

# Assessing inter-company transactions and accounting implications during economic uncertainty

Federico Vincenti and Carola Valente of Valente Associati GEB Partners/Crowe Valente look out how businesses are seeking to stay strong through periods of economic turmoil by adapting their financial actions and reporting obligations.



Sponsored by



By **Carola Valente**



By **Federico Vincenti**

April 27 2020

## Inter-company financial transactions

During periods of crisis, the financial sector may experience significant repercussions on transactions. The disruption to normal activity leads to a lack of liquidity and extra limits on external financing, potentially making financial transactions unprofitable.

Hence, in this context, multinational companies are increasingly using centralised treasury techniques in order to optimise and rationalise their financial function.

One of the areas of particular concern to tax authorities is in regard to inter-company financing. In particular, where it relates to an intra-group loan, which is considered to comply with the principles of free competition whenever the interest rate applied is equal to the one that would have been applied between independent parties.

When the financial markets are stable, the determination of the arm's-length interest rate can be straightforward. Such determination, on the other hand, can be complex in periods of financial turbulence as, generally, during such periods, the benchmark rates are subject to decline.

Indeed, some countries specify that if interest rates fall within a predetermined range, the taxpayer will not have to justify the interest rate chosen. These are commonly referred to as safe harbours.

Safe harbours consist of provisions that apply to certain categories of taxpayers, for example, to specific transactions or types of negotiations. These may concern technical rules for determining the appropriate transfer pricing (TP), a range of values within which this price may vary, or the documentation to be submitted to the tax authorities to justify the application of a certain value to an intra-group transaction.

In this way, taxpayers who benefit from the safe harbour will, on the one hand, be exempted from compliance with the ordinary TP regulations in a given country, and on the other hand, be subject to specific requirements, according to which the transfer prices identified are automatically accepted by tax authorities.

## Accounting implications

Businesses should consider the accounting implications brought by the COVID-19 outbreak and assess whether or not this event can be considered as an 'adjusting or non-adjusting event', with respect to the closing date of financial statements of December 31 2019, and whether this can be considered as an event that authorises businesses to amend their financial statements.

Specifically, IAS/IFRS 10, that is the discipline of international accounting standards, defines the circumstances in which an economic entity may make adjustments to its financial statements as a result of a distinguishing event that occurred after the period covered by the financial statements.

Adjustments may be made to the financial statements when positive or negative events occur between the financial statement's date and the date when the financial statements are authorised for publication.

The events in question are defined as follows:

- a) Events that are indicative of situations that existed during the period to which the financial statement refers to and that require an adjustment;
- b) Events that are indicative of situations that arose after the period to which the financial statement refers to and that do not require an adjustment.

In respect to the consideration that sees the coronavirus pandemic as an event that can lead to potential adjustments, there has been conflicting opinions. As such, the prevailing opinion is that this event will not lead to adjustments of financial statements because there were few cases of COVID-19 recognised by the WHO as of December 31 2019.

For the reporting dates after December 31 2019, on the other hand, it is possible that the event will be considered as a subsequent fact, which may lead to adjustments.

### Federico Vincenti

T: +39 02 762 6131

E: [f.vincenti@crowevalente.it](mailto:f.vincenti@crowevalente.it)

### Carola Valente

T: +39 02 762 6131

E: [c.valente@crowevalente.it](mailto:c.valente@crowevalente.it)