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EXPERTISE

 March 2022

The provision for price increases

In the face of raw material inflation, companies can record a provision for price increases in their inventory (excluding work in progress) which is tax deductible under the following conditions:

- Where, for a given material or product, a price increase of more than %10 is recorded over a period not exceeding successive financial 2 years.
- Only the amount corresponding to the fraction of this increase exceeding %10 is deductible.

INSEE has estimated annual average inflation in France at 1.6% for 2021, the highest figure since 2018. According to the GAAP, provisions for price increases are regulated provisions. The consequences of this must be taken into account when drafting the notes to the accounts.

Which companies can make a provision for price increases?

Provisions for price increases can be made :

- On the one hand, by companies carrying out an industrial or commercial activity and subject to income tax on the basis of their actual profits (normal or simplified taxation system),

• And, on the other hand, by companies liable to corporation tax, whatever their form and the nature of their activity.

An enterprise may only make a provision for price increases at the end of a financial year in respect of a particular material, product or supply if the unit inventory value of that material, product or supply at the date of that financial year is more than %110 of its unit inventory value at the beginning of the previous financial year or at the beginning of the current financial year.

What are the relevant assets?

Because of their general nature, the provisions of the fourteenth paragraph of 5° of 1 of Article 39 of the General Tax Code (CGI) can be applied to all materials, products and supplies

in stock, whatever their nature and provided, of course, that their price has increased sufficiently.

Only inventories can give rise to provisions for price increases, and therefore work in progress is excluded. Where an enterprise has several establishments, the quantities of the same material or product or supply included in the stocks of these various establishments must be totalled.

How to calculate the annual provision for price increases?

Article 10 of Annex III to the CGI sets out the methods for calculating the maximum amount that can be credited to the "Provisions for price increases" account at the end of each financial year.

The provision for price increases is determined by each company on the basis of elements drawn from its own accounts and without any intervention from the Administration.

The system of provisions for price increases is therefore exclusively quantitative and does not involve the setting of price change indices by the Administration.

The maximum amount that may be charged to the "Provisions for price increases" account is determined, for each material, product or supply, at the close of each financial year, by multiplying the quantities of the said material, product or supply existing in stock at the **date of that closure by the difference between:**

1°) The unit inventory value of the material, product or supply on that date,

2°) A sum equal to 110% of its unit inventory value at the opening of the previous financial year or, if lower, of its unit inventory value at the opening of the current financial year.

A numerical example

Assumptions

- A company whose financial years coincide with the calendar year has 1 500 tones of material A in stock at the end of financial year N,
- The unit inventory values of this material are € 120 at the end of year N, € 100 at the end of year N-1 and € 70 at the end of year N-2,
- As the unit inventory value at the beginning of the year N (€100) is higher than that recorded at the beginning of the year N-1 (€70), the allocation to the "Provisions for price increases" account at the end of the year N must be calculated on the basis of the latter.

Calculation

This allocation amounts, in the chosen hypothesis, to:

$$1\,500 \times (120 - 70 \times 1.1) = 1\,500 \times (120 - 77) = € 64\,500.$$

If no provision for price increases was made in N1, the amount of the deductible provision for the year N is € 64 500.

If, because of matter A, an allocation of € 35,000 was made to the provision at the end of the financial year N-1, the allocation that could be made to the same account at the end of the financial year N is: € 64 500 - € 35 000 = € 29 500.

How should the provision for price increases be accounted for?

The provision for price increases is recorded as follows:

At the end of the financial year, the account 6873 "Allocation to regulated provisions (stocks)",

And the account 143 "Provisions for price increases" is credited.

At the latest at the end of the 6th year following the end of the financial year in which the provision was made, it must be reversed:

Account 143 "Provisions for price increases" is debited and account 7873 "Reversals of regulated provisions (stocks)" is credited.

What you need to know

Since there is no legal provision limiting it to the profit of each financial year, the provision for price increases may, in particular :

- **Be made or constituted, even when the results of the financial year before or after deduction, if any, of previous deficits, are in deficit,**
- To make a loss in a year that would otherwise have been a profit.

Warning

Some sectors are subject to specific rules. These include vehicle trading, furniture manufacturing and/or trading, gold jewellery trading, etc. In these cases, it is advisable to refer to the section on further details.

Documents to be attached to the income tax return

Companies must provide the tax department with all relevant information on the elements for calculating the provision for price increases.

In particular, they should indicate :

- **The quantities of each of the materials, products and supplies** existing at the end of the reporting period for which the enterprise intends to make a provision,
- **The unit inventory value of each of the items at the end of that financial year and its unit inventory values at the opening and closing of the previous financial year,**
- **The amount of the allocation to the "Provision" account that can be made at the end of the reporting period,**
- **The amount of staffing actually used,**
- And, if applicable, the amount of the previous endowment that has been brought back to the taxable profit.

Companies with a normal stock rotation period of more than three years must attach a note to the income tax return setting out the various elements used to determine this period.

To go further

Tax regulations: [Articles 10 nonies to 10 terdecies of the CGI.](#)

The administrative doctrine : [BOI-BIC-PROV-60-3](#)



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