insurance undertakings, public interest entities, investment undertakings, certain holding companies, fully consolidated subsidiaries, etc.). If the financial statements of 'micro' entities have been prepared in compliance with company law and the GAAP accounting standard known as FRS 105 The Financial Reporting Standard applicable to the micro-entities regime, they are presumed in law to present a true and fair view of the company's assets, liabilities and financial position as at the financial reporting date and of its profit or loss for the financial reporting period.

3. The Companies (Accounting) Act 2017

The Companies (Accounting) Act 2017 was signed into law on 17 May 2017 and generally takes effect from 9 June 2017, with some exceptions. The main purpose of the Act was to transpose the 2013 Accounting Directive into Irish law, thus replacing the previous versions of Schedules 3 and 4 of the Act. The Companies (Accounting) Act 2017 also incorporates some other miscellaneous amendments to the Act but it is beyond the scope of this Tax and Duty Manual to consider these amendments.

Schedules 3 and 4 of the Act (as updated by The Companies (Accounting) Act 2017) set out the company law requirements for single entity and group financial statements as they apply to companies other than credit institutions and insurance undertakings. Please see **Appendix 2** for details of the rules applying to entities including credit institutions and insurance undertakings.

Appendix 2: Specific Rules Applying to Certain Entities

1. Credit institutions

Section 275 of The Companies Act 2014 (**the Act**) defines a ‘credit institution’ as:

a) a company or undertaking that is the holder of a licence under section 9 of the Central Bank Act 1971;

b) a company or undertaking engaged solely in the making of hire purchase agreements (within the meaning of the Hire Purchase Act 1946) and credit sale agreements (within the meaning of that Act), in respect of goods owned by the company or undertaking;

c) a company or undertaking engaged in the business of accepting deposits or other repayable funds or granting credit for its own account; or

d) a company or undertaking that is a trustee savings bank licensed under the Trustee Savings Banks Act 1989.

Credit institutions, and groups comprised primarily of credit institutions, are subject to the European Union (Credit Institutions: Financial Statements) Regulations 2015 (**S.I. No. 266 of 2015**). This statutory instrument has priority over the Act in respect of such institutions and precludes credit institutions from availing of certain exemptions under the Act. However, it is beyond the scope of this Tax and Duty Manual to consider the requirements of this statutory instrument.

2. Insurance undertakings

Section 275 of the Act defines an ‘insurance undertaking’ as: (i) an undertaking which holds an authorisation pursuant to any one of a number of EU Regulations; and (ii) a holding undertaking whose principal subsidiaries are wholly or mainly insurance undertakings and which does not carry on any material business save as a holding undertaking. The references to ‘undertaking’ include partnerships and unincorporated bodies as well as bodies corporate.

Insurance undertakings, and groups comprised primarily of such undertakings, are subject to the European Union (Insurance Undertakings: Financial Statements) Regulations 2015 (**S.I. No. 262 of 2015**) (as amended by **S.I. No. 213 of 2016**: the European Union (Insurance Undertakings: Financial Statements) (Amendment) Regulations 2016). These two statutory instruments have priority over the Act in respect of such undertakings and preclude an insurance undertaking from availing of certain exemptions under the Act. However, it is beyond the scope of this Tax and Duty Manual to consider the requirements of these two statutory instruments.

3. UCITS

Undertakings for Collective Investment in Transferrable Securities or 'UCITS' are investment companies which are subject to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011, as amended (**S.I. No. 352 of 2011**). UCITS may adopt an 'alternative body of accounting standards' (**ABAS**) in preparing individual 'Companies Act financial statements', meaning accounting standards prescribed by the relevant accounting standard setters in the United States of America (**USA**), Canada, Japan or any other prescribed state or territory.

4. Investment companies (other than UCITS)

Section 1386 of the Act defines an '**investment company**' as a public limited company (not being a company to which S.I. No. 352 of 2011 applies) that is permitted to have variable capital and the sole object of which is stated in its memorandum to be the collective investment of its funds in property with the aim of spreading investment risk and giving members of the company the benefit of the results of the management of its funds. Section 1394 of the Act also provides that an investment company to which **Part XIII** of the Companies Act, 1990 applies and which was incorporated and was in existence before the commencement of the Act shall be deemed to be an investment company.

