The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

B2B: Accounting and Tax Policy of Your Russian Organization

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June 16, 2014



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Accounting and tax policy is one of the main documents of any organization that defines the forms and methods of accounting, the working chart of accounts, the forms of primary documents and tax registers and respective document flow. It also describes the inventory process and the way internal controls procedures are realized in the company. The policy is first prepared as soon as the company is created (not later than 90 days from the registration date), and it is applied by all subdivisions and branches of this company wherever they are located.

To include all of the relevant accounting points into the policy, it is necessary to think about the wide range of economic operations, to document the standard ones, to understand the unique characteristics of the company and its activity. One must raise all the questions that might be most often addressed to the company by the tax office in order to make sure that the accounting and tax policy provides clear guidance.

Unfortunately, tax inspectors will sometimes view missing provisions from the policy as gross violations under the Tax Code. And for this, in article 120 of the Tax Code of the Russian Federation, a penalty of 10,000 rubles (30,000 rubles if the violation is noticed in several tax periods) is provided. Therefore, it is worth the extra time and expense to ensure the company's most important tax and accounting principles are recorded in the policy.

Also, it should be noted that quite often there are contradictions in the tax legislation in the way the rules are applied to the taxation of specific transactions. However, according to paragraph 1, item 7 of article 3 of the Tax Code, "all contradictions and ambiguities of the legislation regarding taxes and fees are interpreted in favor of the taxpayer."

In practice, it turns out that nearly all Russian organizations prepare their accounting policies on a merely formal basis. It is commonly known that companies need to have a certain

document called an "accounting and tax policy," but this is often created from a simple template with no consideration of how the enterprise operates. By doing it this way, if companies find themselves in an unpleasant situation and they have a tax dispute, they often don't have good support from their accounting policy. The fact is that this document actually helps to protect the rights of the taxpayer by defining accounting methods which allow the company to properly consider and recognize property, income and expenses especially in questionable situations.

Besides providing support in tax disputes, the policy allows the company to decrease their taxable profit. Let's look at an example. Assume that a company expects to have good profitability from their current operations for the next few years. What could be done to optimize their tax position? There are a few considerations. For example, the company could change its method of depreciation from a straight line to an accelerated method in the accounting and tax policy and thus increase the depreciation expense in the first years of fixed assets usage.

There is a certain flexibility which can be used to achieve a specific economic effect. There are a number of areas of activity where it is very important to use a well-worded accounting and tax policy. Let's take a look at the construction industry. Quite often, foreign companies run their construction businesses in Russia by using a branch office of their parent company. Usually the head office performs some work under the construction contract on the Russian project and they expect to distribute a respective portion of cost to the Russian branch. Taking into account large differences between Russian and European legislation regarding document flow and confirming tax data, the accounting and tax policy plays a serious role. If properly worded, the policy is an invaluable tool to ensure that the tax office understands and ultimately accepts the company's accounting principles.

One of the most relevant matters for all companies is document flow optimization as it usually leads to a significant cost-saving effect. Different strategies are available on the market: automating specific operations such as uploading customs declarations for imported goods, electronic document interchange (EDI) between business parties, etc. The tax authorities also realize and accept the needs of the company and have taken steps to make business processes simpler. The result of this was the creation of the universal transfer document (универсальный передаточный документ). Any company in Russia may now use a single document which is based on the VAT invoice rather than using the previous two documents: VAT invoice for the VAT calculation and the act of acceptance or delivery note for profit tax calculation purposes. However, choosing this new and recommended form should be stated in the accounting and tax policy.

At the end of each financial year the company should review what has changed in the legislation to be reflected for the next year; if there are any new business activities initiated within the company, any new methods of accounting to be introduced. The required changes should usually be dated end of December to start being valid from the January 1st of the next financial year. There are certain limitations on changing accounting and tax policy. If so, can we change it now in the middle of the year, for example, to implement such useful document form as UTD? Yes, we can as we do not make changes in the methodology but only adjust the appendix to the policy with the forms of primary documents to be used by the company.

As you can see, the accounting and tax policy can help you to optimize the financial situation of your Russian company, increase the efficiency of day-to-day operations with a strong cost-savings effect and provide you with legal support in case of disputes with the tax office.

Experienced accountants usually try to pull together as many accounting and tax methods as possible. They prefer to be on the safe side, though a conservative side in relation to the tax authorities. Usually this position results in additional taxes to be paid. In addition, companies should remember that there are situations when having different approaches for statutory and tax accounting might result in a number of advantages.

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Original url:
https://www.themoscowtimes.com/2014/06/16/b2b-accounting-and-tax-policy-of-your-russian-organization-a36438