

Transaction Tax Control Algorithm Between Related Persons

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Abstract: Since 2012, a new type of inspection is introduced as the tool for transaction monitoring between related persons using the chapter v.1 of the Russian Federation Tax Code, the check of tax calculation and payment completeness due to the settlement of transactions between related persons. These checks are referred to the competence of the central office of the Federal Tax Service of Russia but carried out at the tax authority location like during a desk tax audit. The classification of stages concerning the check of tax calculation and payment completeness is proposed and developed due to the settlement of transactions between related persons. It was found that during the transaction tax control analysis between related persons it is advisable to determine the following stages: preparatory stage; the stage of decision taking concerning an inspection; the stage of the audit performance; the stage of violations determination at the end of the inspection; the stage of resolution taking in respect of revealed violations. The algorithms of method implementation are also proposed (the method of comparable market prices, resale price method, expensive method, comparable profitability method, the method of profit distribution) according to which the fact of applied and market price compliance in the transactions between the related persons is justified and confirmed. After the analysis of methods used in the tax control of transactions between related parties, it is possible to structure the problems of each method application. It was determined that the main drawback in the Russian context is in the selection of comparable transactions in order to consider the analyzed transaction.

Key words: Controlled transactions, interdependent persons, the algorithm of tax control, tax control methods, Russian Federation Tax Code

INTRODUCTION

The researchers of the study developed and proposed the classification of the stages concerning the verification of tax calculation and payment completeness due to the settlement of transactions between related persons.

The process of transaction tax control between related persons is inextricably related to the methods by which the tax authorities justify and confirm or deny the fact of used price compliance to the market ones in the transactions between related persons (Kirova, 2012).

MATERIALS AND METHODS

The information base of research was made by the Russian Federation acts and the subjects of Russian Federation, the official documents of the legislative and executive authorities, scientific articles of economic science candidates and the doctors of economics. During the analysis of the theoretical and practical aspects of the research topics such methods of scientific knowledge as classification, specification, monitoring, systematic approach to the analysis of research objects, logical, comparative regulatory and other methods were applied.

RESULTS AND DISCUSSION

The theoretical model of the check performance process of tax calculation and payment completeness due to the settlement of transactions between related persons, represented on Fig. 1 is presented in the form of interconnected and consecutive blocks the process of transaction tax control algorithm between related persons. At the preparatory stage, the establishment of the necessity fact concerning the check of tax calculation and payment completeness takes place (Grundel, 2014b).

At the stage of making a decision about the inspection the head (the head deputy) of the Federal Tax Service of Russia decides to audit the completeness of tax calculation and payment due to the settlement of transactions between related persons.

During the stage of tax calculation and payment completeness check due to the settlement of transactions between the related parties of the Federal Tax Service of Russia one may carry out tax control measures referred to in the section V.1, Articles 93, 93.1, 95-97 of the RF Tax Code.

During the stage of violation identification after the checking the facts that led to the underestimation of the tax amount according to the controlled transactions are

