

The role of primary accounting and other documentation in reducing the administrative burden on businesses

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1. Introduction

- Administrative burden for companies in Belarus is very high by international standards
- One of the key reasons: Excessive, complex and out-dated requirements regarding documentation and in particular primary accounting documentation (PAD)
- Thus: Reform of requirements on documentation issues as a key measure to reduce the administrative burden on businesses
- Situation in Germany:
 - Modern and efficient system regarding documentation
 - However: This is the result of a reform process over many years
 - Besides: Fresh experience in transforming an out-dated into a modern system in a short span of time in East Germany
 - Thus: German experience of high relevance for Belarus

2.1 Role of PAD in Germany

The relevance of primary accounting documentation and the focus of inspections have changed during the last decades in Germany. That is particularly the case for the taxation system and tax authorities in the Eastern Part of Germany.

	Past	Present
Role of tax inspections	Checks of accounting process	Checks of plausibility of accounting results
Focus of tax inspections regarding primary documentation	Focus on formal details	Focus on content
Primary tasks of a tax inspections	Visits to companies and checks of documents	Electronical statistical analysis: Cross-checks of company's reports with industry key data
Typical question of a tax inspector	„Are all primary accounting documents complete and accurate?“	„Is the ratio between turnover and profit reasonable in comparison with similar companies?“

2.2 Principles of PAD in Germany

Form and content of primary accounting documentation in Germany is under the responsibility of the entrepreneur/company;

it must meet the following requirements:

- **Self-explanatory:** A third competent person should be able to easily get an overview about all transactions and the situation of the company
- **Self-evident:** The history and current status of each transaction is easy to understand (business contact -> order -> invoice -> settlement etc.)
- **Fraud resistant:** Any changes in documents must be transparent
- **Evidence for taxation:**
Contains all information necessary to calculate tax liabilities

2.2 Principles of PAD in Germany cont.

- All types of natural and legal persons, who have income from entrepreneurial activity / self-employment, must keep primary accounting documents
 - Companies
 - Individual entrepreneurs (incl. freelancers), part-time entrepreneurs
 - Liberal professionals: advocate, notary, medical practitioner, artist etc.
- The more complex the company, the more complex is PAD
The company/entrepreneur decides what is necessary

Example: Individual entrepreneur with 50 invoices per years needs no register at all; Tax inspector will not ask for any register, because plausibility of tax declaration can easily be checked without it

Big enterprise with 5.000 invoices per year needs to have some kind of invoice register, because tax inspector cannot check all the 5.000 invoices manually one by one

2.2 Principles of PAD in Germany cont.

- No mandatory forms for primary accounting documents
- Mandatory details only for those primary accounting documents who are particularly exposed to fraud, e.g.
 - Invoices issued to companies/entrepreneurs (in order to prevent VAT refund fraud)
 - Inventory, warehouse inflows/outflows (effect on reported profit)
 - Travel expenses, company car expenses, Business dinners/presents etc. (in order to prevent the tax deduction of privately used business resources)

Notice: For most other kind of PAD, there are no formal requirements!

2.2 Principles of PAD in Germany cont.

- Record keeping obligations
 - 10 years for invoices, receipts, journals, balance sheets, accounting records
 - 6 years for all business letters
 - 6 years for all other documents that provide further evidence of tax declaration
- Record keeping periods are the same for all types of entrepreneurs and companies.

2.2 Principles of PAD in Germany cont.

Example: Mandatory details for invoices issued to companies/entrepreneurs

- Name and address of the issuing company/entrepreneur
- Tax number of entrepreneur the issuing company/entrepreneur
- Name and address of receiver
- Invoice date
- Invoice number (all invoices must be numbered serially and unique)
- Description of products and/or services delivered
- Quantity of products and/or services delivered
- Delivery date
- Net invoice amount
- VAT rate, VAT amount, Gross invoice amount (net + VAT)

Remarks:

- **No signature, no stamp and no "paper original"** for invoices in Germany. The invoice number in combination with the *tax identification number* serves as unique identifier
- Layout of invoice is not mandatory
- If invoice contains all the requested information, **no** other primary accounting documents_necessary: no waybill, no order-sheet, no VAT-special-document ("nalogavaya nakladnaya"), no act of acceptance ("akt") etc.

2.3 Summary of the German Experience

- Main features of the German system of primary accounting documentation:
 - Low administrative burden and low accounting costs for companies
 - Low costs for state tax authorities (for tax inspections)
 - No facilitation of tax evasion
 - Focus on content: “substance over form”
(instead of “form over substance” as it is partly the case in Belarus)
- Experience in Germany
 - Eased primary accounting documentation contributes to the development of SME
 - At the same time: No increase in tax fraud
 - Therefore: Practically no losses in public revenues (fiscal neutrality)
 - Fast and efficient transformation of tax authorities in East Germany
(from Soviet system to modern system)
- Result: Appropriate system with relevance for Belarus

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3.1 Acceptance certificate (акты выполненных работ)

What is the problem for companies?

