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CALCULATION AND ACCOUNTING ADVANCE PAYMENTS FOR CORPORATE INCOME TAX

A This article is devoted to the issues of advance corporate income tax calculation and accounting, which was introduced on the 1 of January 2013. The methodological solution of the problem of advance corporate income tax calculation and accounting is the result of provided analysis.

B Corporate income tax, advance payment, tax code, tax accounting.

РОЗРАХУНОК ТА ОБЛІК АВАНСОВИХ ВНЕСКІВ З ПОДАТКУ НА ПРИБУТОК

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A Стаття присвячена дослідженню проблематики розрахунку та відображення в обліку авансових внесків з податку на прибуток підприємства, що були запроваджені 1 січня 2013 року. Результатом дослідження стало методологічне рішення питання розрахунку та відображення в обліку авансового внеску з податку на прибуток.

B Податок на прибуток, авансовий платіж, податковий кодекс, податковий облік.

РАСЧЕТ И УЧЕТ АВАНСОВЫХ ВЗНОСОВ ПО НАЛОГУ НА ПРИБЫЛЬ

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A Статья посвящена исследованию проблематики расчета и отражения в учете авансовых взносов по налогу на прибыль предприятия, которые были введены с 1 января 2013 года. Результатом исследования стало методологическое решение вопроса расчета и отражения в учете авансового взноса по налогу на прибыль.

B Налог на прибыль, авансовый платеж, налоговый кодекс, налоговый учет.

Problem statement

The adoption of the Law of Ukraine "On Amendments to the Tax Code of Ukraine on state tax administration and in respect of the administrative reform in Ukraine" № 5083-VI from 05 July 2012 (*hereinafter* – the Law № 5083-VI) [1] has obliged businesses with the annual taxable income greater than 10 million to calculate and pay monthly advance payment of corporate income tax, started from 1 January 2013.

The publication of General Tax Ruling in respect of specific features of corporate income tax return submission and CIT payment in 2013, approved by the State Tax Administration of Ukraine from 21.12.2012 № 1171 (*hereinafter* – Decree № 1171) [2] and the letter of the Ministry of Finance of Ukraine from 01.24.2013 № 31-08410-06-52297 "On advance corporate income tax recording in financial accounting" (*hereinafter* – the Letter № 31) [3] has not solve all issues in respect of advance corporate income tax calculation and accounting.

So, it is worth to emphasize, that since the information in respect of corporate income taxes is

substantial for users and need to be faithfully disclosed in the financial statements, and in the company's accounting respectively, the right advance corporate income tax calculation and accounting is a significant issue for the companies of all industries, that are obliged to pay the abovementioned charge.

However, due to the novelty of the approaches in respect of this issue existing in the regulatory field, scientific-methodological analyses of this issue were conducted not much, that leaves opportunity for further deeper analysis of the issue from a scientific point of view

The analysis of the latest sources and unsolved aspects of the problem

Scientific works of many local scientists, including Kuzminsky U.A., Drozd I.K., Yefimenko T.I., Nazarova I.B., Malyshkin O.I., are devoted to the issue in respect of disclose of accrued corporate income tax in financial accounting.

However, the scientist analysis in the existing regulatory field in respect of advance corporate income tax calculation and accounting is conducted for the first time.

The purpose of the article

The extending of methodological approach of corporate income tax accounting by developing the order of advance corporate income tax calculation and accounting based on effective legislation.

The main issues of research

According to the Law №5083-VI to the Tax Code of Ukraine [4], the amends were made, following which CIT payers (excluding newly incorporated, agricultural producers, non-for-profit organizations and taxpayers, whose incomes, that generate tax base, do not exceed 10 million during the last tax period) should pay monthly advance corporate income tax in the amount not less than 1/12 of tax payable for previous reporting year without a CIT return submission in the manner and within the time limits set for the month of the tax period. Besides in January – February 2013 such taxpayers should pay advance corporate income tax in amount of 1/9 of CIT charged for the nine months of 2012, during 20 calendar days following the last calendar day of the reporting month. Herein twelve-month period for payment of advance CIT is determined from March of the current reporting year to February of the next reporting year inclusive.

Calculation algorithm, specified in the Law, requires methodical support of records based on the theoretical principles of its construction, since users of these standards have interpreted them differently, that leads to the likelihood of distortion of accounting information in the taxpayers' financial statements.

Thus, the question of advance corporate income tax calculation is one of the most controversial issues.

In this case, separate calculations in respect of advance CIT for January-February 2013 and for period starting from March 2013 should be considered.

As it was stated above, according to paragraph 2 of subsection 4 of the Transitional Provisions of the Tax Code, the taxpayers of CIT started from 2013 should submit an annual CIT return in accordance to paragraph 57.1 of Article 57 of the Tax Code, should pay advance CIT, in amount of 1/9 CIT charged in the tax statements for nine months of 2012, in January – February 2013 within 20 calendar days following the last calendar day of the reporting month.

Corporate income tax for the purposes of this paragraph is calculated according to the general rules set out in paragraph 149, 151.1 and 152.1 of the Tax Code.

Thus, in accordance to paragraph 152.1 of the Tax Code, CIT is charged by the taxpayer independently at the rate specified in paragraph 151.1 of this Code, in respect of the tax base determined in the Article 149 of the Tax Code. Article 149 specifies the tax base for purposes of this section as the monetary value of profit as the object of taxation determined in accordance with Article 134 of the Code, along with the provisions of Articles 135–137 and 138–143 of the Code. That is, CIT is calculated by the formula revenues less expenses multiplied by the tax rate.