Section 1400 of the Act permits an investment company **to prepare its statutory financial statements in accordance with** an 'alternative body of accounting standards' (**ABAS**), meaning accounting standards prescribed by the relevant accounting standard setters in the USA, Canada, Japan, or any other prescribed state or territory. ABAS may only be used provided that they do not contravene Part 6 of the Act entitled "Financial Statements, Annual Return and Audit" (as that Part applies to investment companies). This means that ABAS must be modified if necessary to ensure consistency with Irish company law. It is beyond the scope of this Tax and Duty Manual to consider ABAS.

5. Irish Collective Asset Management Vehicles

The Irish Collective Asset-management Vehicle Act 2015 (**the ICAV Act**) provides for the establishment of Irish Collective Asset-management Vehicles (**ICAVs**), a new Irish corporate investment fund vehicle that is specifically tailored to the needs of the global funds industry. In addition, the ICAV will be subject to its own legislative regime distinct from the Irish company law and the incorporation of the ICAV will be carried out by the Central Bank rather than the Irish Registrar of Companies.

Most Irish funds are authorised as investment companies (see **4** above) and, as such, are required to comply with many of the rules applicable to companies. However, the ICAV Act contains a mechanism for existing investment companies to convert to an ICAV and many existing Irish funds are expected to avail of this conversion mechanism. In addition, the ICAV Act contains a mechanism for existing corporate collective investment schemes established in the Cayman Islands, the British Virgin

Islands, Bermuda, Jersey, Guernsey and the Isle of Man to migrate to Ireland as an ICAV by way of continuation. It is beyond the scope of this Tax and Duty Manual to consider these conversion and migration processes.

Section 116 of the ICAV Act permits an ICAV **to prepare its statutory financial statements in accordance with** an 'alternative body of accounting standards' (**ABAS**), meaning accounting standards prescribed by the relevant accounting standard setters in the USA, Canada, Japan, or any other prescribed country or territory. ABAS may only be used if they do not contravene Part 7 of the ICAV Act. It is beyond the scope of this Tax and Duty Manual to consider ABAS.

6. Relevant holding companies

Section 279 of the Act (as amended by the Companies (Amendment) Act 2017) also permits a 'relevant holding company' to prepare its individual and group financial statements in accordance with generally accepted accounting practice in the USA (**US GAAP**) provided that US GAAP does not contravene Part 6 of the Act entitled "Financial Statements, Annual Return and Audit". This means that US GAAP must be modified if necessary to ensure consistency with Irish company law.

For the purposes of section 279 of the Act, **US GAAP** is defined as the standards and interpretations issued by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants and the Securities and Exchange Commission (**SEC**). US GAAP is an internationally recognised, high quality body of financial reporting requirements which has been deemed to be equivalent to IFRS by the European Commission under EU's IFRS Equivalence Mechanism.

To satisfy the definition of a '**relevant holding company**':

a) The company must be a '**holding company**'. A company is another company's 'holding company' if, but only if, that other is its subsidiary and for these purposes, 'company' includes any body corporate (section 8 of the Act refers). The definition of 'subsidiary' is set out in section 7 of the Act.

b) The company must have been **incorporated in Ireland prior to 18 July 2017**.

c) The company's securities (or receipts in respect of those securities) must be **registered with** the SEC **or** the company must be required to **report** to the **SEC** under the law of the United States of America (**USA**). (This would include companies listed on the New York Stock Exchange and/or the Nasdaq Stock Market).

d) The company **either**: (i) **prior to 4 July 2012 was not required to file** an annual return and accounts with the Companies Registration Office and did not do so; **or** (ii) **during the period 23 December 2009 to 3 July 2012 inclusive, used US GAAP** in the preparation of its individual or consolidated ('group') accounts.

The 'relevant holding company' may use US GAAP in the preparation of its individual and group financial statements for financial years after it is incorporated in Ireland ending not later than **31 December 2030**.

This exemption was originally introduced by The Companies (Miscellaneous Provisions) Act 2009 and applied to ‘Companies Act financial statements’ (individual and group) of a ‘relevant parent undertaking’ for a specific period, namely the first four financial years after it is incorporated in the State and which ended not later than 31 December **2015**. The Companies (Amendment) Act 2012 amended the definition of ‘relevant parent undertaking’ to include d) above and extended the period during which the exemption is available to financial years ending not later than 31 December **2020**. This revised exemption was then included in section 279 of the Act and the Companies (Amendment) Act 2017 further extended the exemption to financial years ending not later than 31 December **2030**.

