August Decree conversion: possibility to suspend 2020 amortisations and depreciations

Focus on

Art. 60, para. from 7-bis to 7-quinquies of Law Decree n. 104 dated 14 August 2020 (so-called August Decree) - converted by Law 126/2020 - introduced the possibility for companies drawing up their Financial Statements based on Italian accounting principles to suspend wholly or in part the obligation deriving from reporting depreciation and amortisation charges in the Income Statement.

Specifically, ITA GAAP adopters will have the possibility - as concerns only their Financial Statements for the FY underway when the Decree entered into force (e.g. in the 2020 Financial Statements for those companies whose FY coincides with the calendar year) - to reduce up to 100% the cost deriving from the yearly amortisation and depreciation charges referable to both tangible and intangible assets, also as a departure from the specific statutory provisions (art. 2426, para. 2 of the Italian Civil Code).

By choosing to apply this option, the charge not reported in the Income Statement will determine an extension of the original amortisation/depreciation plan for a period equal to the duration of the suspension, i.e. one year, as things stay today. This measure might actually be extended by a specific Decree by the Ministry of economics and finance, depending on the evolution of the COVID-19 pandemic emergency.

Therefore, by way of example, the amortisations/depreciations relevant to the 2020 Financial Statements will be reported in the Income Statement for FY 2021, thus leading to a cascading effect on the remaining amortisation/depreciation charges.

Please refer to the chart below for a practical example.

Obligations deriving from the suspension

Companies availing themselves of the possibility not to amortise/depreciate assets will have to allocate to a restricted reserve a portion of profits corresponding to the amortisation/depreciation not carried out thanks to the suspension (following the same logical criterion applicable to the case of profits reported but not yet attained).

Should the profit for the FY not be sufficient for the purpose above, the reserve will have to be integrated by drawing from other unrestricted revenue or equity reserves or, when lacking those, by setting aside profits of future FYs.

The option above also implies the obligation - for the Board of Directors - to disclose specific information in the Notes to the Financial Statements. In particular:

- the reason for the extension (e.g. non-use of the assets)
- the creation of the restricted reserve and the relevant amount
- the effects of the extension on the assets and financial situation, as well as on the result for the FY.

Tax aspects

An interesting aspect is represented by the possibility to keep on deducting the cost of suspended amortisations/depreciations both for IRAP (regional production tax) and IRES (corporate income tax purposes - always within the limits provided for the relevant regulations - though not directly reported in the Income Statement.

Therefore, such possible misalignments will determine off-the-books reductions and the reporting of the relevant deferred tax liabilities which will be duly recovered, ceteris paribus, in the last FY of statutory amortisation/ depreciation.

Explanatory chart:

Asset's value: 100 – Useful life: 5 FYs

Asset's value for tax purposes: 100 – deduction of amortisations/depreciations: 5 FYs

FY	2019	2020	2021	2022	2023	2024
Statutory amortisation/ depreciation	20	-	20	20	20	20
Tax amortisation/ depreciation	20	20	20	20	20	-

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