

Present Development Practices for Tax, Financial and Statistical Reporting in the Russian Federation



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Abstract: Financial, statistical and tax reporting is of prime importance in today's world. All the economic entities are obliged to disclose their operating performance and pay taxes established by the law. Currently financial and statistical reporting serves to address these objectives, as it pertains to disclosure of the financial performance of an economic entity while tax reporting is intended to control the tax base calculation and, respectively, the tax subject to transfer to the budget [4, 7, 10, 14]. Regulatory authorities use tax reporting to determine if the tax calculation is correct.

Reporting purposes used to change over time, thus their current intended purpose is not consistent with the initial ones.

The article analyzes the development evolution of the tax, financial and statistical reporting and its regulatory control in these days.

Index Terms: evolution, accounting, reporting, regulatory control, development

I. INTRODUCTION

Financial, statistical and tax reporting is of prime importance in today's world [1, 2, 9, 13, 16, 19].

All the economic entities are obliged to disclose their operating performance and pay taxes established by the law. Currently, the financial and statistical reporting serves to address these objectives, as it pertains to disclosure of the financial performance of an economic entity,

while tax reporting is intended to control the tax base calculation and, respectively, the tax subject to transfer to the budget [4, 7, 10, 14]. Regulatory authorities use tax reporting to determine if the tax calculation is correct.

II. METHODS AND MATERIALS

A. GENERAL DESCRIPTION

Purposes of the reporting types under study used to change over time, thus their current intended purpose is not consistent with the initial ones. Applying the historical approach, we investigate the evolution of establishing financial, statistical and tax reporting.

Financial and statistical reporting has a longer history than the tax one, and the origin of the latter in Russia was equivalent to the need to control tax and levy payment. Taxes in Russia date back to the days of Ancient Russia. The first unofficial mention of tax reporting dates back to the reign of Ivan III. The tax system went through significant transformations: taxes were classified as either direct or indirect; the first reporting format was established – a “coultur” letter that provides land ownership description for land tax payment.

B. ALGORITHM & FLOW CHART

L.B. Trofimova, in her paper, presents the financial and statistical reporting development in Russia as a diagram (Fig. 1) [12, p. 14].

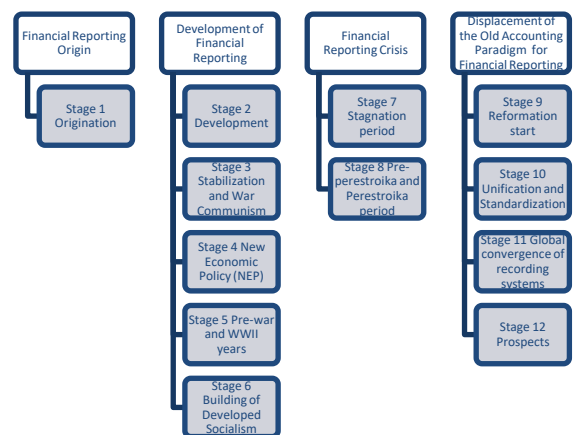


Fig.1. Stages of Accounting Records Development [12, p. 14]

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Financial and statistical reporting origination as tax and levy payment controls dates back to the second half of the XIX century when joint stock companies evolved, their development also gave start to the securities market in the 1900s. In late XIX – early XX century provisions on the state trade tax with tax calculation and payment rules and main reporting concepts regulated the financial and statistical reporting. These provisions also established the obligation to disclose reporting in *Vestnik Finansov* (Finance Bulletin) journal, at that time the reporting meant a balance sheet and extracts from reports. Financial and statistical reporting, as we understand it now was not the focus of interest to anybody, except for entity owners, of course. The taxes subject to payment to the budget were important to the state, while maintenance of records and reporting that reflected a company performance belonged to private affair of entities that was irrelevant to anybody else.

In the 1920s after the revolution, the state became more interested in financial and statistical reporting and it was more widespread among users; at that time, it was considered that reporting had to give a bigger picture of economic activities carried out not only in a specific organization but the influence of these economic activities on the entire country. The reporting was aimed at providing information support that could facilitate functioning of the state-run economy. In other words, such interest to accounting meant data collection to generate certain statistics. It is worth noting that after the revolution all the joint stock companies were transferred to the state-run property that cancelled their obligation to disclose reporting. In the post-revolutionary period the balance sheet constituted the main reporting format, new accounting items, like social insurance and health care delivery expenses, appeared.

