

# DOUBLE -PURPOSE COSTS: TAX AND ACCOUNTING DIMENSIONS



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- ▣ *Essence and components for dual-purpose costs according to the Tax Code of Ukraine, classification validity of certain types of costs with the costs of this group, order to form information in accounting on these costs to determine object of income taxation are studied.*
- ▣ *Dual-purpose costs, costs with limits, object of taxation, accounting, analytical accounting, account in bookkeeping, sub-account.*

## ВИТРАТИ ПОДВІЙНОГО ПРИЗНАЧЕННЯ: ПОДАТКОВИЙ ТА ОБЛІКОВИЙ АСПЕКТИ

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- ▣ *Досліджено сутність та склад витрат подвійного призначення згідно з Податковим кодексом України, обґрунтованість віднесення окремих видів витрат до витрат цієї групи, порядок формування інформації у бухгалтерському обліку про ці витрати для визначення об'єкта оподаткування податком на прибуток.*
- ▣ *Витрати подвійного призначення, витрати з обмеженням, об'єкт оподаткування, бухгалтерський облік, аналітичний облік, бухгалтерський рахунок, субрахунок.*

## РАСХОДЫ ДВОЙНОГО НАЗНАЧЕНИЯ: НАЛОГОВЫЙ И УЧЕТНЫЙ АСПЕКТЫ

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- ▣ *Исследованы сущность и состав расходов двойного назначения согласно Налоговому кодексу Украины, обоснованность отнесения отдельных видов расходов к расходам этой группы, порядок формирования информации в бухгалтерском учете об этих расходах для определения объекта налогообложения налогом на прибыль.*
- ▣ *Расходы двойного назначения, расходы по ограничениям, объект налогообложения, бухгалтерский учет, аналитический учет, бухгалтерский счет, субсчет.*

### Problem

Studying nature and components of dual-purpose costs raises series of questions about their names and components. So, before you proceed to consideration of components and order for taxation and accounting for certain types of costs included by the Tax Code of Ukraine (hereinafter - TCU) in the dual-purpose costs, you need to determine validity of the “dual-purpose costs” concept application. This concept was integrated into TCU from

the Law of Ukraine «On Enterprises Income Tax» from 22.05.1997, #283/97-VR as amended (hereinafter - the Law on income). Note that neither TCU not Law on income did not give interpretation of the term “dual-purpose costs” and thus cast doubt on validity of such term.

Term «purpose» is interpreted in many dictionaries as an area, scope of use for something or someone. Consequently, certain costs are used in a particular field, the field that have same purpose (travel,

education, labor, etc.) and can not have a dual purpose, both in accounting and in tax system.

Another thing is that some costs in determining object of taxation may be limited to absolute or relative size. Therefore, these costs in tax legislation should be called as the «cost with limits» rather than “dual-purpose costs”.

Features for «cost with limits» are that in determining object of income taxation they are taken into account only within limits set by TCU and not beyond the limits.

**Analysis of recent research and publications** shows that issue of dual-purpose costs accounting was considered by many scientists and economists in particular: B. Deriy, A. Poddyerohin, S. Tymoschuk et al. However, issue remains controversial for recognition of certain cost as dual-purpose costs and approaches to account for such costs. On this basis, it is obvious that certain issues require further investigation and resolution.

**Purpose of research** is to justify classification of certain cost as dual-purpose costs, determine own position on order to form information in accounting of these costs to determine object of incomes taxation.

### Main research results

In accounting such costs are included in costs of economic activities in actual amounts. As a result of varying approaches to reflect costs in accounting and «tax» accounting, tax differences arise, ie the difference between accounting and tax costs, which in turn affect amount of your tax and income (loss) and, as a result, amount of income tax.

Based on the above, there is a need for reflection of actual costs in accounting system to distinguish between them:

- Costs accounted for deduction of tax object within limits set by TCU;
- Costs over limits imposed by TCU.

Depending on type and location of economic activity such costs may be included in other direct production costs (account 23), overhead costs (account 91), administrative costs (account 92), and cost of sales (account 93).

For storing required information we can use individual sub-accounts of 2nd or subsequent orders, which should be included in the Work Plan of Accounts at enterprise or analytical accounting to the above accounts, where each of the cost items are divided into two: cost within limits of TCU and costs over limiting.

