

When can you choose the exception of the consolidated group for financial accounting purposes in the taxation of the surplus borrowing costs (subsections 8 and 9 of § 54² of the Income Tax Act)

A resident company that is a member of a consolidated group for financial accounting purposes **may choose** that its excess borrowing cost is not taxed if it demonstrates that its equity-to-total assets ratio is equal to or greater than the equity-to-total assets ratio of the group, except financial undertakings belonging to the group, and if the following conditions are met:

1. the equity-to-total assets ratio of a resident company is considered to be equal to the equity and total assets ratio if the ratio of the equity of the resident company to the total assets is less than two percentage points below the group;
2. all assets and liabilities are valued with the same method as in the consolidated financial statements prepared in accordance with International Financial Reporting Standards or the financial reporting framework of a Member State of the European Union. (**Subsection 8 of § 54² of the Income Tax Act**)

A resident company that is a member of a consolidated group for financial accounting purposes may rely on a ceiling on excess borrowing costs higher than that provided for in **subsection 1 of § 54² of the Income Tax Act**. The higher residual borrowing cost limit is calculated in two stages:

1. the ratio is calculated by dividing the borrowing costs of the group incurred relating to third parties, with the exception of the financial undertakings of the group and the borrowing costs specified in clause 2 of subsection 1, by the pre-depreciation profit of the group, excluding financial undertakings belonging to the group;
2. the ratio obtained is multiplied by the pre-depreciation profit of the resident company. (**Subsection 9 of § 54² of the Income Tax Act**)

Last updated on 08.01.2025