Appendix 3: Generally Accepted Accounting Practice

Introduction

As explained at **2.3** of this Tax and Duty Manual, **current** generally accepted accounting practice in the United Kingdom and Ireland (**GAAP**) (FRS 100 to FRS 105) was introduced by the Financial Reporting Council (**FRC**) to replace **former GAAP** (FRSs, SSAPs, etc.). Unless otherwise noted, former GAAP standards are effective for financial reporting periods commencing on or after 1 January 2015, with earlier application permitted.

FRS 100: Application of Financial Reporting Requirements

FRS 100 sets out rules and guidance on how to select the appropriate accounting standard(s) for an entity (whether EU-endorsed International Financial Reporting Standards (**IFRS**), FRS 101, FRS 102, or FRS 105). FRS 100 also sets out transitional arrangements from former GAAP to current GAAP or IFRS. FRS 100 does not contain any prescriptive accounting rules.

FRS 101 Reduced disclosure framework

FRS 101 is based on IFRS but with reduced disclosure requirements. FRS 101 may only be applied by a '**qualifying entity**': a member of a group whose parent prepares publicly available consolidated ('group') accounts which are intended to give a true and fair view and into which that entity is included via full consolidation. There are certain other requirements regarding notifying shareholders and obtaining their approval; disclosing what exemptions were adopted; and stating how the group financial statements into which that entity is consolidated may be obtained.

FRS 101 enables most subsidiaries to use the recognition and measurement bases of IFRS while being exempt from having to make many of the disclosures (i.e. notes to the accounts) required by 'full' IFRS. The reduced disclosure framework may also be applied to a parent company's separate financial statements. FRS 101 is most likely to be useful to companies preparing individual financial statements within a group which prepares IFRS consolidated financial statements. FRS 101 cannot be used for consolidated financial statements – even if they are prepared on a voluntary basis.

FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland

FRS 102 is a single standard which applies to entities not applying IFRS, FRS 101 or FRS 105. FRS 102 applies to accounts that are intended to give a true and fair view

of a reporting entity's financial position and profit or loss (or income and

expenditure) for a period and is likely to be the standard applied by most large and medium-sized Irish entities. FRS 102 is based on IFRS for SMEs, which is a much simplified version of 'full' IFRS and which was designed to be used by entities which did not have 'public accountability', which means that it is restricted in scope.

FRS 102 incorporates several changes to IFRS for SMEs to: (a) broaden the scope; (b) ensure that the standard complies with United Kingdom (UK) and Irish company law

requirements; and (c) re-introduce a number of accounting policy choices available under ‘full’ IFRS and/or former GAAP. Key amendments made to IFRS for SMEs include:

- Retaining the provisions to electively **capitalise development costs and borrowing costs** in certain circumstances.
- Retaining the **revaluation model** for **property, plant and equipment** and **intangible assets**.
- Permitting **merger accounting** for group reconstruction transactions.
- Permitting **hedge accounting** in respect of net investments in foreign operations.
- Accounting for **government grants** has been re-aligned with former GAAP and IFRS.
- Replacing the **deferred tax** model with something closer to former GAAP. Nevertheless, deferred tax will be a significant area of impact for many entities.
- **Permitting the use of FRS 102 by financial institutions** (as defined in FRS 102); FRS 102 also includes a number of disclosure requirements for financial institutions in relation to their use of financial instruments.

It should also be noted that many of the Statements of Recommended Practice (**SORPs**) have been amended in line with FRS 102, with those for oil and gas, leasing and banking having been withdrawn. In addition, FRS 102 contains specific accounting and disclosure requirements for several specialised activities and entities including financial institutions, extractive industries, retirement benefit plans and service concession arrangements. These will be supplemented by any guidance given in a relevant SORP, where there is one.

Section 1, FRS 102

Paragraph 1.8 of FRS 102 states that a **qualifying entity** (for the purposes of this FRS) which is **not** a **financial institution** may take advantage in its individual financial statements of the **disclosure exemptions** set out in paragraph 1.12. A qualifying entity (for the purposes of this FRS) which **is** a **financial institution** may take advantage in its individual financial statements of the disclosure exemptions set out in paragraph 1.12, except for the disclosure exemptions from Section 11 and Section 12 Other Financial Instruments Issues.