As for the first half of XX century no particular structures, financial and statistical reporting forms were legally established, thus companies were entitled to develop their own reporting formats, given that double entry rules are observed. In contrast to the balance sheet applicable now, at that time Loss item related to the balance sheet asset, and Profit item – to the liabilities. The state exercised strict control over published financial and statistical reporting. Closer to the middle XX century a reporting manual was issued, it was done to unify the reporting and reduce it to a simpler and clear format to provide for analysis of enterprise economic activities.

In the second half of the XX century the financial and statistical reporting again went through changes, some forms were deleted, however, the balance sheet lines were doubled since new items were added without deleting the old ones that were not relevant at that time. Such inflated balance sheet made reporting more time consuming, it took long time to generate it. Traditionally, the balance sheet in Russia has a horizontal form and was based on the gross value method, i.e. assets were located opposite liabilities, thus showing the interrelation between assets and liabilities. Showing property, plant and equipment (PPE) at their original price as the assets and depreciation cost as the liabilities serves as the standard example of gross value method. In addition to the balance sheet, the reporting included reporting tables and an

explanatory note which provided information on enterprise performance to the plan, performance analysis, plans on further development, etc. [12, p. 14].

III. RESULTS AND DISCUSSION

The crisis stage of financial and statistical reporting change for the stage of the displacement of the old accounting and statistical paradigm falls on the dissolution of the USSR and the Russian Federation formation period, just at this time the modern tax system originated. Thus, the 1990s was the time when the key factor for the modern reporting evolution was designed [8, 15, 17].

In the 1990s reporting becomes the instrument used by the government to establish control over tax and levy payment due to the country's transition to market economy and enactment of the USSR Law on Taxes, Organizations and Associations that actually stipulated the obligation to calculate and pay the profit tax. At that time, reporting included three forms: a balance sheet with significantly reduced number of lines, however, it was still overloaded; financial performance statement and finance use and an annex to the balance sheet. This period features balance sheet preparation not in gross terms but on the net basis, i.e. the depreciation charge was transferred from the balance sheet liabilities to the assets thus reducing the initial cost of the fixed assets and creating the residual cost in the balance sheet. Besides the 1990s demonstrated the trend towards convergence of Russian and international accounting standards.

It is good to note that until 1992, no discrimination between tax and accounting reports existed, as no such concepts like taxation management and, respectively, tax reporting existed. Accounting and reporting were used to calculate taxes and levies in full. Tax reporting as a separate reporting type has existed for less than 20 years, its definition appeared relatively recently, in 2001, when the Tax Code of the Russian Federation came into effect. However, as mentioned above, 1992 was the pivot point for discrimination between the tax and accounting records.

Since its establishment the modern tax system is going through reforms constantly, thus the USSR Law, effective in the 1990s, # 1560-1 On Taxes Imposed on Enterprises, Associations and Organizations, dated June 14, 1990 that established the obligations for organizations to pay profit tax to the budget and submit its calculation to the regulatory authorities was replaced with the Law of the Russian Federation # 2116-1 On Corporate Profit Tax, dated December 27, 1991, that was supported by Resolution # 552 Regulations on Structure of Costs Included into Product (Work, Service) Cost and on Procedure on Formation of Financial Results Considered in Profit Tax Payment, dated August 05, 1992 and Instruction of the Russian State Tax Service #37 On Procedure for Tax Profit Calculation and Payment., dated March 06, 1992.

The main difference between these documents and the previous law lay in the fact that they established general tax accounting and taxation for corporations of all ownership forms. At that time, the tax law was changing constantly, therefore the tax rate changed often. Pursuant to the rules, the accounting reports had to be prepared with distorted actual financial status of the organization, since the financial performance was based on the tax accounting. The factors that distorted reporting financial performance included:

- the profit on product (work, services) sales calculated by reducing revenue from sales of products (work, services) based on their prime cost, that included only certain costs that reduced the taxable base for the tax profit;
- the costs not included into the prime cost were reflected in retained (net) profit and did not constitute the profit before taxation.

At present, the above documents are also no longer in force. The current legal and regulatory framework in terms of its purpose, content and formation of financial, statistical and tax reporting in the Russian Federation has been established in accordance with the rules approved in the country, i.e. this framework is regulated based on the level of importance of normative documents [3, 5, 6, 11].

The Tax Code of the Russian Federation serves as the basic normative document for tax reporting, which contains statutory provisions related to the tax law. From the effective date of the RF Tax Code Russia has got a new reporting type that is commonly referred to as a tax reporting. At the beginning of the XXI century, reporting documents were split up; since that time, financial and statistical reporting has started to reflect results of corporate economic activities not distorted by tax accounting. Then the tax-reporting task has reduced to consolidation of the tax accounting within the reported period to identify the tax base and tax amount subject to transfer to the budget.