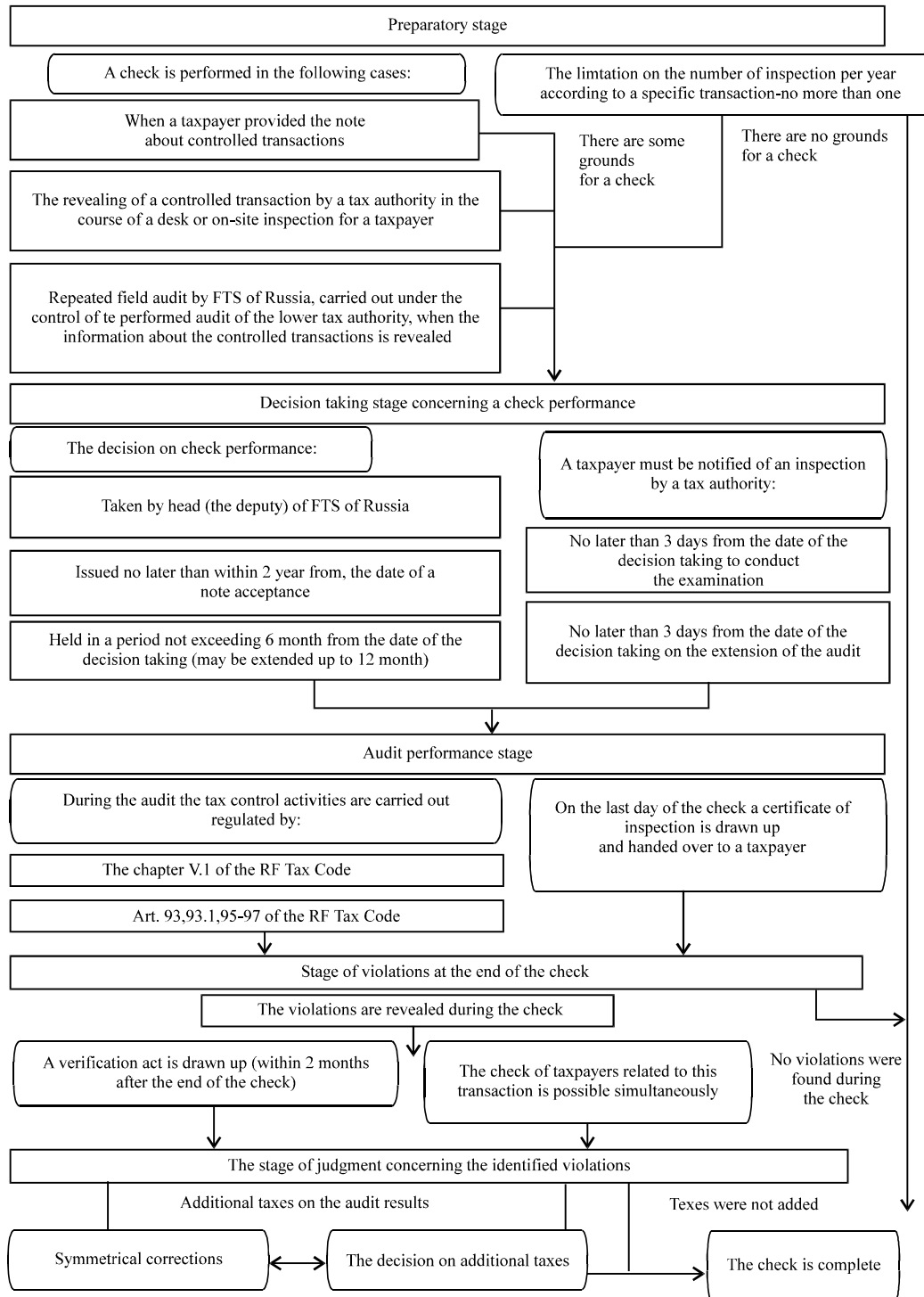


Fig. 1: Algorithm of the tax control process concerning the transactions between related persons

recorded in an inspection report which shall be issued within two months from the date of inspection certificate drawing up.

In the process of transaction tax control between related persons the tax authorities use the methods,

according to which the fact of compliance of market and applied prices in the transactions between related persons is justified and confirmed (Kirova, 2012). The priority is the method of comparable market prices (Grundel, 2012, 2013) (Fig. 2).

