

ELECTRONIC ADMINISTRATION OF VALUE ADDED TAX IN UKRAINE: ISSUES OF ACCOUNTING ORGANIZATION AND IMPACT ON BUSINESS

Author: **KATERYNA PAVLOTSKA**

e-mail: pavlotska.k@donnu.edu.ua

Scientific coordinator: **LILIA TARASENKO**

e-mail: l.tarasenko@donnu.edu.ua

Vasyl' Stus Donetsk National University, Ukraine

Abstract. *The introduction of the electronic register of tax invoices and the electronic VAT administration system necessitated changes in accounting procedures, tax accrual and payment, preparation and registration of tax invoices, and settlements with the budget. Changes in recent months have exacerbated the problem of blocking tax invoices and, accordingly, caused additional difficulties for businesses in the form of additional time spent on unblocking tax invoices, to some extent deterioration of relations with buyers who may have lost the opportunity to use the tax credit, etc. This requires research to determine the specifics of VAT accounting, systematize certain stages of its implementation and the impact of recent changes on business. The paper presents the results of a study of the peculiarities of using the electronic administration system by a VAT payer, namely, the issue of accounting for transactions related to the recognition of a tax liability and a tax credit for VAT, which involves the introduction of analytical accounts, which helps to increase the level of control over the state of settlements with the budget. The sequence of the VAT accounting process in Ukraine, which involves the use of an electronic administration system, is shown schematically. Legislative changes regarding the registration of VAT tax invoices are analyzed. The scheme of the decision-making process on registration or refusal to register tax invoices is presented. The impact of the latest legislative changes on business activities is investigated*

Keywords: VAT, organization of settlements, electronic administration system, tax liability, tax credit, tax accounting

JEL: H25, M40

Introduction

Value-added tax (VAT) plays a significant role in the country's budget. At the same time, the process of accounting for this tax is rather complicated, due, in particular, to constant changes in regulatory documents. The mechanism of VAT payments is characterized by certain problematic aspects, related primarily to the blocking of tax invoices, the number of which has increased recently. This has a negative impact on business activities, as blocking invoices causes distractions of funds from cash flow, loss of a positive image and attractiveness to business partners, etc. Therefore, in order to efficiently organize VAT accounting, it is important to explore approaches to reflecting VAT-related transactions in bookkeeping accounts using the necessary analytics related to the use of the electronic VAT administration system. It is also important to study the current procedure for blocking tax invoices and its impact on business. To achieve this goal, the following research objectives have been identified: reveal the essence of using the electronic administration system; analyze automated VAT accounting; study the issue of reflecting VAT transactions in bookkeeping accounts in terms of introducing the necessary accounts for analytical accounting related to the status of tax invoices in the electronic administration system; consider typical situations when summarizing VAT results and making further settlements with the state; analyze current challenges related to the registration of tax invoices, determine the impact of recent legislative innovations in Ukraine on business.

Basic content

Taking into account that the accounting information is subject to the requirements of reliability and completeness, the VAT accounting should be organized in such a way that it is possible to verify the accuracy of the accounting data. VAT accounting and reporting have a number of specific features, including different methods for determining the date of recognition of tax liabilities and tax credit, preparation and registration of tax invoices in electronic form in an unified register, and settlements with the budget using an electronic administration system. For VAT purposes, it is important to correctly determine the type of transaction, tax rate and tax base.

Tax invoices are drawn up and registered in the Unified Register of Tax Invoices (URTI). It is the taxpayer's responsibility to prepare a tax invoice. The tax invoice is drawn up in electronic form on the date of the tax liability [1, para 201.1]. The generated tax invoices serve as the basis, i.e. the primary document, for the preparation of the tax declaration.

Based on the completed tax declaration, the amount of tax liability to be transferred to the budget is determined (the positive difference between the amount of tax liability and the amount of tax credit of the current reporting period). If the difference between the amount of tax liability and the amount of tax credit of the current reporting period is negative, the taxpayer is entitled to receive a budgetary refund. A special feature of VAT payments to the budget is the use of the electronic administration system (EAS). Unlike most other taxes, which are paid by transferring the amount of liabilities from a bank account, VAT is paid by transferring funds from an electronic EAS account opened at the Treasury.