The RF Tax Code includes two parts: the first one establishes general rules of taxation and levies, which also distinguish between a taxpayer and a subject of taxation. The first part of the RF Tax Code describes the taxpayer obligation to prepare and submit tax reporting to tax authorities, so called tax declarations/calculations prepared with respect to each tax subject to transfer to the budget within a certain period. The second part of the RF Tax Code describes the procedure for calculation and payment of the taxes and levies established by this Code, i.e. the second part specifies the taxes a taxpayer has to report on and taxation systems in force on the territory of the Russian Federation.

The RF Tax Code is practically the only document but for the clarifications given by the Ministry of Finance and the Federal Service of the Russian Federation, that govern the tax accounting and reporting in the Russian Federation. It is good to note that the RF Tax Code is almost the most amendable normative document, various amendments are introduced almost each quarter.

As for financial and statistical reporting the main normative documents include the Federal Law # 402-FZ On Accounting, dated December 06, 2011 and Federal Law #282-FZ About Official Statistical Recording and System of the State Statistics in the Russian Federation, dated

November 29, 2007, they fix the key requirements for preparation of financial and statistical reporting. It should be noted that all the other normative documents that regulate financial and statistical accounting and reporting in Russia are valid only to the extent consistent with these federal laws.

Major reporting conditions are set forth in two federal standards: the Provisions on Accounting and Reporting in the Russian Federation and Provisions on Accounting (PBU) 4/99 Corporate Accounting Records. Provisions on Accounting and Reporting, mainly, define reporting preparation principles, i.e. suggests certain rules on reflecting economic activities in reporting. In its turn, PBU 4/99 expands and adds to the rules and regulations established in the Federal Law On Accounting. It sets out the basic concepts required for reporting preparation, its structure and content of the forms. Thus, it may be said that the Provisions on Accounting and Reporting set forth general principles and rules of reporting and PBU 4/99 specifies reporting preparation by separate forms established by the law.

It is good to note, that PBU provisions have obtained the status of federal standards after the Federal Law #160-FZ On Amendments to the Federal Law On Accounting, dated July 18, 2017 entered into force. This law equates 25 effective PBUs to the federal standards for accounting.

The Federal Law # 208-FZ On Consolidated Financial Statements, dated July 27, 2010 that establishes basic standards on consolidated reporting has a significant role in regulating the accounting reporting. Based on the fact, that every year Russian accounting records are getting more and more aligned with international standards, the law on consolidated reporting gains more importance in our country since it is a kind of a “bridge” between the Russian and international standards [18, 20]. The Federal Law #307-FZ On Auditing, dated December 30, 2018 is one more normative document that regulates the accounting (financial) reporting. Its direct reference to the reporting is regulated by the fact that some organizations are subject to mandatory audit and the auditor’s report in this instance is an additional information source related to reporting. It should be noted that consolidated financial reporting is also subject to mandatory audit.

Various orders and letters issued by ministries and government agencies, like Ministry of Finance of the Russian Federation, Federal Tax Service of the Russian Federation and Supreme Arbitration Court of the Russian Federation play an important role in regulating reporting preparation. Order of the Ministry of Finance of the Russian Federation #66n On Corporate Accounting Reporting Forms, dated July 02, 2010 is one of such documents that further specifies PBU 4/99 Corporate Accounting Reporting as for accounting reporting structure and forms. In general terms the regulatory framework is a chain of interrelated documents that drift from master to complimentary and clarifying instruments.



IV. CONCLUSION

Financial and statistical reporting presents consolidated information compiled based on the financial and statistical records. Therefore, in the course of reporting preparation it is necessary to use all the federal accounting standards effective in the Russian Federation as they indicate the accounting rules applicable to individual facilities to be directly or indirectly reflected in future reports. It is worth noting that majority of Russian federal standards are based on international standards, which, however, have been modified with respect to the accounting system established in our country. In the nearest future, the Ministry of Finance of the Russian Federation is planning to issue new federal standards and introduce changes to the current PBUs; all these procedures serve to converge the Russian and international standards.

Separate normative documents, like articles of association, corporate accounting policy, various orders and instructions that may be used by an economic entity for reporting preparation, exist at the corporate micro-level. Corporate in-house documents shall meet the important pre-requisite – be consistent with legally established rules and regulations.

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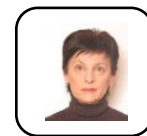
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