A **qualifying entity** (for the purposes of this FRS) is a defined in Section 1 as a member of a **group** where the **parent** of that group prepares publicly available **consolidated financial statements** which are intended to give a true and fair view (of the **assets**, **liabilities**, **financial position** and **profit or loss**) and that member is included in the consolidation.

A **qualifying entity** (for the purposes of this FRS) may take advantage of the disclosure exemptions in paragraph 1.12, provided that:

(a) Its shareholders have been notified in writing about, and do not object to, the use of the disclosure exemptions. Objections to the use of the disclosure exemptions may be served on the qualifying entity, in accordance with reasonable specified timeframes and format requirements, by a shareholder that is the immediate parent of the

entity, or by a shareholder or shareholders holding in aggregate 5 per cent or more of the total allotted shares in the entity or more than half of the allotted shares in the entity that are not held by the immediate parent.

(b) It otherwise applies the recognition, measurement and disclosure requirements of this FRS.

(c) It discloses in the notes to its financial statements:

  (i) a brief narrative summary of the disclosure exemptions adopted; and Financial Reporting Council 9

  (ii) the name of the parent6 of the group in whose consolidated financial statements its financial statements are consolidated, and from where those financial statements may be obtained.

Paragraph 1.12 outlines the **disclosure exemptions** available to qualifying entities.

(a) The requirements of Section 7 Statement of Cash Flows and paragraph 3.17(d).

(b) The requirements paragraphs 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c) 12.26 (in relation to those cross-referenced paragraphs from which a disclosure exemption is available), 12.27, 12.29(a), 12.29(b), 12.29A and 12.30 provided disclosures equivalent to those required by this FRS are included in the consolidated financial statements of the group in which the entity is consolidated.

(c) The requirements of paragraphs 26.18(b), 26.19 to 26.21 and 26.23, provided that for a qualifying entity that is:

  (i) a subsidiary, the share-based payment arrangement concerns equity instruments of another group entity;

  (ii) an ultimate parent, the share-based payment arrangement concerns its own equity instruments and its separate financial statements are presented alongside the consolidated financial statements of the group;

and, in both cases, provided that the equivalent disclosures required by this FRS are included in the consolidated financial statements of the group in which the entity is consolidated.

(d) The requirement of Section 33 Related Party Disclosures paragraph 33.7.

(e) The requirements of paragraph 24(b) of IFRS 6 to disclose the operating and investing cash flows arising from the exploration for and evaluation of mineral resources (when an entity applies IFRS 6 in accordance with paragraph 34.11).

Section 1A, FRS 102

In July 2015, the FRC amended FRS 102 to include a new section, **Section 1A, FRS 102**, which replaces the Financial Reporting Standard for Smaller Entities (**FRSSE**) and which may be applied by those qualifying as 'small' companies or 'micro' companies. The terms 'small' company and 'micro' company are defined as follows:

- **Small company**: small companies are those which satisfy two or more of the qualifying conditions for at least two consecutive years: (i) turnover no greater than €12 million; (ii) balance sheet total no greater than €6 million; and (iii) an average of 50 or fewer employees. Certain 'ineligible entities' do not qualify as small companies, even if they meet the qualifying conditions (e.g. credit institutions, insurance undertakings, public interest entities, investment undertakings, certain holding companies, etc.).
- **Micro company**: micro companies are those which satisfy two or more of the qualifying conditions for at least two consecutive years: (i) turnover no greater than €0.7 million; (ii) balance sheet total no greater than €0.35 million; and (iii) an average of 10 or fewer employees. Certain 'ineligible entities' do not qualify as micro companies, even if they meet the qualifying conditions (e.g. credit institutions, insurance undertakings, public interest entities, investment undertakings, certain holding companies, fully consolidated subsidiaries, etc.).

The financial statements of a qualifying entity adopting **Section 1A of FRS 102** will be entitled to avail of a **reduced level of disclosures**, limited to those required by law, while using the recognition and measurement bases of FRS 102. The disclosures **must be sufficient to give a true and fair view** of the assets, liabilities, financial position and profit or loss of the entity for the reporting period. Extensive guidance is provided for directors on the additional disclosure(s) that may be needed to meet this requirement. In addition, a small company is **permitted to file abridged financial statements** with the Companies Registration Office (**CRO**).