In general, tax liabilities and tax credits arise on the date of the first event, i.e., the date of the event that occurred earlier [1, para 187, para 198.2]. It is important to note that the tax amounts that are not supported by registered invoices are not related to the tax credit. Aforementioned which is an additional condition for recognizing the tax credit.

In order to ensure the correctness of accounting for VAT settlements and preparation of tax invoices, these methods should be enshrined in the methodological part of the accounting policy, which is one of the organizational issues of VAT accounting.

Another organizational issue in VAT accounting is the use of VAT accounts. The instructions for using the chart of accounts suggest the following accounts for VAT accounting:

- 641 «Settlements for taxes»;
- 643 «Tax liabilities»;
- 644 «Tax credit».

The accounting treatment of VAT depends on which event comes first (payment or delivery) (Table 1).

Table 1. Typical correspondence on VAT accounting [2]

№	Contents of the transaction	Debit	Credit
Recording the purchase of goods/services and related tax credit			
<i>The first event is delivery</i>			
1	Assets/goods received (an act of work performed, services rendered is available)	15,20, 91, 92	631, 685
2	VAT tax credit is recognized (tax invoice <i>is issued</i>)	6442	631,685
3	VAT tax credit is recognized (tax invoice <i>is registered</i>)	641	6442
<i>The first event is payment</i>			
1	Prepayment to the supplier was made	371	31
2	VAT is reflected as part of the prepayment (the supplier has <i>issued</i> a	6442	6441

	tax invoice)		
3	VAT tax credit is recognized (tax invoice <i>is registered</i>)	641	6442
4	Assets received from the supplier, completed work, services rendered	15,20, 22, 28, 91, 92	631, 685
5	Recording a tax credit (closing the «unconfirmed VAT tax credit» account)	6441	631, 685
Recording of sales of goods/services and related tax liability			
<i>The first event is delivery</i>			
1	Shipped inventory (non-current assets), performed work, rendered services	36, 377	701,702, 703, 712
2	The amount of VAT tax liabilities is recognized (a tax invoice <i>is issued</i>)	701, 702	6432
3	The amount of VAT tax liabilities is recorded (tax invoice <i>is registered</i>)	6432	641
<i>The first event is payment</i>			
1	Prepayment received	31	681
2	A tax liability is recognized (a tax invoice <i>is issued</i>)	6431	6432
3	VAT tax liability is recognized (tax invoice <i>is registered</i>)	6432	641
4	Revenue from sales was recognized	361	701
5	Recording the closing of the «unconfirmed VAT tax liability»	701	6431

Since, in most cases, the registration of a tax invoice does not take place on the day it is issued, a company may introduce third-order accounts to record confirmed and unconfirmed tax liabilities and tax credits. For example, when settling with a buyer on a prepayment basis, the tax liability arises on the date of receipt of the advance (based on the incoming payment order) and is considered to be an unconfirmed fact of delivery. And this business transaction can be recorded using account 6431 «Unconfirmed VAT liability». This allows to distinguish which event comes first: an advance or a delivery. provide additional control over the status of tax invoices generation. As for the unconfirmed tax credit, it is recommended to use account 6441 «Unconfirmed VAT tax credit».

It is recommended to enter accounts 6432 and 6442 to record the tax liability and tax credit, respectively. Upon preparation of the tax invoice, the amount of VAT is recorded in Credit (Cr) 6432 (in the part of the tax liability) and Debit (Dr) 6441 (in the part of the tax credit). Upon registration of a tax invoice, entries are made in the accounting records: Dr 6432 Kr 641VAT (in terms of recognizing a tax liability) and Dr 641VAT Cr 6442 (in terms of recognizing a tax credit).

These tax invoices are the basis for preparing a VAT return and determining the total amount of the settlement. The basis for taxpayers to determine this amount is a comparison of the amounts of tax liability (TL) and tax credit (TC).

The following situations may arise as a result of the calculation:

- the tax liability exceeds the tax credit;
- the tax credit is greater than the tax liability.