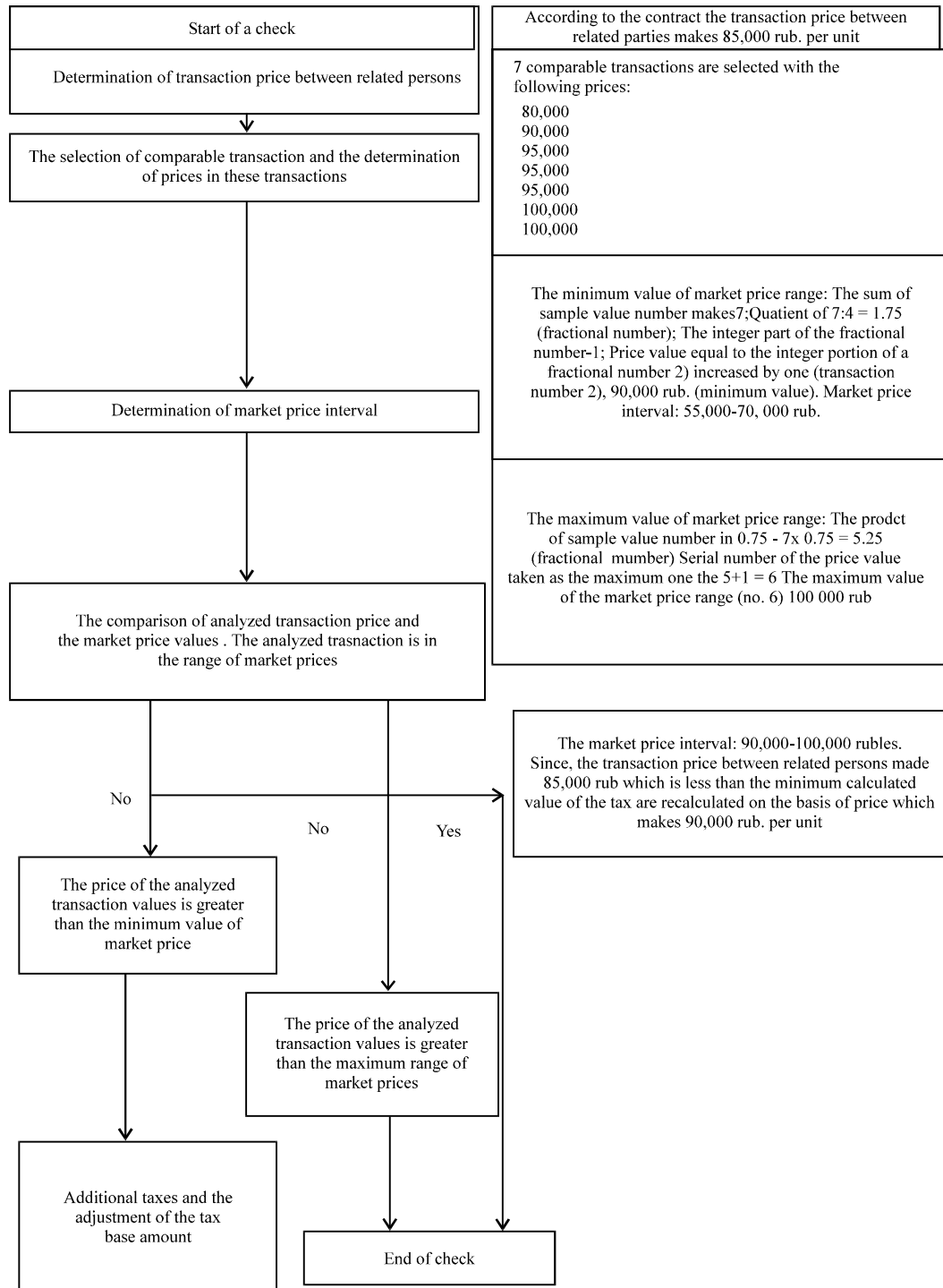


Fig. 2: Tax control algorithm for transactions using the method of comparable market prices

In our opinion, the main advantages of comparable market prices method are the relative simplicity of the method use compared to other methods of transaction tax control between related persons as well as the ability of a

market price quick calculation. The disadvantage of this method is in the difficulty of obtaining the information on comparable transactions as completely comparable transactions do not occur in practice.

