

When are prepaid costs deductible?

In general costs are deductible in the year which they are made or borne. Due to the corporate law reform this will change for expenses actually relating to another financial year.

Accounting: the matching principle

The matching principle is an important accounting principle. This means that costs are allocated to the year which they relate to. The tax rules derogated from this principle: for tax purposes costs are deductible in the year they were made. This is not always the same taxable period: imagine that a company in 2018 makes a payment for works which will be effectuated on the company building in 2019 - the costs are borne in 2018 (tax year 2019) but relate to 2019 (tax year 2020).

Tax rules again in line with accounting rules

The corporate law reform finishes the distinction between the accounting and tax treatment of prepaid costs for corporate tax. Also for tax purposes the matching principle will be applied as from tax year 2019 (financial years starting as from 1 January 2018). The legislator added a new article in the Royal Decree relating to the Income Tax Code. It states that expenses partially relating to a future taxable period are tax deductible in the taxable period in which they were paid and in the coming taxable periods, to the extent that these costs relate to that taxable period.

What does this mean? Imagine that a company pays 10.000 euro in 2018 for services which will be rendered half in 2018, and half in 2019. The company will be able to deduct 5.000 euro for tax year 2019 (financial year 2018) and 5.000 euro in tax year 2020 (financial year 2019). The company cannot deduct 10.000 euro at once in tax year 2019.

Which costs are concerned?

Mostly it concerns costs which relate to a period which does not coincide with the financial year:

- Interest
- Subscriptions
- Insurance premiums
- Road tax
- Rent

For personal income tax nothing changes

The new rules only apply to corporate tax. For personal income tax costs are still fully deductible in the year they were paid, even when they relate to another taxable period.