In the first case, the taxpayer incurs a debt to the budget, and in the second case, the taxpayer is entitled to a refund. Currently, the process of settlements with the budget is automated through the introduction of an electronic administration system (EAS), and therefore, account No 315 «Special accounts in the national currency» is used in accounting. This account is opened by the State Treasury

Service of Ukraine for each taxpayer in the electronic administration system. The specific feature of the account No 315 is that it only accounts for VAT payments and does not control the registered VAT amounts. Therefore, if the amount of tax liability exceeds the tax credit, the transaction to transfer the amount of liability to the budget is reflected by a posting of Dr 641/VAT Cr 315. If the VAT refund is received, an entry should be made in the accounting records Dr 315 Cr 641/VAT, which will indicate an increase in the funds in the account in the SEA VAT [3].

Through the automatic creation of an electronic taxpayer account by the central executive body, each business entity is provided with technical means of keeping records and making payments to the budget for this type of tax. The generalized process of making VAT payments is shown in Figure 1.

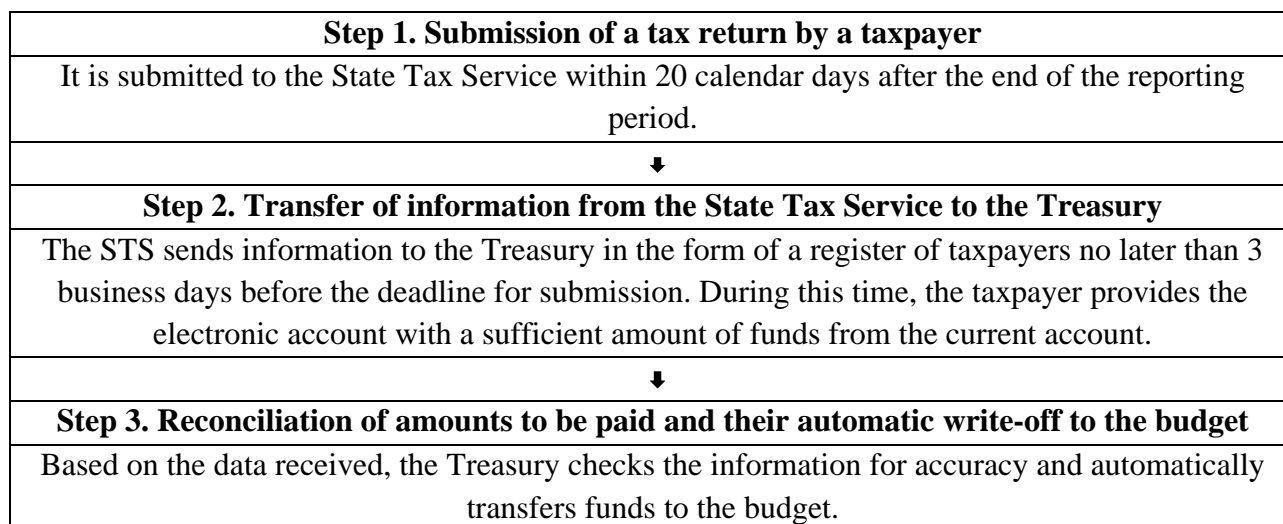


Figure 1. Sequence of repayment of VAT tax liability [4]

The electronic administration system ensures the entire process of accounting and settlements for value added tax, including: automatic VAT accounting, quick registration of tax invoices in the Unified Register of Tax Invoices, formation of a separate account for tax payments, control over the amount of VAT, etc.

In October 2022, the updated Procedure for Suspension of Registration of a Tax Invoice/Adjustment Calculation came into force. The rationale for the changes was the need to prevent violations by unscrupulous taxpayers. However, the increased monitoring caused significant problems for all taxpayers. At the end of 2022, taxpayers faced a problem that no taxpayer was spared - massive blocking of tax invoices. The number of small and medium-sized businesses that faced the problem of blocking tax invoices in October-November 2022 grew extremely fast [5]. Blocking tax invoices has negative consequences for business. A blocked invoice deprives the buyer of the right to use the tax credit. As a result, the buyer may decide not to cooperate with this supplier in the future. Another negative consequence may be additional expenses in the form of recognizing and paying a fine to the buyer in the amount of a certain percentage of the tax invoice (if specified in the contract).

