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Mobile phone discount is prepaid expense

The Supreme Tax Court has confirmed its earlier case law to the effect that the discount given on the sale of a mobile phone with a two-year service contract is to be capitalised as a prepaid expense.

Many mobile phone companies offer phones for well below cost (some, indeed, for a purely nominal amount) to customers willing to accept a two-year service contract. The Supreme Tax Court has now confirmed its earlier ruling to the effect that the discount below the cost of the phone is to be seen as a cost of earning the service fees from the two-year contract. This follows – so the court – the view generally taken by society, that a customer accepts an expensive service contract as the price of a cheap phone. In consequence, the phone company making such a sale should capitalise the full amount of the discount as a prepaid expense to be charged back against income over the minimum life of the service contract – typically over two years.

Supreme Tax Court judgment I R 77/08 of May 15, 2013, published on August 14

Keywords

mobile phones, prepaid expense