Thus, to calculate the amount of monthly advance CIT for January – February 2013, 1/9 the sum of the abovementioned figure should be considered.

According to the form of CIT return, approved by the Order of Ministry of Finance of Ukraine №1213 from 28.09.2011 (*hereinafter* – Order №1213) [5], accrued corporate income tax for the reporting period is entered in rows 11 “CIT from activities that are not subject to patenting” and 12 “CIT from activities subject to patenting, reduced for the cost of trading patents”.

Therefore, the sum of rows 11 and 12 of the CIT return for 9 months of 2012 is the amount of CIT accrued for 9 months of 2012.

However, it should be noted, that the tax authorities have an opinion on the calculation algorithm of advance corporate income tax other than abovementioned. Thus, General Tax Ruling on the specific issues of the CIT return submission and CIT payment in 2013, which was approved by the Order №1171 [2] defines the following data of the tax reporting for 9 months of 2012, which should be taken into calculation of 1/9 of CIT and for payment advance CIT in January – February 2013:

- the row 14 “Corporate income taxes for the reporting period”;
- and the row 20 “The amount of advance in respect of dividends payment, that should be paid in the reporting period at the location of the legal entity” of CIT return, approved by the Order №1213 [5].

Therefore, based on the substance of the formed data of the CIT return, this statement is incorrect because of the following reasons:

Firstly, the amount indicated in the row 14 of the CIT return is the sum of the accrued CIT for the reporting period decreased by:

- the amount of CIT earned from foreign sources that paid by the entity abroad;
- the amount of CIT charged (at a consolidated payment) at the location of its separate units;

- amount of land tax, since land is used in agricultural production of agricultural producers;
- the amount of advance payment in respect of dividends paid (or similar payments).

Secondly, in the row 20 of the the CIT return the amount advance in respect of dividends paid is reflected, that should be in the reporting period at the location of the legal entity. In this case the whole sum is indicated in the row 20, and in the row 14 this sum is limited by the amount of the accrued CIT.

Thus, the calculation specified in the Order № 1171 [2] will be true only when there are reducing amounts and when the advance paid in respect of paid dividends is less than or equal to the accrued corporate income tax.

So, the calculation algorithm of advance corporate income tax defined by the Order № 1171 [2] is not in compliance with the tax code and may not be executed.

Thus, the sum of rows 11 and 12 of the CIT return for 9 months of 2012 is the amount of accrued corporate income tax for 9 months of 2012 and 1/9 part of the amount should be paid as advance payment for January and February 2012.

Similarly, on the basis of CIT return data for 2012 the amount of advance corporate income tax should be calculated for March 2013 – February 2014, which should be 1/12 part of the sum of rows 11 and 12 of CIT return for 2012.

There are a lot of disputes among the experts, according to advance corporate income tax accounting, namely in respect of the charging period.

According to the Regulations on the Application of Chart of Accounts of assets, capital, liabilities and business operations of enterprises and organizations, approved by the Ministry of Finance of Ukraine from 30.11.99, № 291 (*hereinafter* – Regulation 291) [6], the accounting of taxes accrued and paid in accordance with effective legislation is recorded in the account 64 “Payments of taxes”.

In some synthetic subaccounts of account 64 “Payments of taxes” balance at the end of the month may be not only a credit, but debit. These figures are not offset and such synthetic account balance is determined as debit and credit balance as the amount corresponding balances on to subaccounts.

Since according to the Tax Code the calculated amount of advance payments is considered as an agreed amount of monetary obligations, it is believed that CIT should be accrued monthly on the credit of the analytical accounts of 64 “Payments of taxes” and

charged on the debit account 98 “Income taxes”, in the amount of advance payment. At the end of the year the appropriate adjustments should be made based on annual CIT return data.

However, this statement contradicts the substance of the transaction and the basic principles of finance accounting, namely accrual and matching of revenues and expenses, that states to determine the financial results of the reporting period it is necessary to compare the revenue of the reporting period with expenses that have been made to obtain these revenues. Revenues and expenses are recorded in the financial accounting and the financial statements at the time of their occurrence, regardless of the date of receipt or cash payment. [7]

In addition, on the basis of the provisions of the Tax Code, CIT for the companies that pay the advance payments is tax on the annual tax reporting period.

Also, under the effective at the time of the normative change adoption, Regulation (Standard) of Accounting 2 “Balance”, approved by the Ministry of Finance of Ukraine from 31.03.99, № 87 [8], in the article “Receivables for payments to the budget” receivables from financial and tax authorities, and overpayment of taxes and other payments to the budget is described.

Respectively, advance corporate income tax is recorded on credit of account 31 “Bank” and debit of analytical accounts of the account 64 “Payments of taxes”. During the year, the debit balance of such analytical accounts is reflected in the balance sheet in the article “Receivables on the settlements with the budget”.

At end of the year tax CIT liability is recorded on the credit of the analytical account of the account 64 “Payments of taxes” and charged to debit of account 98 “Income Taxes”. Credit balance on such analytical account should be transferred to the budget.

Conclusions

The research provided in this article has indicated the existence of issues concerning advance corporate income tax calculation and accounting, that has been generated by changes in regulations and require research and clarify the order of its recording in financial and tax accounting.

A methodological solution to the problem of advance corporate income tax calculation and accounting, which provides a clear algorithm for determining the amount of advance payment and the order of recording in accounting is suggested.

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