Let's consider types of costs that are limited by TCU within each item. Composition of expenditure is

set out in Article 140 of the Tax Code. Among the first, they include costs of taxpayer to provide employees with clothes, shoes, special (uniform) clothes, washing and decontaminating agents, personal protective equipment necessary to perform professional duties and special food products on the list, established by the Cabinet of Ministers of Ukraine.

In our opinion, this list should exclude cost of washing, as their regulation is ambiguous, and share in cost of labor protection is negligible. By the way, these costs were not available in article 54 of the Law on income.

Free delivery of clothing, footwear and other personal protective item for workers are regulated with applicable laws, regulations and the Regulation on procedure for providing employees with special clothes, special footwear and other personal protective equipment, approved by the State Committee of Ukraine for Industrial Safety, Labour Protection and Mining Supervision from 24.03.2008, № 53.

Company approves issuance of free clothing, footwear and other personal protective equipment for employees (PPE) on the basis of common standards and industry norms. In addition, company sets up use of PPE and fixes these rules, usually annexed to the Regulation on occupational safety in company.

Procedure for PPE accounting depends on accounting policies adopted at the company. They can be registered as low value items, or as other non-current tangible assets. If its first - the value of PPE when transferring them to use is fully included in cost for reporting period, and if it's the second - gradually, through mechanism of depreciation on such items.

To ensure reliability of tax expenditure on PPE, we need to issue special (signal) primary documents (regulations, requirements, etc.) to record over usage of such items, regardless of the cause of this issue (early wear, etc.).

TCU also provides that dual-purpose costs (other than those subject to depreciation) include costs incurred in manner prescribed by law for organization, maintenance and operation points of free medical examination, free medical care and prevention activities for workers (including providing medicines, medical equipment, inventory, and costs for salary of employees). Company defines this procedure, based on their operating conditions.

TCU (Article 140, paragraph 1, pp.2) provides that dual-purpose costs include the costs (other than those subject to depreciation) related to scientific and technical support for economic activity, in invention and rationalization of business processes, conducting experimental and development work, production and study models and samples related to main business of

taxpayer, cost of calculating royalties and intangible assets (other than those subject to depreciation) for use in business.

Of course, it is impractical to limit all costs, based on economic development strategy of enterprise, and therefore TCU limitations are established only in relation to royalties.

TCU lists several cases where royalties do not get into tax expenditure in reporting period. For example, if the royalties accrued to non-residents in respect of intellectual property rights first emerged in Ukraine for resident or person for whose benefit accrued royalties are not subject to royalties in respect to country of origin. Details are written in pp.2 p.1 art.140 TCU.

Amounts of accrued royalties are included in other direct costs for cost of sales (services).

In business, usually there are no significant difficulties to form information on cost of royalties, as such costs are not carried out frequently and are clearly documented.

Particular attention of businesses accountants and regulatory authorities is paid to cost for training, retraining for taxpayer.

Code defined cases where such costs are taken into account in determining the tax object, namely:

- When they are associated with employees working professionals or when law provides for compulsory periodic retraining or training;
- When it is in domestic or foreign institutions, if certificate of education in such institutions is mandatory for certain business. Thus costs, including tax, may be included in costs of education in higher and professional-technical institutions for individuals (regardless of whether such persons are in labor relations with taxpayer) that now signed an agreement (contract) that person upon graduation and getting specialty (training) should work it off at the company for at least 3 years.

Code provides that after termination of written agreement (contract) for training, taxpayer increases income in amount of actual costs incurred, and shall pay a penalty provided at TCU.

Costs include costs of organizing teaching and practical training on type of core business enterprises, individuals enrolled in universities and vocational schools.

Based on the above rules, company must establish a close relation between these costs with basic operations of company and noted in each case such training, retraining and advanced training that will properly reflect costs in accounting and tax accounting.

Costs that are limited in determining tax object are taken into account as any warranty costs (maintenance) or replacement warranty products sold by taxpayer,

value of which is not compensated by buyers of such goods, which corresponds to warranty replacement adopted (published) by taxpayer. In this case, term «publication» means distribution in advertising, technical documentation, contract or other obligation document on seller's terms and conditions of warranty service (Art. 140.1.4 TCU).

So, TCU doesn't have any absolute or relative norm limits for these costs. Based on the fact that procedure for warranty repairs (maintenance) or replacement warranty as well as a list of products for which warranty service is established, and determined by the Cabinet of Ministers of Ukraine, the company, in turn, independently establish and publish procedures and timing of such operations and amount of costs within specific agreement (contract) for supply of products.

