Taxation of assets on termination of business

Upon termination of business, sole proprietors may either transfer the property used in business or it is deemed to be taken into personal use.

TAXATION OF GAINS RECEIVED FROM TRANSFER OF BUSINESS ASSETS

If a sole proprietor transfers business assets the acquisition cost of which has been entered in business expenses in part or fully, the sales price of the assets (or the market price of other assets received by means of exchange of assets) is considered business income and is subject to taxation.

Example
A sole proprietor sold a drill acquired for business for 192 euros, which was bought in 2010 for 3500 kroons (223.69 euros). The purchase price was entered in the business expenses. The sole proprietor enters the amount received from the sale (192 euros) in the business income (in line 1.1.4 of Form E).

Had the acquisition cost been entered in the expenses in part, the income from the transfer of the asset should be indicated in the sole proprietor's income i.e. the income from sale in the same proportion as the acquisition cost entered in the expenses.

Example
A sole proprietor acquired a smoke oven for 1278 euros. Intending to use it for own personal consumption as well, the proportion of the use in business was determined as 75 per cent, so 75 per cent (958.50 euros) of the acquisition cost was entered in the expenses related to business.
The smokehouse was then sold for 1182 euros. 75 per cent of the sales income received (in the same proportion as used on purchasing), i.e. 886.50 euros (1182 x 75 ÷ 100) was added to the business income.

Likewise, pursuant to **sections 48 and 49 of the Income Tax Act**, sole proprietors may increase the acquisition cost of the taxed property by the amount subject to income tax during the taxable period when the property is transferred or taken in personal use.

Example
A sole proprietor buys a printing press for a market price, i.e. 15 000 euros from a legal person, paying 5 000 euros. The company has paid 20/80 income tax on the remaining 10 000 euros. Later, the sole proprietor decides to sell this property for 30 000 euros. The taxable income upon transfer or taking for personal use of the property is found as follows:
on the acquisition of the asset, the sole proprietor entered 5 000 euros in the business-related expenses. In the case of transfer of the asset (or upon taking in personal use), the selling/market price would be decreased by 10 000 euros and 20 000 euros (30 000 – 10 000) would be entered in the expenses related to business.

TAKING ASSETS INTO USE FOR PERSONAL CONSUMPTION

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If a sole proprietor takes into personal use the assets used previously in business and the acquisition cost has been indicated as expenses related to business whether partly or in full, this is equated with the transfer of property and the market price of the assets is declared as the business income.

In the event of later transfer of assets taken for personal consumption, the gain is taxed in accordance with the general procedure and the acquisition cost of the assets is the amount added to business income.

More information: "**Taxation of personal consumption of business assets while being engaged in business** ".

The transfer or bequeathing of the property belonging to business assets to a person who continues the business's activities is not regarded as personal consumption. (subsection 37 (7) of the Income Tax Act).

More information: Chapter XI "**Transfer or bequeath of business assets to a person who continues the business activities of the sole proprietor**".

DESTROYED ASSETS

The write-off of destroyed and lost assets entered in business expenses is necessary in order to prevent such assets from being considered to have been taken for personal consumption at the time of termination of the business and the market price of the property should not be added to business income.

The write-off of assets in business must be carried out only on the basis of the documentation prepared pursuant to the rules concerning organisation of accounting and the provisions of other legislation.

Whereas in the case of cash based accounting, there are no accounting policies and procedures establishing the procedure of writing-off of assets, the sole proprietor has to make an act or a certified statement on the writing-off of the destroyed or lost assets. The act or statement must contain the type of assets and their full name, acquisition time and acquisition cost entered in business expenses, information about the destruction or loss of the assets, the reason, etc. Where possible, the confirmation of the relevant authorities on the destruction or loss of the assets should be appended to the act or statement.