

UDC 338.58: 657.4

## LIMITED COSTS: BOOKKEEPING AND TAXATION

### ОГРАНИЧЕННЫЕ РАСХОДЫ: БУХГАЛТЕРИЯ И НАЛОГООБЛОЖЕНИЕ

<sup>1</sup>*Vasiokha V., Kasayeva T.*

Vitebsk State Technological University, Republic of Belarus

*E-mail: <sup>1</sup>vasiokha@gmail.com*

*Васёха О. В., Касаева Т. В.*

Витебский государственный технологический университет, Республика Беларусь

#### ABSTRACT

*LIMITED COSTS, OTHER LIMITED COSTS, PROFITS TAX, TAX CODE, TAXATION, TAX RETURN*

*This article discusses the new concept of the Tax Code of the Republic of Belarus "Limited costs". It highlights problems related to practical usage of the listing of limited costs and their calculating. The impact of this innovation on the financial results of a certain organization was evaluated. The contradictions in the joint use of bookkeeping and tax methods have been identified and substantiated. The authors pay particular attention to the legislative framework.*

#### АННОТАЦИЯ

*НОРМИРУЕМЫЕ ЗАТРАТЫ, ПРОЧИЕ НОРМИРУЕМЫЕ ЗАТРАТЫ, НАЛОГ НА ПРИБЫЛЬ, НАЛОГОВЫЙ КОДЕКС, НАЛОГООБЛОЖЕНИЕ, НАЛОГОВАЯ ДЕКЛАРАЦИЯ*

*В данной статье рассмотрено новое понятие Налогового кодекса Республики Беларусь «Нормируемые затраты». На основе оценки влияния этого нововведения на финансовые результаты деятельности конкретной организации определены наиболее актуальные проблемы, касающиеся применения на практике перечня нормируемых затрат и их учета. Выявлены и обоснованы противоречия в совместном использовании методов бухгалтерского и налогового учета. Особое внимание обращается авторами на законодательную базу.*

On January 1, 2019 the Tax Code of the Republic of Belarus [1] was amended by the Law of the Republic of Belarus dated December 30, 2018 №159-3 [2]. A new concept called "limited costs" was introduced. Limited costs contain certain costs of the organization (Clause 1, Article 171 of the Tax Code of the Republic of Belarus) and other costs (Clause 2, Article 171 of the Tax Code of the Republic of Belarus). This innovation raised a large number of questions among specialists.

New edition of the Tax Code of the Republic of Belarus has established that in the calculation of income tax the total amount of other limited costs cannot exceed 1 % of the revenue from the sale of goods (works, services), property title and the amount of income from rental transactions, other reimbursable or non-reimbursable property usage including value-added tax (Clause 3, Article 171 of the Tax Code of the Republic of Belarus) [1]. The question is how this "one percent rule" will be implemented.

The legislature presented this innovation as a tool to reduce the tax burden for organizations by providing them with the right to adjust certain types of costs for income tax purposes.

The example evaluates the impact of these innovations on financial results of a certain organization (the name of the organization was not indicated in order to preserve trade secrets). The data are presented in Table 1.

**Table 1 – "Other standardized costs"**

№	Line item	Total, rub.
<b>1.</b>	<b>Revenue, including:</b>	<b>3,493,762.93</b>
1.1	revenue from the sale of goods (works, services), property title	3,490,829.39
1.2	revenue from the sale of fixed assets, intangible assets, investments in long-term assets	
1.3	rental income	1,169.31
1.4	income from the sale of securities	1,764.23
<b>2</b>	<b>Other limited costs, including:</b>	<b>194,438.72</b>
2.1	other costs at net cost	109,363.29
2.2	other costs in operating expenses	85,075.43
2.3	other costs in financial expenses	
<b>3</b>	<b>Costs included in the declaration</b>	<b>34,937.63</b>
<b>4</b>	<b>Limited costs not included in the declaration</b>	<b>159,501.9</b>

In the current period the organization's revenue is 3,493,762.93 rubles (line 1). Other limited costs account for 194,438.72 rubles (line 2). According to Clause 3 of Article 171 of the Tax Code of the Republic of Belarus [1], the amount of other limited costs cannot exceed 1 %. The maximum possible amount of costs of the organization for inclusion in the profits tax return is presented in line 3 and accounts for 34,937.63 rubles. This amount will be deducted from the tax base, while the amount of limited costs which are not included in the tax return (line 4) is 159,501.9 rubles (line 2 – line 3).

