

Accounting Standards: Transitional Measures When Companies No Longer Prepare their Accounts in Accordance with Former Irish Generally Accepted Accounting Practice

Schedule 17A

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This document should be read in conjunction with section 76A and Schedule 17A of the Taxes Consolidation Act, 1997 as well as [Tax and Duty Manual \(TDM\) Part 04-05-03a](#).

Note: as explained herein, Schedule 17A of the Taxes Consolidation Act, 1997 applied when a company changed from 'former generally accepted accounting practice in the United Kingdom and Ireland' (GAAP) to either 'International Financial Reporting Standards' (IFRS) or 'current GAAP'. However, as companies are not permitted to use former GAAP for financial reporting periods commencing on or after 1 January 2015 (and hence cannot transition from former GAAP after that date), Schedule 17A TCA 1997 is now effectively obsolete (except to the extent that companies are still 'spreading' the 'transitional adjustments' which arose when they changed from former GAAP to either IFRS or current GAAP).

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1. Executive summary

Section 76A of the Taxes Consolidation Act, 1997 (**TCA 1997**) sets out the rules for **computing the profits/gains or losses of a trade or profession carried on by a company** for the purposes of Case I or II of Schedule D. Subsection 2 of that section provides that **Schedule 17A TCA 1997** must be applied when a company **changes from** 'former generally accepted accounting practice in the United Kingdom and Ireland' (**GAAP**) to either '**current GAAP**' or 'International Financial Reporting Standards' (**IFRS**). These terms are explained briefly below and discussed further in [TDM Part 04-05-03a](#).

Financial statements of Irish incorporated companies are subject to both the requirements of the applicable '**accounting framework**' (being the framework of accounting rules set out in '**accounting standards**' which a company uses to prepare its accounts) **and** Irish company law. The main accounting frameworks in use in Ireland are:

- (i) European Union-endorsed IFRS; and
- (ii) GAAP.

In general, companies **can choose to apply either IFRS or GAAP** when preparing their individual entity financial statements. As a result of efforts to converge GAAP with IFRS and to simplify the accounting rules for unlisted companies, **current GAAP** (FRS 100 to FRS 105) was **introduced to replace former GAAP** (FRSs, SSAPs, etc.) with effect **for financial reporting periods commencing on or after 1 January 2015**.

Section 76A(2) TCA 1997 provides that **Schedule 17A TCA 1997** shall apply to **changes from former GAAP** to **either IFRS or current GAAP**. Schedule 17A TCA 1997 legislated for the principle that **no taxable income or deductible expenditure should be double counted or fall out of the charge to tax** because of a change of accounting framework from former GAAP to either IFRS or current GAAP.

Schedule 17A TCA 1997 requires companies to calculate a '**transitional adjustment**' and provides that the transitional adjustment is to be taxed or deducted, as the case may be, over a five-year period following the transition; this is commonly referred to as '**spreading**'.

Further additional rules apply to the computation of the allowable Case I/II deduction for **bad and doubtful debts** and to the tax treatment of **gains and losses on financial instruments** (where such gains or loss form part of the profits or gains or losses of a trade or profession carried on by a company for the purposes of Case I or II of Schedule D). Comprehensive guidance on the application of the Schedule 17A TCA 1997 can be found in the current version of [Notes for Guidance](#) for TCA 1997.

As companies are no longer permitted to use former GAAP and hence cannot transition from former GAAP to either IFRS or current GAAP, **Schedule 17A TCA 1997 is now effectively obsolete** (except to the extent that companies are still 'spreading' the 'transitional adjustments' which arose when they changed from former GAAP to either IFRS or current GAAP).

Instead, section 22 of **Finance Act 2017** inserted **subsection 4 of section 76A TCA 1997** to extend the principles enacted in Schedule 17A TCA 1997 to changes of accounting framework involving a change from IFRS to current GAAP or conversely from current GAAP to IFRS. See [TDM Part 04-05-03a](#) for further details.

2. Schedule 17A TCA 1997

2.1 Notes for Guidance

Comprehensive guidance on the application of the Schedule 17A TCA 1997 can be found in the current version of [Notes for Guidance](#) for TCA 1997 while summary guidance is included below.

2.2 Finance Act 2005

Schedule 17A TCA 1997 was inserted by Finance Act 2005 and legislated for the principle that **no taxable income or deductible expenditure should be double counted or fall out of the charge to tax** because of the change of accounting framework from former GAAP to IFRS.

Schedule 17A TCA 1997 also contains specific rules for **bad debts and bad debts provisions** to ensure that, where a debt is written off against a provision that has not been deducted for tax purposes, the write-off of the debt will be deductible for tax purposes.

Additional rules apply to the tax treatment of **gains and losses on financial instruments** (where such gains or loss form part of the profits or gains or losses of a trade or profession carried on by a company for the purposes of Case I or II of Schedule D).

2.3 'Transitional adjustment'

When a company changes accounting framework, it is required to apply the new accounting rules 'retrospectively', meaning that the opening balances and prior period comparative figures in the financial statements are **restated** to what they would have been if the new accounting framework had always applied.

Retrospective application can give rise to large accounting adjustments to previously reported figures for profit or loss; these are commonly referred to as '**prior period adjustments**' (PPAs) or '**prior year adjustments**' (PYAs). PPAs represent the **difference between:**

- (i) the **accounting profit as originally** reported and **taxed; and**
- (ii) the **restated accounting profit.**

Schedule 17A TCA 1997 requires companies to calculate a '**transitional adjustment**'.

The 'transitional adjustment' is essentially the PPA adjusted to ensure that no taxable income or deductible expenditure is double counted or falls out of the **charge to tax** because of the change of accounting framework from former GAAP to IFRS.

2.4 'Spreading'

Schedule 17A TCA 1997 provides that the 'transitional adjustment' is to be taxed or deducted, as the case may be, over a five-year period following the transition. This is commonly referred to as '**spreading**'. This ensures that the large PPAs due to the change of accounting framework (as adjusted to avoid double taxation or double deductions) would be spread over five years to avoid volatility in corporation tax payments (which is undesirable for both individual companies and the Exchequer).

2.5 Finance Act 2014 amendment

Schedule 17A TCA 1997 was subsequently amended by Finance Act 2014 to extend the rules to a change in accounting framework **from former GAAP to current GAAP**.

Schedule 17A TCA 1997 therefore applies to transitions from former GAAP to either IFRS or current GAAP. While substantial elements of current GAAP continue to reflect former GAAP and hence will not give rise to PPAs and 'transitional adjustments', current GAAP does contain elements that embody IFRS and so will give rise to PPAs and 'transitional adjustments' which came within the scope of Schedule 17A TCA 1997.

2.6 Finance Act 2017: insertion of section 76A(4) TCA 1997

Companies are no longer permitted to use former GAAP and hence cannot transition from former GAAP to either IFRS or current GAAP, therefore **Schedule 17A TCA 1997 is now effectively obsolete** (except to the extent that companies are still 'spreading' the 'transitional adjustments' which arose when they changed from former GAAP to either IFRS or current GAAP).

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