Suspension of the registration of tax invoices and adjustment calculations also entails penalties, which are prescribed by clause 201.4 of Article 201 of the Tax Code of Ukraine (Table 2).

Table 2. Current VAT penalties

Rate (TCU)	Features
Violation of the term for registration of TI/SA	
10% of the amount of the TI/SA	Duration of the registration period overdue from 1 to 15 calendar

	days
20%	The duration of the registration delay is 16-30 days.
30%	The duration of the registration delay is 31-60 days.
40%	Violation of the registration period by 61-365 working days.
Violation of the term for registration of a TI under the TC	
2% of the taxable profit, but not more than 1020 UAH	A penalty has been established for: - TI/CC for VAT-exempt transactions; - TI/CC for transactions with 0% VAT rate; - TI/CC drawn up in accordance with Articles 198.5,199,201.4 of the TCU
Lack of registration of TI / SA	
5% of the amount without VAT, but not more than 3400 UAH	If TI/SA were not submitted to the Unified Register and were detected by the controlling authority
50% of the software	<ul style="list-style-type: none"> • Failure to register within the deadline under Article 201 of the TCU; • Absence of a tax invoice for the supply of goods/services; • Failure to register TI/CC within 10 days from the date of receipt of the tax notice of decision

As for blocked tax invoices and adjustment calculations, no financial sanctions are applied to them, but it is mandatory to reflect the amount of VAT liability in the relevant period. This problem has led to a revision of the Procedure for making decisions on registration/refusal to register tax invoices/adjustment calculations in the Unified Register of Tax Invoices and introduction of relevant changes and restrictions:

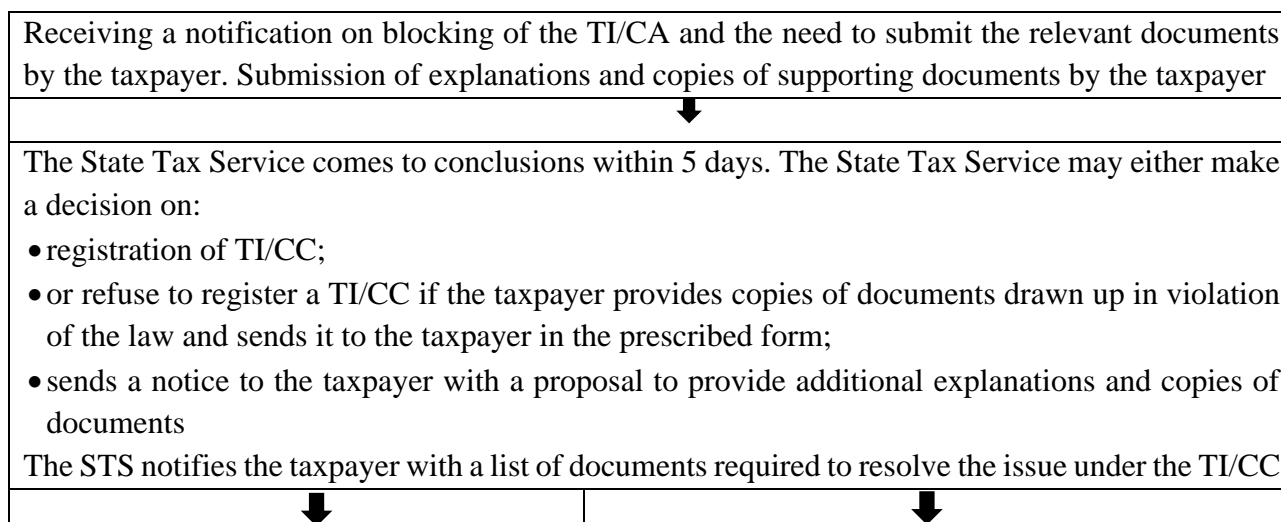
Table 3. Main amendments to the Procedure for making decisions on registration/refusal to register tax invoices/adjustment calculations [6,7]

