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Provision for future tax audit costs

The finance ministry has accepted as a precedent a Supreme Tax Court ruling allowing “large” businesses subject to regular tax audit to provide with tax effect for the costs to be incurred in assisting the tax auditors.

In June 2012, the Supreme Tax Court held that a “large” business could generally reckon with a future tax audit covering all open years and was therefore to be allowed to take up a provision in its accounts for its expected costs to be incurred in meeting its duties to support the tax auditors. The finance ministry has now issued a decree accepting this judgment as a precedent and calling for it to be followed in all open cases. The judgment and the decree are based on the premise that all open years will be audited by the authorities and therefore apply to businesses classified as “large”, that is, to businesses whose books and records for every year “should” be audited. A “large” business is defined by turnover or profit, the levels varying by activity. For example the 2013-15 annual levels for distributors are €7.3 m turnover or €280,000 profit and for manufacturers €4.3 m turnover or €250,000 profit. The costs to be provided are the direct costs of the business in meeting its obligations to support the tax auditors. These include legal and professional consultancy fees in this connection, but not the administrative expense of record retention, of preparing the annual accounts or of updating EDP systems to allow the tax auditors online access to data. The provision should include an appropriate allowance for general expenses, but must be discounted at 5.5% p.a. as a long term liability.

Keywords

tax audit, tax audit provision