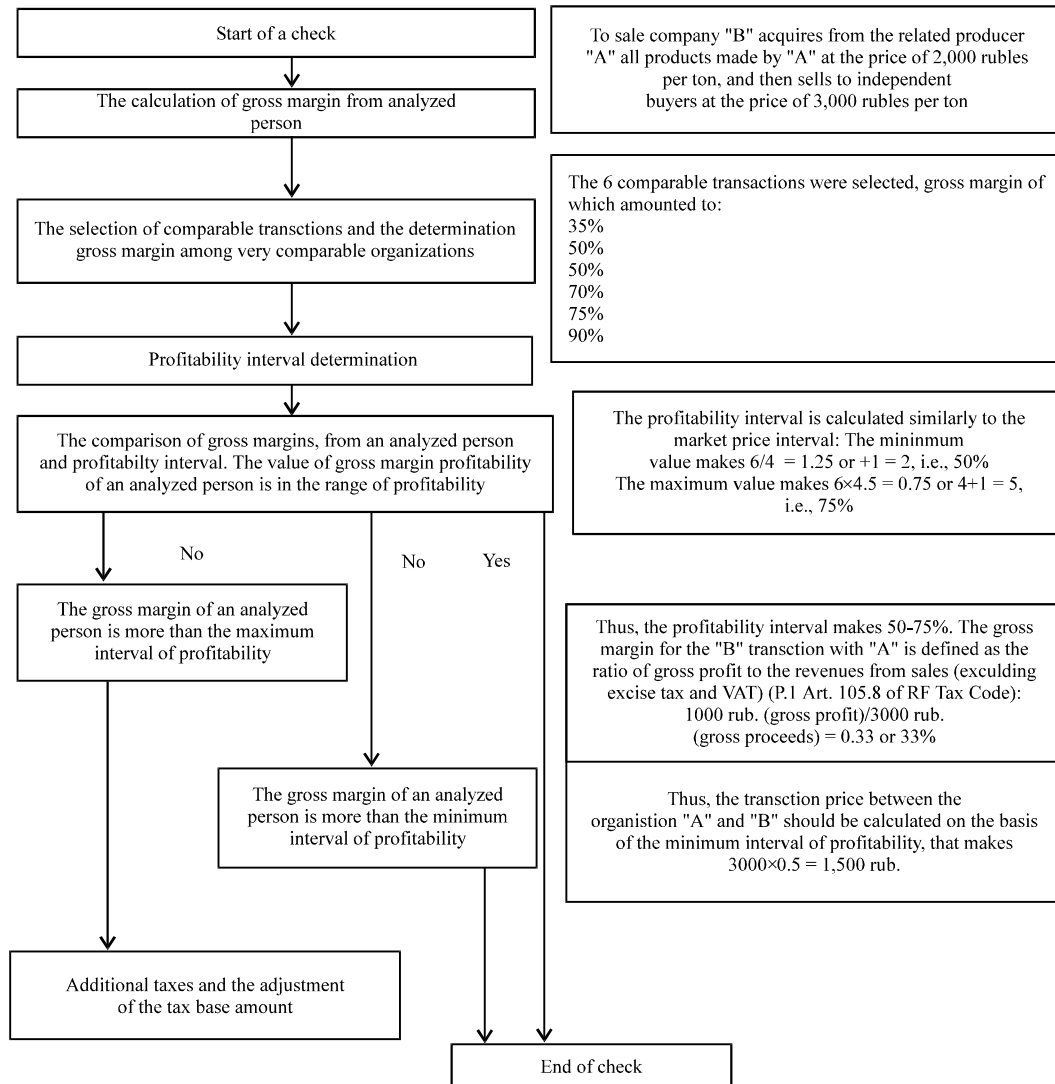


Fig. 3: Algorithm of transaction tax control using the resale price method

Resale price method may be used as a tax control tool for transactions between related persons in the situations when a product is purchased from related person and is resold to an independent buyer without processing (Grundel, 2013).

The algorithm resale price application, method method for the purposes of tax control concerning the transactions between related persons is shown on Fig. 3. The main drawback with this method is the obtaining of information on comparable transactions.

The expensive method (Fig. 4) was used for the purpose of tax regulation mainly for service provision transactions other than the transactions involving intangible assets that have a significant impact on profitability.

The information base for the application of transaction tax control expensive method between related persons is the financial statement of an analyzed person and comparable organizations. Therefore, disadvantages of this method use, in our opinion, are the same as in the method of resale price.

Comparable profitability method (Fig. 5) is based on the margin assessment obtained by the company as the result of a transaction (a series of transactions) in relation to turnover, costs and capita (Grundel, 2013).

The information base for the application of this tax control method between the related persons is the financial statement of a person being analyzed and comparable organizations. Therefore, the disadvantages of this method use are the same as in the previous three methods (Grundel, 2014a).