Innovations	Explanation
The signs of automatic registration of tax invoices/adjustment calculations have been expanded, in particular, excluded from monitoring	The following are not subject to monitoring: <ul style="list-style-type: none"> • tax invoices in which the volume of supply does not exceed UAH 5 thousand; • adjustment calculations in which the absolute value of the amount of the adjustment to reduce/increase the amount of compensation does not exceed 5 thousand UAH (provided that the volume of transactions in the current month under such tax invoices/adjustment calculations does not exceed 500 thousand UAH)
A reference book of tax information codes has been introduced, which is the basis for making a decision on the taxpayer's compliance with the risk criteria	The codes will be determined by the State Tax Service (STS) and posted on the official website of the STS

<p>The indicator of the VAT payer's positive tax history regarding the simultaneous fulfillment of the conditions for achieving the supply volumes for the current period has been expanded</p>	<p>Requirements for the volume of supply increased from UAH 500 thousand to UAH 1 million and per recipient from UAH 50,000 to UAH 100,000</p>
<p>Conditions for applying risk criteria</p>	<ul style="list-style-type: none"> • the risk criteria for failure to submit VAT tax returns for the last 2 reporting/tax periods are applied taking into account martial law; • the provision regarding the absence in the table of the VAT payer's data of goods or services specified in the tax invoice and calculation of adjustments has been removed; • the definition of what is not a risky transaction when the adjustment calculation for the supply of electricity, natural gas, and heat is provided

The changes to the criteria for automatic registration introduced in October 2022 have contributed to an increase in the number of blocked tax invoices. This has created significant difficulties for the functioning of Ukrainian businesses. In response to the problematic issues that arose as a result of the changes introduced in October 2022, the government expanded the list of unconditional registration criteria. It is expected that the expansion of the list will remove the documentary burden from small businesses, speed up the process of registering TI/AC, risk criteria will be reduced, massive blocking of invoices and adjustment invoices will be applied to medium and large businesses, which is seen as a stricter control over their activities, as well as immediate receipt of tax funds to the budget (blocking of invoices does not exempt the taxpayer from paying the tax liability). At the same time, the innovations include the obligation of the tax authorities to provide detailed information on the compliance or non-compliance of a business transaction with the risky one, which means that taxpayers have the opportunity to provide the necessary documents or information to appeal against the decisions.

Improvements to the Procedure for rejecting/blocking/unblocking TI\CC with the new changes will operate according to the scheme shown in Figure 2 starting from March 23.



