Money in special account and loss carried forward

Attention should be paid to the transfer of the special account belonging among the sole proprietor's business assets and the losses carried forward.

SPECIAL ACCOUNT

Example 1
The special account is a part of the sole proprietor's business assets to be transferred to another person. The transferee opens a settlement account in own name with a credit institution, which is a resident of the contracting party to the EEA Agreement. In this case, money should be transferred within ten working days after the formalisation of the transfer of the enterprise at the latest. In this case, decrease in the amount in the special account is not considered the transferor's business income.

The decrease in the amount in the special account is not added to the business income upon the transfer of the special account to the person who will continue the business activities (**subsection 36 (7^1) of the Income Tax Act**).

Example 2
The sole proprietor Krista Karu keeps bees and has ten beehives. Krista has entered the acquisition cost of the beehives in her business expenses. In addition to the ten beehives, Krista has 1000 euros of the benefit received last year in her special account. In 2019, she decides to transfer her business to her son Kalle, who is interested in apiculture as well. Kalle has registered himself as a sole proprietor in the commercial register. Krista prepares a transfer contract on the assets used in business and the list of the assets transferred (ten beehives and other beekeeping supplies). In the contract, she indicates the amount transferred from the special account and submits Form E together with the annex by 30 April of the year following the transfer. The amount in the special account transferred must be declared both in Table 2 of Form E and in column A of the annex to Form E.

THE AMOUNTS CARRIED FORWARD OF EXPENSES EXCEEDING BUSINESS INCOME

As the second specification, the amount by which expenses exceed business income (hereinafter expenses carried forward) may be deducted from business income by the sole proprietor during seven, under certain conditions, up to ten subsequent periods of taxation (see "**Carrying forward of expenses exceeding business income**") in order to deduct these from the income derived in the future. These expenses carried forward may also be transferred by a sole proprietor upon the transfer of the business. The expenses carried forward are recorded in accounting documents of the transferee (in the case of a sole proprietor) on a yearly basis in the order in which they were incurred by the transferor.

Example 1
The transferor had declared the expenses carried forward in the years of 2014 and 2015. All these expenses carried forward must be declared by the transferee in column 5 of Table 3 on Form E in the lines of the corresponding years. Taking into account that the expenses of these years may be carried

forward during seven years, the expenses carried forward for the year 2014 may be used by the transferee as a deduction from its business income in the income tax return even for the year of 2021, but these expenses may not be carried forward to the subsequent period of taxation.

Example 2

The sole proprietor Artur Paas has declared the following amounts (hereinafter “the amount of loss carried forward”) in column 3 of Table 3 on Form E:
In 2015 – 500 euros
In 2016 – 50 euros
In 2020, he decides to terminate his business and transfer it to his son Mati, applying the tax exemption provided for in subsection 37 (7) of the Income Tax Act. All the expenses exceeding the business income for the previous years Artur may transfer to Mati, declaring these in column 4 of Table 3 on Form E (loss carryforwards transferred) in the line of the corresponding year when the part of the expenses not covered but exceeding the business income was incurred. Mati declares losses on 2020 Form E in Table 3 in the line of 2015 column 5 (loss carried forward received) 500 euros and in the line of 2016 50 euros.