In the Republic of Ireland, **Section 1A, FRS 102 applies to financial reporting periods beginning on or after 1 January 2017** but can be adopted in respect of financial years beginning on or after 1 January 2015. In the UK**,** Section 1A, FRS 102 is effective for financial reporting periods beginning on or after 1 January 2016, with early application permitted for financial reporting periods beginning on or after 1 January 2015.

The **FRSSE** was **withdrawn** with effect from **accounting periods beginning on or after 1 January 2016**.

FRS 103 Insurance contracts

FRS 103 sets out the accounting requirements for entities that apply FRS 102 and: (i) issue insurance contracts, including reinsurance contracts; (ii) hold reinsurance contracts; and/or (iii) issue financial instruments with discretionary participation features. FRS 103 largely incorporates the requirements of the equivalent IFRS standard (IFRS 4) and the former GAAP standards (FRS 27 and elements of the insurance sector SORP issued by the Association of British Insurers; as a result, this SORP was withdrawn with effect from 1 January 2015).

FRS 104 Interim financial reporting

FRS 104 is based on the equivalent IFRS standard (IAS 34). From an Irish perspective, FRS 104 is obligatory for Irish issuers which do not apply IFRS and which are required by the Transparency Regulations 2007 to prepare interim/half yearly financial reports. In the Republic of Ireland, this primarily affects funds and debt issuers.

FRS 105: The Financial Reporting Standard applicable to the micro-entities regime

The FRC published this standard to comply with the requirements of an EU Directive concerning, inter alia, '**micro entities**'. FRS 105 may only be applied by those entities qualifying as micro entities which choose to avail of the micro companies regime (as defined above). Accounts of a micro entity prepared in accordance with FRS 105 and which include the minimum accounting items required by the micro entities regime are presumed in law to show a true and fair view of the micro entity's financial position and profit or loss.

FRS 105 is based on FRS 102 but it has been adapted significantly to satisfy the legal requirements and to reflect the simpler nature and smaller size of micro entities. Some of the most significant differences between FRS 105 and FRS 102 are:

- Micro entities are only required to prepare a balance sheet and profit and loss account and are **not required to present the other primary statements** required for larger companies (for example, a directors' report).
- Similarly, micro entities' accounts are **only required to provide very limited disclosures at the foot of the balance sheet** ('minimum accounting items') and are presumed to give a true and fair view by doing so. 'Minimum accounting items' include details of any advances, credit and guarantees with directors (companies only) and details of any financial commitments, guarantees and contingencies. Details of directors' remuneration are not required.
- If **information additional to the minimum** is being disclosed, the entity must follow the requirements of the relevant standard.
- **No assets can be measured at fair value or a revalued amount**.
- **No accounting for deferred tax or equity-settled share-based payments**.
- All the **accounting policy choices** set out in FRS 102 are **removed**, e.g. borrowing costs and development costs must be expensed.
- **Other simplifications**, including those in areas such as post-employment benefit plans, financial instruments and foreign currency transactions.

In addition, a micro company is permitted to file abridged financial statements with the CRO.

In the Republic of Ireland, FRS 105 **applies to financial reporting periods beginning on or after 1 January 2017** but can be adopted in respect of financial years beginning on or after 1 January 2015. In the UK, FRS 105 is effective for financial reporting periods beginning on or after 1 January 2016, with early application permitted for accounting periods beginning on or after 1 January 2015.

2017 Triennial Review

In December 2017, the FRC amended the current UK and Irish GAAP standards following their 2017 triennial review. It is beyond the scope of this Tax and Duty Manual to consider the 2017 triennial amendments. However, it should be noted that they apply for financial reporting accounting periods beginning on or after 1 January 2019 (although early application is permitted, provided that all the amendments are applied at the same time).

Appendix 4: European Union (EU) Endorsement Process

Regulation (EC) No 1606/2002 establishes a specific endorsement process for International Financial Reporting Standards (**IFRS**) under the responsibility of the European Commission together with the following consultative and advisory organisations:

- European Financial Reporting Advisory Group (**EFRAG**), an independent organisation providing expert advice to the Commission; and
- Accounting Regulatory Committee (**ARC**), composed of representatives of EU countries and chaired by the European Commission.

