Expenses carried forward

If the total amount of the deductions allowed (specified in **subsections 32 (1)–(3) of the Income Tax Act**) exceeds the business income derived by a taxpayer during a period of taxation, the amount by which expenses exceed business income (hereinafter expenses carried forward) may be deducted from business income during up to ten subsequent periods of taxationt (**§ 35 of the Income Tax Act**).

The period of carrying forward the expenses was extended from seven years to ten years beginning from the year 2018. The changeover to ten years takes place step by step:

- ✓ the expenses exceeding the income in 2018 may be carried forward up to 8 years,
- ✓ the expenses exceeding the income in 2019 may be carried forward up to 9 years,
- ✓ the expenses exceeding the income in 2020 may be carried forward up to 10 years.

On adjusting the business income by social tax, the amount of the social tax exceeding the taxable business income is also carried forward to the following periods on the basis of the rules of loss to be carried forward.

Example
The income before adjustment by the social tax is 385 euros. The self-employed person's minimum obligation of the social tax per year is 1,861.20 euros. The loss arising from the adjustment by the social tax is 1,476.20 euros (385 – 1,861.20 = –1,476.20) may be carried forward to the following years.

If the expenses to be carried forward incur during more than one period of taxation, such expenses should be recorded in accounting documents on a yearly basis in the order in which they incur. The records on the expenses carried forward are kept in table 3 on Form E of the income tax return.

If the amount of the expenses carried forward exceeds the business income during a period of taxation, the expenses carried forward are deducted partly from the business income, and the remaining part (or the part not deducted) should be carried forward to the following periods of taxation.

Example
In 2017, the self-employed person earned income in the amount of 10,000 euros. During the same period of taxation, the self-employed person made expenses related to business in the amount of 12,000 euros. The self-employed person declares the expenses exceeding the business income in the amount of 2,000 euros in 2017 as the amount of expenses to be carried forward. In 2018, the same self-employed person earns income in the amount of 5,000 euros and makes expenses 4,500 euros.
The self-employed person covers partly, in the amount of 500 euros, by the total net gain from business the expenses carried forward in 2017 (500 euros).
The part of the expenses (1,500 euros) not deducted from the income will be carried forward to the next

period of taxation (for the year 2019). The total net gain of 2019 is 1,000 euros. With this amount, the self-employed person writes off the loss of 1,500 euros made and not yet used in 2017 by 1,000 euros, and the expenses in the amount of 500 euros, which have not been deducted from the income, are carried forward to the next taxable period, i.e. 2020.

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