Grant Thornton
Société d'Avocats

ATAD 1 – Limitation of deductibility of net financial expenses

The reflexes to adopt for your tax computation

If you are a single company or **member of a tax group with more than €1m** of net financial expenses, you may ask yourself if your company or group is subject to the limitation of deductibility of financial expenses. **Here are some good reflexes to adopt for your tax computation.**

Limitation of net financial expenses: are you concerned?

- Your **net financial expenses exceed €1m**.
  - ✓ Interest or similar income and expenses.
  - ✓ Exclusion of dividends.
  - ✓ Certain points of attention: exchange gains and losses on interest, swaps, loan issuance costs, property leasing, non-conversion premium, etc.
  - ✓ In the case of a tax group, financial expenses are calculated by aggregating the financial expenses of member companies

- Do you have **debts owed to related companies?**
  - ✓ Debt towards related companies may limit your ability to deduct (€1m or 10% of tax EBIDTA instead of €3m or 30% of tax EBITDA).
  - ✓ Being part of a tax group may allow you to limit this impact (information required at the level of the ultimate consolidating Company).

- Is your **tax EBITDA** less than €10m?
  - ✓ Tax EBITDA corresponds to taxable income (individual or tax group) plus net financial expenses, adjusted by tax losses, net amortization and net provisions for depreciation, etc.
  - ✓ When your tax EBITDA is greater than €10m, it may allow you to increase the ceiling of deductibility.

- Is your **sub level consolidation** within the limits of the tax group ready?
  - ✓ It is necessary to determine the group's equity by performing a sub-level consolidation within the limits of the tax consolidation.
  - ✓ The sub-level consolidation may allow you:
    - to avoid application of the lower ceilings applicable in the event of thin-capitalization;
    - to maximize the deduction of net financial expenses

The need for an annual calculation of net financial expenses, regardless of your situation.

- Non deductible net financial expenses can be carried forward indefinitely and can therefore be deducted in subsequent years when the deduction ceiling is not reached. These expenses now constitute temporary differences that may give rise to the recognition of deferred tax assets in the consolidated financial statements.
- New deduction opportunities: deferred interest (under the former thin capitalization rules) is added to the financial expenses added back under the new scheme (without application of the 5% annual discount).
- In the absence of non deductible net financial expenses, the company or tax group benefits from an additional deduction facility to be used over a period of 5 years, known as the "unused deduction capacity”.

With strong expertise in taxation and consolidation, our firm is at your disposal to assist you in the application of these measures and for any further information you may require.

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