



Provisions for the economic consequences of COVID-19

Accounting and tax treatment

In the preparation of the financial statements for the 2019 financial year, many companies are faced with the question of whether the economic consequences of COVID-19, which they will suffer in the 2020 financial year, can be taken into account in the 2019 financial statements by booking a special provision. Further, the question arises how such provision will be treated for tax purposes.

Accounting treatment

For accounting purposes, a distinction is made between (i) events occurring after the balance sheet date, the cause of which already existed at the balance sheet date, and (ii) those events whose triggering event occurred after the balance sheet date. If the cause of an event exists at the balance sheet date, the event should be recognized in the financial statements of the previous financial year if the enterprise receives additional information after the balance sheet date. If the triggering cause does not occur until after the balance sheet date, the event is generally not recorded in the annual financial statements, but is required to be disclosed in

the notes (Swiss Auditing Manual, Volume "Bookkeeping and Accounting" Edition 2014, IV.5.16.1).

EXPERTsuisse

According to EXPERTsuisse, the COVID-19 pandemic is a *non-adjusting event* after the balance sheet date, which is *not* required to be booked in the annual financial statements as of December 31, 2019. Notwithstanding the above, however, the voluntary booking of such provision should be possible: "*Irrespective of the fact that the events triggered by COVID-19 are events after the balance sheet date, it is quite conceivable, due to the extraordinary situation with presumably strong financial consequences for the companies, that, within the scope of the possibilities offered by the Swiss Code of Obligations, additional value adjustments or the creation of provisions could be made as instruments to ensure the long-term prosperity of the company within the meaning of Art. 960a para. 4 OR as well as Art. 960e para. 3 item 4 OR*" (EX-

PERTsuisse, Coronavirus - Implications for financial reporting according to OR, update of March 20, 2020). If the financial year corresponds to the calendar year, the auditors may possibly allow a provision for the economic consequences of COVID-19 in the financial statements as of December 31, 2019 if the above conditions are met. If the financial year does not correspond to the calendar year and ends e.g. in March 2020, a different assessment should be possible.

Tax law and administrative practice of the cantonal tax authorities

According to the principle of linkage between financial and tax accounting (*Massgeblichkeitsprinzip*), the commercial balance sheet forms the basis for determining the taxable profits. The basic prerequisite for a provision to be recognized by tax law is that it is recorded in accordance with commercial law. However, tax law provides for certain correction rules: If a provision is not commercially justified, the tax authorities can refuse to recognize it for tax purposes. This also applies in particular to provisions relating to other fiscal years than the one in scope. The tax authorities generally apply a strict periodicity principle (*Periodizitätsprinzip*). If the tax authorities deny the tax deduction for a provision, the tax balance sheet deviates from the commercial balance sheet. The non-recognition of provisions for tax purposes increases the taxable profit of the fiscal year in question and creates a taxed hidden reserve. If the enterprise reverses the provision in a later fiscal year resulting in income in the p&l statements, such income is not subject to tax. These principles are also relevant to the formation of a provision in the 2019 financial statements in connection with COVID-19.

Most tax administrations in Switzerland are of the opinion that the formation of a special provision for the economic consequences of the COVID-19 pandemic in the 2019 financial statements does not relate to the 2019 period (*periodenfremd*) and is therefore not accepted for income tax purposes.

However, certain cantons such as Aargau, Thurgau, Zug and Valais accept the formation of a "Corona special provision" in the 2019 annual financial statements. They apply different requirements:

Zug: The Canton of Zug accepts a provision for tax purposes in the financial statements up to a maximum of 50% of the income (excluding extraordinary factors such as capital gains on disposals and revaluation gains), but not exceeding CHF 500,000. The extraordinary provision created in 2019 must be reversed in the 2020 financial statements.

Thurgau: The provision recognised for tax purposes in the 2019 financial statements may not exceed 25% of the profit reported for the 2019 financial year before deduction of the provision, but may not exceed CHF 1 million.

Valais: All companies based in the canton of Valais that suffer directly or indirectly from the negative consequences of COVID-19 may form an extraordinary provision for the 2019 financial year. There is no statement regarding the maximum amount of this provision. Like in the Canton of Zug, such provision has to be reversed in the 2020 financial year.

Aargau: The canton of Aargau allows a special provision in the 2019 financial year up to 25% of the taxable income in 2019 (before tax and deduction of the provision) and a maximum amount of CHF 250,000. Like in the Canton of Zug, the special provision is to be reversed in the 2020 annual financial statements. Aargau is so far the only canton which states in its directive that the special provision is only permissible for cantonal and communal taxes, but not for the federal income taxes and for social security contributions of self-employed individuals.

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Thus, most cantons are currently not prepared to accept a "Corona special provision" for tax purposes. The Canton of Schwyz, for example, explicitly made this statement public on its webpage.

We will monitor the developments and update this Bulletin as soon as other tax administrations have published a position on this topic.

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