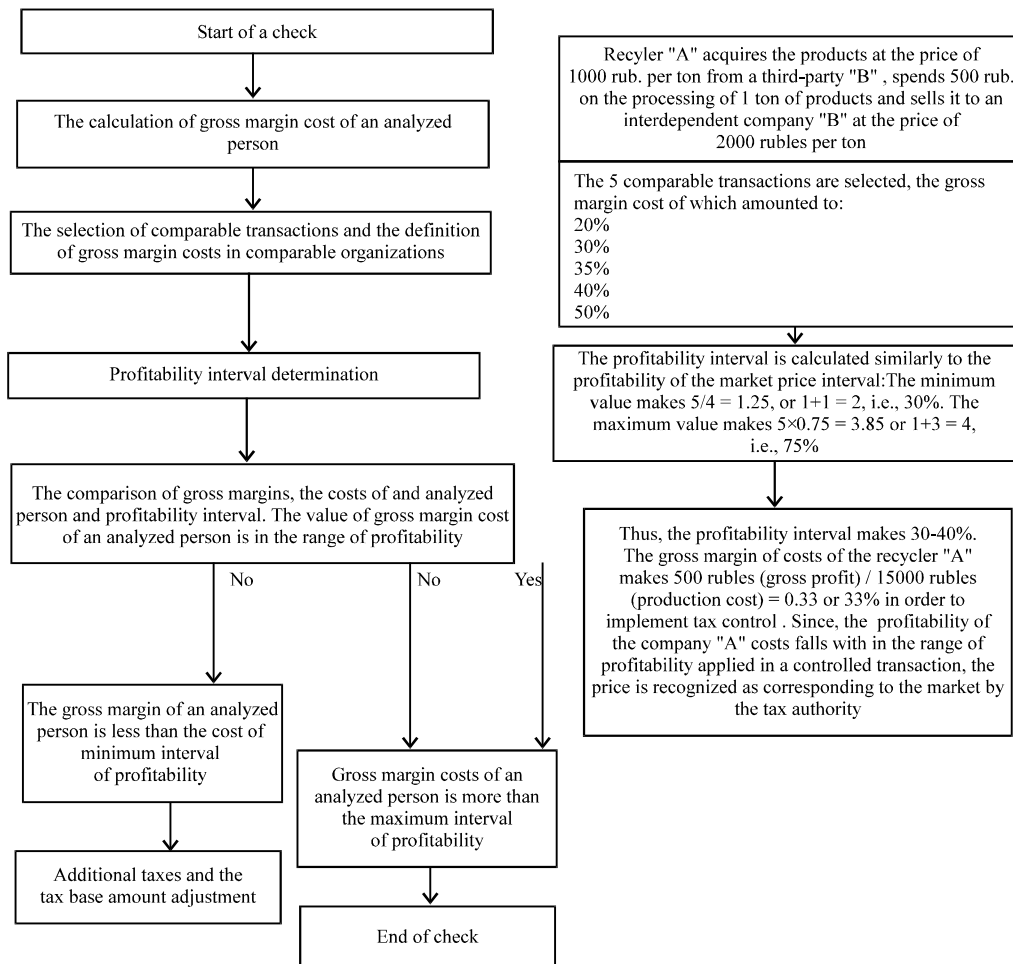


Fig. 4: Transaction tax control algorithm using the cost method

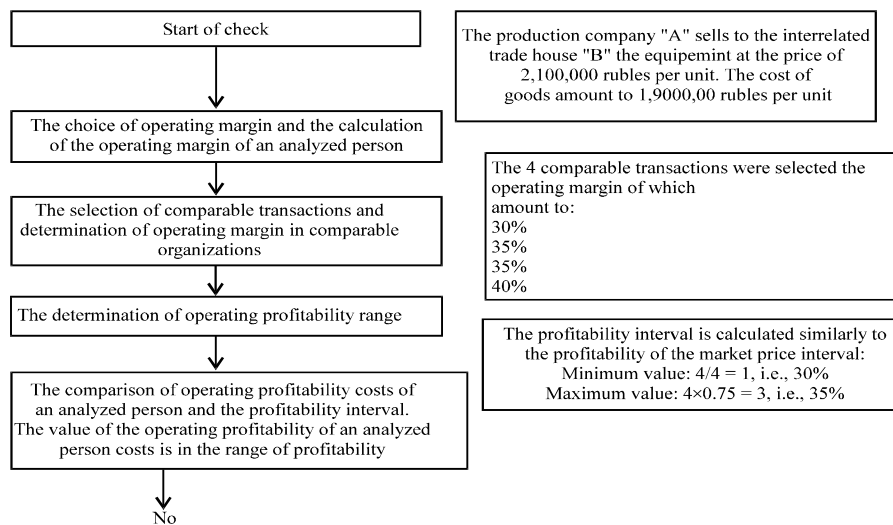


Fig. 5: Continue

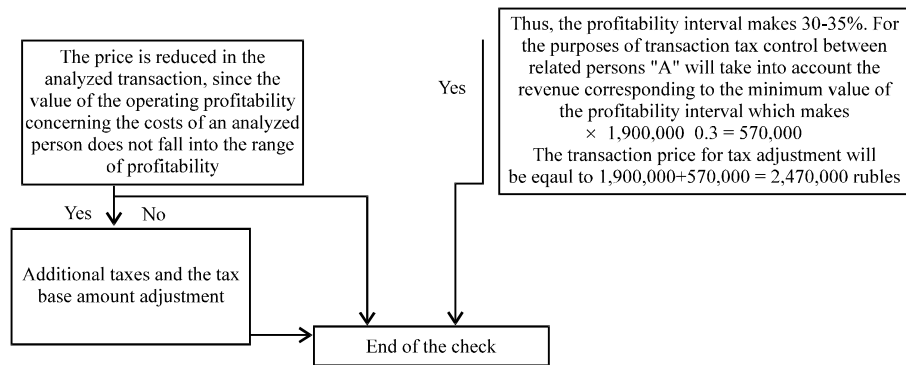


Fig. 5: Algorithm of transaction tax control using the method of comparable profitability

