

Ministries Debate 'Modernization' Tax

By [Dmitry Kazmin](#)

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The Finance Ministry hopes to raise revenue by taxing new equipment, as well as stolen or lost goods, but the Economic Development Ministry fears that the changes could interfere with modernization efforts.

When adding equipment to its balance sheet or purchasing goods, a company gets a deduction for the 18 percent in value-added tax paid to the supplier. The Tax Code only allows that VAT to be re-collected in exceptional cases, such as when the property is added to the firm's charter capital or during the transition to a simplified taxation system, said Dmitry Kostalygin, a partner at Taxadvisor.

But the Finance Ministry has drafted amendments to Article 170 of the Tax Code that would significantly increase the number of instances in which companies would have to return the VAT, Vedomosti has learned.

Tax officials will be required to collect VAT for thefts and shortfalls in fixed assets or goods, as well as in other situations where the property is not being resold, according to the proposed

changes. Exceptions will be made for natural disasters and other emergency situations.

When goods are lost, the VAT would be collected in full. For fixed assets, including equipment, the tax due would be proportional to the remaining value before any reappraisals. The repaid VAT would not be deductible from the company's taxable profit.

For example, if a company installed equipment with an amortization period of 10 years costing 118 million rubles (of which 18 million rubles is VAT), then by writing the equipment off after five years, the company would owe the state 9 million rubles, Kostalygin said. It would have to pay the sum if it did not have larger deductions during the same tax period, he said.

Natalya Komova, deputy head of the Finance Ministry's tax and customs department, said the amendments have been submitted to the government, along with the Economic Development Ministry's objections.

Collecting VAT from the early write-off of equipment, or for other reasons independent of the taxpayer, would contradict the idea of stimulating modernization, according to the ministry's concerns, which Vedomosti has seen.

Modernization often involves replacing fairly new but already outdated equipment, and approving the changes could negatively affect the investment appeal of the Skolkovo innovation city, the Economic Development Ministry said.

Collecting VAT in these circumstances would lead to it being paid twice. The supplier already paid VAT, and then the buyer would also have to pay it in part or in full. The Finance Ministry seems to be operating from the belief that companies can operate without losses, which is impossible, the Economic Development Ministry contended.

Tax officials are already trying to re-collect VAT in circumstances not covered by the Tax Code, such as when goods are stolen, but courts tend to favor companies in such cases, Kostalygin said.

Komova said the rules for collecting VAT were already in place. "But there are a lot of nuances and contentious questions, which the bill is meant to resolve," she said.

Returning the VAT for equipment that has become obsolete will also be discussed, Komova said. But the bill's main focus is cases of damage or theft to not fully amortized fixed assets. This is often used as a trick to evade taxes, but courts frequently decline to support tax inspectors' claims to re-collect VAT, a tax official said.

The Finance Ministry is looking for ways to cover the budget deficit, but burdening companies that are trying to modernize their equipment with a new tax is too much, said Boris Titov, chairman of business lobby Delovaya Rossia.

If there's no attempt to evade taxes in an early write-off of equipment, collecting VAT should be out of the question, added Anton Danilov-Danilyan, head of Delovaya Rossia's expert council. Tax officials should have to prove the intention to evade tax in court, he said.

The tax consequences of a theft should be handled by law enforcement officials, not tax

officials, Danilov-Danilyan said, adding that closer cooperation among officials was needed — not changes to the law.

Businesses want to be able to write off stolen and lost goods as costs, but the Finance Ministry is proposing to levy yet another tax on the losses, said Nikolai Vlasenko, chairman of Victoria Group. In retail, the share of unavoidable lost goods are about 1 percent to 2 percent of turnover, or up to half of a retailer's net profit, he said.

Andrei Shtorkh, a spokesman for the Skolkovo Development Foundation, said the tax burden on not fully amortized equipment could be resolved through a group of tax breaks for Skolkovo. The State Duma will debate the bill this fall, he said.

The Kremlin has not yet seen the Finance Ministry's initiative, a source in the presidential administration said.

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