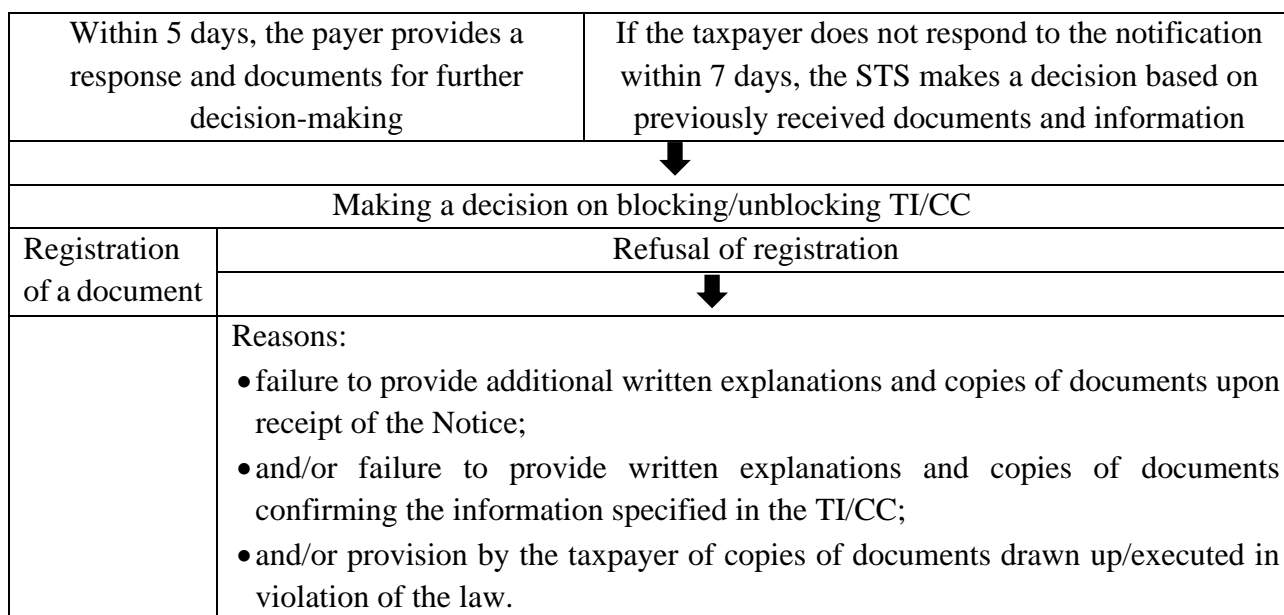


Figure 2. The process of making a decision on registration/refusal to register a TI/CC

Based on the above information, it was determined that the electronic administration system ensures the entire process of accounting and settlements for value added tax. For untimely and non-compliance with the established deadlines, requirements and conditions for registration of tax invoices or adjustments, entrepreneurs face penalties that are unforeseen/additional costs. Legislative changes in October 2022 led to a massive blocking of tax invoices. This phenomenon has necessitated the revision of the criteria for assessing the riskiness of business transactions, expanding the criteria for unconditional registration of tax invoices in a positive way for small businesses. At the same time, stricter conditions for monitoring and controlling business operations of medium and large enterprises have helped to eradicate financial fraud in the receipt/delivery of goods and services, and have led to an increase in cash flows to the budget and transparency from the perspective of taxpayers.

Conclusions

The development of information technology and changes in tax legislation have a direct impact on tax accounting, its organization and methodology, as well as on the processes related to tax payments, preparation and submission of tax reports. VAT accounting and reporting have a number of peculiarities. One of the features of recent years has been the introduction of an electronic tax administration system, which provides for the preparation and registration of tax invoices exclusively in electronic form. Such a system has certain advantages: it reduces the level of documentary accumulation and shortens the time required for settlements. However, despite the positive impact, factors such as constant changes in legislation and tax system reforms may negatively affect the VAT settlement processes, causing late payment of liabilities, additional business difficulties, namely the expenditure of resources to unblock tax invoices, and payment of fines, which may be recognized by the payer both in relation to the country's budget and the partner purchasing products or services. The main task now is to establish a system of control over VAT accounting and tax liability settlements that, even with significant changes, could ensure ease and accuracy of payment.

Bibliographical references

1. Tax Code of Ukraine URL: <https://zakon.rada.gov.ua/laws/show/2755-17#Text>

2. Casanova M. VAT accounting: closing VAT accounts, reflecting typical transactions // Accountant 911: Scientific and Economic Journal. 2019. №15. URL: <https://buhgalter911.com/uk/journals/buh911/2019/april/issue-15/article-43777.html>
3. Onishchenko V. A. VAT tax credit // Golovbukh: electronic journal. 2021.. URL: <https://www.golovbukh.ua/article/ru/7981-nalogovyy-kredit-po-nds>
4. On Some Issues of Electronic Administration of Value Added Tax No. 569 of 16.10.2014 [Electronic resource]: Resolution of the Cabinet of Ministers. URL: <https://zakon.rada.gov.ua/laws/show/569-2014-%D0%BF#Text>
5. Koznova O. The problem of mass blocking of tax invoices is growing - research. 2022. URL: https://biz.ligazakon.net/news/215505_problema-masovogo-blokuvannya-podatkovikh-nakladnikh-zrosta---dosldzhennya
6. Pavlysh O. The government approved changes to the system of blocking tax invoices: project "Economic Truth" 23.12.2022. URL: <https://www.epravda.com.ua/news/2022/12/23/695391/>
7. System for business: New procedure for blocking TI/CC from 11.01.2023. URL: <https://sys2biz.com.ua/news/novyj-poryadok-blokuvannya-pn-rk-z-11-sichnya-2023/>
8. Starting March 8, the State Tax Service will unlock tax invoices in a new way: Accountant 911; e-journal. 23.02.2023. URL: <https://buhgalter911.com/uk/news/news-1070180.html>