Mini Credit Loss Management

By means of its answer to interpello no. 342 of 21 May 2021, the Agenzia delle Entrate once again deals with the deductibility, for IRES purposes, of losses on small amounts of credits overdue for more than six months (so-called Mini Credits).

In its reply, the Revenue Agency analyses the effects of the statutory write-down, and consequent tax deduction, of "small credits" in the year in which the quantitative and temporal criteria provided for by Article 101, paragraph 5, of the TUIR are met.

The petition was raised by a company that offers services to thousands of users and that, at the end of the financial year, finds itself with a considerable number of overdue credit positions, in most cases for insignificant amounts.

Mini Credits are defined as credits not exceeding:
- EUR 5,000, for larger companies (i.e. those with a turnover or revenue of not less than EUR 100,000,000);
- EUR 2,500 for other companies.

The Italian Revenue Agency had already specified that the loss relating to a "mini-credit" expired by more than six months and not yet collected as at 31 December 2020, is deductible in the tax year 2020 by necessarily entering the negative component in the income statement, without having to justify the existence of the elements "certain and precise" (such as, for example, the persistent absence of the debtor, the documents certifying the negative outcome of enforcement actions, etc.). This loss is deductible even if the impairment cost is recognised in the income statement.

As regards the year of deductibility, in order to solve the management problems arising from the transformation of write-downs into losses, the taxpayer is allowed to postpone the deduction, as losses, of the write-downs related to the so-called "mini-credits" at the time of the elimination of the credit itself from the financial statements.

Consequently, as reiterated by the answer No. 342/2021, in the presence of "analytical" or "lump-sum" accounting write-downs, it is up to the creditor company to choose the year in which to deduct the negative component, with the only limitation of meeting the minimum requirements to allow its fiscal relevance (namely, the occurrence of the expiry of the payment deadline by more than six months).

Consequently, "mini-credits" that are fully written down and whose write-downs have been deducted as a loss in a prior period will be irrelevant for tax purposes. The same rationale is used in the case of impairment provisions relating to the same receivables.

It should be noted that if, prior to derecognition, all or part of the "mini-credits" whose impairment has been deducted as a loss are collected, there will be a taxable windfall equal to the amount collected.

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