It is mandatory for accounting buyers to have substitute goods or repair services (maintenance). STAU establishes order for accounting. Cost of warranty, set out in the above procedure, are shown in accounting and tax accounting as part of cost of sales.

Companies that produce and sell products with warranty can create collateral (reserve) for future warranty costs for more accurate determination of financial results from sales during reporting period. This is due to the fact that time of warranty can not be accurately determined.

Provision size is defined now on their own, usually as a percentage of total sales that comes with warranty. Provision size is in administrative documents of the Company's accounting policies.

Amounts of established provisions (reserves) are shown on subaccount 473 «Providing warranty», Account 47 «Provision for future expenses» and included in monthly debit for 93 «Cost of sales». Actual amount of costs are written off against provision on balance sheet date, and are adjustable from balance (reserve).

Article 140 (paragraphs 140.1.5) of TCU classifies costs of advertising as dual-purpose costs, but doesn't set limits for those. At the same time, Article 139 of TCU provides limits for costs on marketing and advertising services that are purchased by non-residents. These costs under pp.139.1.13 of this article can be included in tax expense only to the extent less than 4 percent of income (revenue) from sale of goods (works, services) minus VAT and excise tax on year preceding the accounting year. Limit does not apply only for costs performed (accrued) on benefit of residents at permanent missions, which are taxed under individual rules of TCU.

Based on the above provisions, treaties signed with non-residents should clearly define type of marketing and advertising, and the fact they are provided to

confirm documentation. In accounting and in accordance with tax legislation such costs are included in cost of sales.

TCU determined that costs, taken into account in determining tax object, include any costs of insurance death harvest risks, goods transporting for taxpayer, liability associated with operation of vehicles that are part of fixed assets of enterprise, property of taxpayer, financial and operational leasing (rental) concession of state or municipal property, provided it is stipulated in contract, financial, credit and other risks of enterprise incurred before its economic activities within regular price insurance rate by type of insurance in force at the time of signing insurance contract, except life insurance, health or other risks associated with activities of individuals who are employed now, binding provided by law or any costs of insurance or third-party entities.

Amounts of insurance are credited to income and not to reimbursed costs - costs of tax accounting period of taxpayer. Certainly, to justify inclusion of losses in costs we need necessary documentary evidence of insured event.

One of the first places of costs that are limited is taken with travel expenses of individuals who are employed or are now members of governing bodies. According to pp.7 p.1 art.140 of TCU travel expenses taken into account in tax within actual costs. There is a list of such costs.

The most important aspect of this rule is that they can be included in costs of the taxpayer only if supporting documents attesting to value of these costs as transport tickets or transport accounts (baggage receipts), including e-ticket for your boarding pass and instrument of payment for all types of transport, including charter flights, invoices received from hotels (motels), or other persons performing services on housing and residence of individual, including reservation of housing, insurance policy and others.

This rule generates no objection and so person shall provide documentation of expenses incurred. Failure to comply with this requirement, costs will not be reimbursed for travel, and company can not take them into account in determining object of taxation.

At the same time, the TCU states that part of travel expenses also includes not documented expenses - for food and other financing own needs of individual (per diem expenses) incurred in connection with such assignment within territory of Ukraine, but not more than 0.2 of minimum wages in effect for working individuals as of January 1 of the tax year, per day, and for travel abroad - not exceeding 0.75 of minimum wage in effect for working individual as of 1 January of the tax year.

So, maximum allowance for tax purposes is legally determined. Companies can set own daily amount under collective agreement, but determining object of taxation does not exceed the maximum amount. Each year in administrative documents of the Company's accounting policies maximum daily amount is specified for financial year and amount installed for now.

Calculating and paying per diem amount for assignment, one should pay special attention on line in the TCU (pp.140.17) on daily amounts, namely, amount of allowance determined in case of business trip:

- Within Ukraine and countries which does not require visa (entry permit) for entering territory for citizens of Ukraine - according to order of assignment and relevant primary documents;
- To the country entering territory of which, citizens of Ukraine require visa (entry permit) - according to the order of trip and marks of authorized official of the State Border Service of Ukraine in passport or document in lieu thereof.