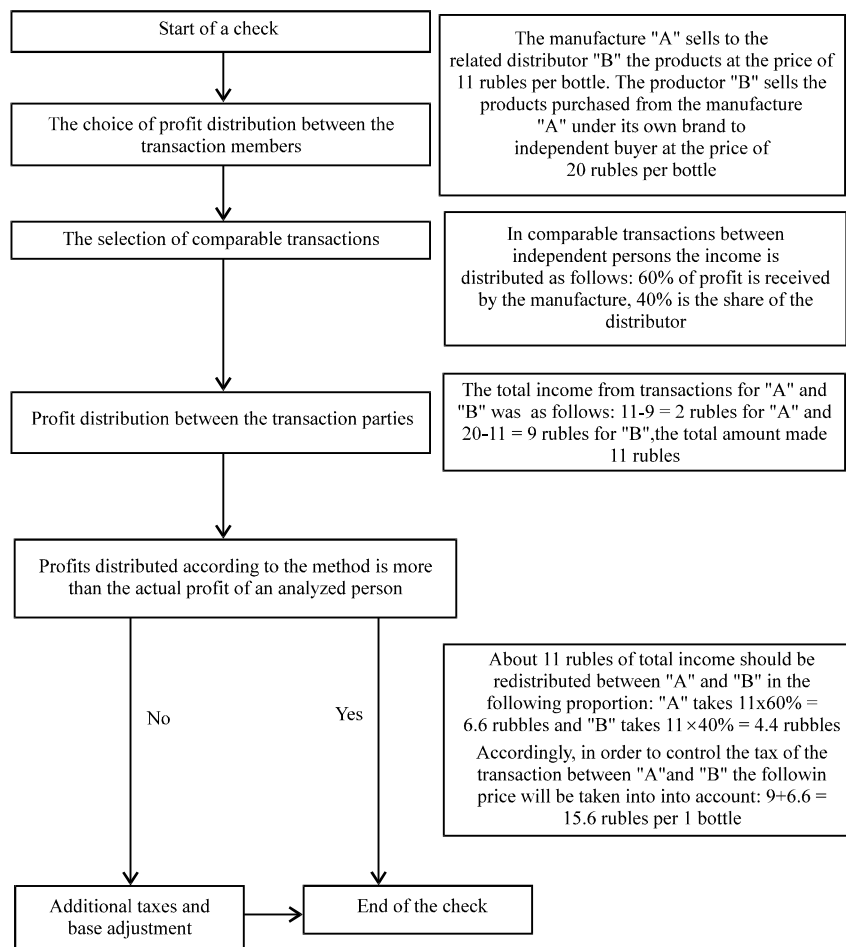


Fig. 6: Tax control algorithm for transactions using the method of profit distribution

The method of profit distribution may be used for tax control over transactions, performed in large holdings and transnational corporations. In our opinion, a error is highly possible in the implementation of the profit distribution method as the result of incorrect decision adoption by a tax authority employee who has the

qualifications and the expertise to apply this method in the process of transaction tax control between related persons.

The algorithm of profit distribution method, shown on Fig. 6, is radically different from the previous four methods used for the purposes of transaction tax control

between related parties, mainly because the application of this method requires considerable qualification skills and a person specialization performing a check.

Summary: Thus, the process of transaction tax control between related persons, in our opinion, has a clear sequence of procedures and tools for its implementation, issued in the form of a complex system containing certain successive stages of fiscal control mechanism implementation concerning the transactions between related persons, at the same time, having difficulties in the implementation and functioning of tax control separate elements concerning the transactions between related parties.

CONCLUSION

After the analysis of the transaction tax control process between related persons, as well as the methods used in the tax control of transactions between related persons, it is possible to structure the problems of their application. In our opinion, the main drawback is the selection of comparable transactions in order to consider an analyzed transaction. At the same time, the profit distribution method is provided for such cases but the complexity and the cost of its application does not allow

to consider it a complete substitute for the other four methods in order for tax control of transactions between related persons.

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