

# New Elements in Tax Treatment of Write-off of Accounts Receivable

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Amendments to the Law on Corporate Income Tax were adopted at the end of 2015, and came into force on January 1 2016. Among other things, these amendments introduced new cases in which the write-off of accounts receivable is recognized in corporate tax balance sheets.

The basic rule, which has not been changed, specifies that a write-off of individual accounts receivable will be recognized if: 1) the receivable has been written off in the taxpayer's books as uncollectible; and 2) the taxpayer provides proof that a lawsuit for collection of the receivable has been brought (except if the costs of bringing the lawsuit against relevant debtor exceed the value of the receivable owed by relevant debtor), i.e. that an enforcement procedure for collection of the receivable has been initiated, or that the receivable has been reported in the liquidation or bankruptcy procedure of the debtor. If the relevant receivable is expressed as income, in accordance with the regulations governing accounting practice, i.e. in accordance with IAS, or IFRS and IFRS for SMEs, the taxpayer is additionally required to prove that the relevant receivable was previously included as income. This rule is not applied to receivables from parties to whom accounts payable are owed.

Apart from this basic rule, the regulations so far also recognized write-off of accounts receivable included in financial restructuring, carried out in the manner specified by the law governing consensual financial restructuring of companies.

The amendments introduce three new cases in which write-off will be recognized. The first case is applicable to receivables included in an adopted, previously prepared reorganization plan, confirmed by a final decision rendered in accordance with the law governing bankruptcy.

The second and third cases are applicable only to banks, and constitute amendments of the Law on Corporate Income Tax provided for by the Action Plan for implementing the NPL Resolution Strategy adopted by the Serbian Government in August 2015.

Thus write-off of individual receivables on the ground of loans approved to unrelated parties will be recognized from now on as expenditures provided that at least two years have passed since the receivable became due for payment, and that documents are provided which prove that the debtor is unable to settle his financial liabilities. The amendments expressly mention documents from the debtor's credit file relating to settling the debtor's liabilities towards the bank during the last twelve months, and letters and other documents showing the communication between the bank and the debtor with regard to collection of the debt, and the measures the bank took towards the collection; however these documents specified by

the law are merely an example – other documents can be provided as proof of the debtor’s inability to settle his financial liabilities.

Moreover, write-off of the remainders of individual receivables which the bank was unable to collect from sale proceeds of real estate, conducted in compliance with the law, will also be recognized as expenditures.

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