And at the very front, in absence of these relevant supporting documents, order or the marks of authorized official of the State Border Service of Ukraine in passport or document in lieu thereof, amount of allowance is not included in costs of taxpayer.

Thus, these guidelines are not clearly specified in primary documents, except for the order, which is confirmed by fact of time and travel for calculating daily. Therefore, accounting department can not require other special documents for calculation and payment of per diem. All you need is travel order, travel permit, if issued with notes, documents for travel, hotel bills, or other instrument of payment for accommodation or one of the following documents. In addition, confirmation of employee on business trip can be a report on assignment during trip.

TCU requires proving the trip with activities of enterprise and provides a list of documents that can confirm this relationship.

Note that amount and components of travel expenses for public officials and other persons who are sent on mission by enterprises, institutions and organizations that are wholly or partially funded at the expense of budget funds, is established by Order of the Cabinet of Ministers from 02.02.2011, #98, on basis of which Ministry of Finance of Ukraine by its Order from 11.03.2011, № 362 modified version of Instruction on business trip in cities of Ukraine and abroad, approved by the Ministry of Finance of Ukraine from 13.03.1998, № 59.

Traditionally, tax costs, which are limited, are expenses (excluding capital that are subject to amortization) for maintenance and operation of objects (list

given in p. 140.1.8 of TCU) which were at balance sheet of taxpayer and held for its account as on January 1, 1997, but not used for profit.

Having examined all types of costs that are listed at TCU as dual-purpose costs, we should pay special attention to order of these costs recording at consolidated cost accounting. These costs should be reflected in accounting registers on basis of individual sub-accounts within analytic accounts separately: above limitations and restrictions, and in statement of accounting tax expense - only in amounts exceeding limits.

This issue is resolved simply determining relative production cost of manufactured goods (works, services) and more difficult - to determine cost of goods sold.

From these considerations, it can be solved by through-selection in other direct costs and overhead cost of those expenses, which are limited.

Concerning administrative expenses and cost of sales, there is no problem because they are costs of

reporting period on basis of accounting amounts of such expenses above restrictions do not fall for tax expenditures.

### Conclusions

Defining limited costs can be done through defining their share in other direct costs of production costs of goods (works, services) and use this relative value when calculating cost of goods sold for purpose of determining financial performance, and for tax purposes.

On basis of research we suggest:

- to change in TCU and other normative legal acts “dual-purpose costs” on the term «costs with limits»;
- to exclude from list of limited cost the costs of cleaning and decontaminating equipment;
- to specify pp.5 p.1 art.140 of TCU to limit costs of advertising;
- to list primary documents at pp.140.1.7 that are basis for determining allowance for business trip, or put it in integrated tax consultation with the State

1. Tax Code of Ukraine from December 2, 2010 № 2756-УІ. [in Ukrainian]
2. Regulation on providing employees with special clothes, special footwear and other personal protective equipment, approved by Order of the State Committee of Ukraine for Industrial Safety, Labour Protection and Mining Supervision № 53 from 24.03.2008. [in Ukrainian]
3. Instructions on business trips in Ukraine and abroad, approved by the Ministry of Finance of Ukraine from 13.03.98, № 59 (as amended

by Decree of the Ministry of Finance of Ukraine from March 17, 2011 № 362). [in Ukrainian]

4. On the amount and components of travel expenses of state officials and other persons who are sent on mission by enterprises, institutions and organizations that are wholly or partially financed from the budget. Resolution of the Cabinet of Ministers of Ukraine from February 2, 2011 № 98. [in Ukrainian]

1. Податковий кодекс України від 2 грудня 2010 р. №2756-УІ.
2. Положення про порядок забезпечення працівників спеціальним одягом, спеціальним взуттям та іншими засобами індивідуального захисту, затв. Наказом Державного комітету України з промислової безпеки, охорони праці та гірничого нагляду № 53 від 24.03.2008 р.
3. Інструкція про службові відрядження в межах України та за кордон, затв. наказом Міністерства фінансів України від 13.03.98 р. № 59

(у редакції наказу Міністерства фінансів України від 17 березня 2011 р. № 362).

4. Про суми та склад витрат на відрядження державних службовців, а також інших осіб, що направляються у відрядження підприємствами, установами та організаціями, які повністю або частково утримуються (фінансуються) за рахунок бюджетних коштів. Постанова Кабінет Міністрів України від 2 лютого 2011 р. № 98.

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