Last year in order to determine the tax base instead of the maximum possible amount we would have taken the full amount of other limited costs – 194,438.72 rubles (line 2). So, the

tax base would have been less and profits tax would also be dramatically lower.

Based on the data presented in the example we can conclude that in praxi the "one percent rule" increases the tax base and as a result the profits tax for certain economic entities will be higher too.

Another argument is developed when discussing if revenue (income) from the sale of fixed assets and securities should be included into other limited costs. The profits tax return contains the following lines:

"1. Revenue (income) from sales: revenue (income) from sales on a reimbursable basis: produced goods (works, services); goods purchased for sale; fixed assets; intangible assets; enterprises as a property complex; property title, securities (income from redemption of securities), including:

1.1. Revenue from the sale of goods (works, services), property title on a reimbursable basis".

Line 1.1 data are used to determine the size of other limited costs. This line does not include all types of income indicated in line 1. But according to the Tax Code of the Republic of Belarus the indicators of lines 1 and 1.1 have to be the same, since the indicated types of revenue are taken into account for calculating other limited costs (Sub-clause 2.7 Clause 2 of Article 13) [1].

**Table 2 – "Fragment of the profits tax return"**

No	Line item	Total, rub.
1.	Revenue (income) from sales: revenue (income) from sales on a reimbursable basis: produced goods (works, services); goods purchased for sale; fixed assets; intangible assets; enterprises as a	3493762.93
	property complex; property title, securities (income from redemption of securities), including:	
1.1	revenue from the sale of goods (works, services), property title on a reimbursable basis.	3491998.7 <i>(line 1 of table 2 - line 1.4 of table 1)</i>

Compiled by the author based on Table 1

In Table 2 you can see that eventually line 1 differs from line 1.1 by the amount of income from the sale of securities. It means that the tax base will be less and as result the profits tax will also decrease since line 1.1 is used to calculate the tax base.

This discrepancy between legislation and reality confused many specialists. In fact, the indication in line 1.1 of the same amount as in line 1 (without deducting the amount of revenue from the sale of fixed assets and securities) may lead to an increase in profits tax for certain

economic entities.

Another problematic question is the inclusion of extra leave (monetary compensation for unused days) in other limited costs. Providing them is obligatory and established by law: the provision of extra leave indicated in Article 160 of the Labor Code of the Republic of Belarus [3] is the right of the employer, the leave confirmed by Decree of the President of the Republic of Belarus dated July 26, 1999 № 29 "On additional measures to improve labor relations, strengthening labor and executive discipline" (hereinafter – Decree №29) [4] is an obligation. So, the costs for paying extra leave for work under the contract by Decree № 29 are also have to be limited (previously included in costs). On the other hand, these leaves are additional for employees since they have contracts, and such costs should not be included in the limited costs. This problem has not been commented by the legislature yet.

The limitation of some costs is dramatically more difficult due to the lack of legislative standards valid for 2019. For example, it relates to costs of paying off overhead costs and technological losses (Sub-clause 1.6 Clause 1 Article 171 of the Tax Code of the Republic of Belarus) [1]. The limiting of these costs is obligatory only for organizations operating the housing stock and (or) providing housing and communal services (with the exception of organizations of the Ministry of Energy of the Republic of Belarus). These costs are taken into account for profits tax purposes within the norms and standards established by law. In 2018 these norms and standards were determined by a resolution of the Ministry of Housing and Communal Services of the Republic of Belarus dated June 15, 2017 № 8 [5]. In 2019 they have not been established yet.

For all the costs accounted for profits tax by established standards the question remains: in which cases these standards are established by law, and in which – by the head of organization.

In fact, the legislature defined a common concept of the definition of profits tax and simplified the taxation. But in bookkeeping practice it caused a number of problems with limiting such different costs.

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