The endorsement process involves the following steps:

1. The International Accounting Standards Board (**IASB**) adopts a new standard, an amendment to an existing standard or an interpretation of a standard.
2. The EFRAG provides its advice to the European Commission on endorsement.
3. If the European Commission decides to endorse the new standard, interpretation or amendment, it prepares a draft regulation and submits it to the ARC.
4. If the ARC's opinion is positive, the European Commission submits the draft regulation to the European Parliament and the European Council for a 3-month scrutiny period.
5. If there are no objections from the European Parliament or the European Council, the European Commission adopts the endorsing regulation.

Every time a new standard, an amendment to an existing standard or an interpretation of a standard is endorsed at European Union (**EU**) level in this manner, the Commission publishes an amending regulation which is directly applicable in all EU countries. The EFRAG also publishes a status report listing all IFRS, amendments to IFRSs and IFRS interpretations endorsed in the EU.

Appendix 5: Important Accounting Definitions in TCA 1997

Section 4 TCA 1997 defines key terms as follows:

- **accounting date**: the date to which a company makes up its accounts.
- **period of account**: the period for which a company makes up its accounts[8].
- **financial year**: the year beginning on the 1st day of January.
- **generally accepted accounting practice**:
  - in relation to the affairs of a company or other entity that prepares accounts (in this section referred to as "IAS accounts") in accordance with international accounting standards, generally accepted accounting practice with respect to such accounts;
  - in any other case, Irish generally accepted accounting practice.
- **international accounting standards**: the international accounting standards, within the meaning of Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002 on the application of international accounting standards (in this section referred to as "the Regulation"). For the purposes of this section, where the European Commission in accordance with the Regulation adopts an international accounting standard with modifications, then as regards matters covered by that standard: (i) generally accepted accounting practice with respect to IAS accounts shall be regarded as permitting the use of the standard either with or without the modifications, and (ii) accounts prepared on either basis shall be regarded as prepared in accordance with international accounting standards. [Note: this definition essentially means IFRS.]
- **Irish generally accepted accounting practice**: generally accepted accounting practice with respect to accounts (other than IAS accounts) of companies incorporated or formed under the laws of the State, being accounts that are intended to give a true and fair view.
- **profits**: income and chargeable gains.
- **profits brought into charge to corporation tax**: the amount of those profits chargeable to corporation tax before any deduction from those profits for charges on income, expenses of management or other amounts which can be deducted from or set against or treated as reducing profits of more than one description.
- **total income brought into charge to corporation tax**: the amount, calculated before any deduction for charges on income, expenses of management or other amounts which can be deducted from or set against or treated as reducing profits of more than one description, of the total income from all sources included in any profits brought into charge to corporation tax.

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[8] For Irish incorporated companies, section 288 of *The Companies Act 2014* governs the length of each 'financial year' (a company law term which corresponds to the TCA 1997 term 'period of account').

- **an amount of profits on which corporation tax falls finally to be borne**: the amount of those profits after making all deductions and giving all reliefs that for the purposes of corporation tax are made or given from or against those profits, including deductions and reliefs which under any provision are treated as reducing them for those purposes.

Section 26(3) TCA 1997[9] provides that corporation tax for any financial year shall be charged on profits arising in that year; but **assessments to corporation tax shall be made on a company by reference to accounting periods** (see below), and the amount chargeable (after making all proper deductions) of the **profits arising in an accounting period shall where necessary be apportioned on a time basis** according to the respective lengths of the periods (section 4(6) TCA 1997 refers).

Amongst other things, **section 27 TCA 1997**[9] provides that:

1. **Corporation tax** shall be **assessed and charged for any accounting period** of a company on the full amount of the profits arising in that period.
2. An **accounting period begins**:
    a. when the company first comes within the charge to corporation tax; and
    b. after the end of the preceding accounting period (where the company is still within the charge to corporation tax).
3. An **accounting period ends** on the earliest of:
    a. the **expiration of 12 months** from the beginning of the accounting period;
    b. the **accounting date** of the company or, if there is a period for which the company does not make up accounts, the end of that period;
    c. the company **beginning or ceasing to trade or to be within the charge to corporation tax**;
    d. the company **beginning or ceasing to be resident** in the State; and
    e. the company **ceasing to be within the charge to corporation tax**.

[9] See Tax and Duty Manual Part 02-02-05 for further details.