Since the acceptance certificate is considered the main bookkeeping document (booking will be carried out on its basis), every transaction between economical subjects must be generally accompanied by an acceptance certificate – usually – in paper. This is an unnecessary burden in case the other party paid for the goods and/or services received the agreed amount. In this case the confirmation through the act that the goods/works or services have been provided in line with the contractual provisions and that there are no reservations is redundant. Provision of an acceptance certificate gets even more burdensome in case of transactions with foreign counterparties.

Who is affected?

All businesses (except those which are dealing with “OTC” transactions only)

Suggested reform measure

- Abolishment of the acceptance certificate as a general obligation (only if irreplaceable for compliance with other legal requirements for specific situations in specific enterprises in specific industries)
- Use invoice as the relevant book-keeping document for tax accounting
- Enterprises are free to agree on a bilateral basis on any kind of acceptance document

Expected effect

- Reduced administrative burden and accounting costs for companies
- No facilitation of tax evasion
- No losses in public revenues (fiscal neutrality)

3.2 Consignment note (накладные а перемещение материалов и основны средств)

What is the problem for companies?

The list of primary accounting documents (PAD) includes among others the transport consignment note (TTN-1, TTN) and the consignment note (TT-2, TN). The forms of TTN and TN refer to the forms of documents with a certain degree of protection. They are printed by the state owned GOSZNAK and while being obtained, they are assigned to a certain organisation.

The TTN is designed to record the movement of goods and materials and the payment to the carrier for their transportation. The document is made out for tax and accounting, carried out transportation, and is the basis for writing off inventory from the consignor and receipt of them by the consignee.

It consists of two sections:

- commodity section - is required for writing off and crediting of inventories;

- The shipping section is for settlements with the carrier for services rendered.

The document is made out in four copies. For the consignor, consignee of cargo and two copies for the owner of motor transport - for settlements for services rendered and accrual of wages to the driver.

In turn, the TN is a document required to formalise the sale (or release) of inventory to a third party organisation. The document is required for tax and accounting and is made out regardless of the way the consignee takes the goods - with the involvement of carrier or without the services of a transport company.

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3.2 Consignment note (накладные а перемещение материалов и основны средств)

What is the problem for companies?

...

The TN is drawn up in two copies - for the organisation selling the goods and for their purchaser. On the basis of it the seller writes off the cost of goods in accounting, and the buyer enters the received valuables. Thus, for the movement of inventories, the consignment note must be drawn up, and the consignment note only in the case of transportation of goods and valuables with the involvement of a freight forwarder.

Companies have to obtain the blanks or to maintain the electronical version of the TTN and TN on top to the “usual” documents like waybill, specification and invoice.

Who is affected?

- All organisations not only realising goods through retail sales

Suggested reform measure

- Abolishing the compulsory use of TN and TTN allowing to book on the invoice and the waybill

Expected effect

- Reduced administrative burden and accounting costs for companies
- No facilitation of tax evasion
- No losses in public revenues (fiscal neutrality)

3.3 Employee working book (трудовые книжки)

What is the problem for companies?

Every employee is supposed to have a physical “working book” in paper, which is to be handed over to the employer while starting employment at the “main” working place. In the working book all records concerning the working relations are made – position, dates and also the reason for the dismissal of the employee. For the calculation of the period of employment for every employee only the record in the working book is relevant.

Who is affected?

All companies

Suggested reform measure

- Abolishment of the employee working book as a general obligation
- Keep the employee working book only if it is irreplaceable for compliance with other legal requirements for specific situations in specific enterprises in specific industries
- Introduction of a centralized register with the FSZN

Expected effect

- Reduced administrative burden and accounting costs for companies
- Ease of job changes and reduction of potential conflicts

3.4 Personnel file (Личные дела сотрудников)

What is the problem for companies?

All documents concerning the employee (personal file) must be collected and stored by the company – diplomas but also working orders and all other related documents – in paper. If the employee leaves the company or even on liquidation of the company, the personal files must be archived in paper for the period provided by law which is 75 years.

Who is affected?

All companies with employees

Suggested reform measure

Shortening the period and/or allowing digital archiving.

Expected effect

- Reduced administrative burden and accounting costs for companies

4. Conclusions

- The reduction of documentation and in particular primary accounting documentation requirements is an effective way to reduce the administrative burden on businesses; it
 - Reduces accounting costs for businesses
 - Simplifies and speeds up businesses transaction processes
 - Requires no public resources
 - Encounters no risks for neither state nor businesses
- Experience in other countries, especially Germany, shows, that the reform of the PAD system is
 - Easy to implement
 - Shows immediate positive effects on the business climate
- Additionally, the transition to a modern system of PAD facilitates international trade of Belarusian businesses, because many trade partner countries of Belarus have already a modern PAD system

Thus: Reforming the PAD system is a good starting point for reducing the administrative burden on businesses in Belarus.

5. Appendix

List of German legal norms that contain regulations regarding primary accounting documentation

Abbreviation	Full German name	Translation
AO	Abgabenordnung	Fiscal Code of Germany
EStG	Einkommensteuergesetz	Personal Income Tax Code of Germany
HGB	Handelsgesetzbuch	Commercial Code of Germany
UStG	Umsatzsteuergesetz	Value Added Tax Code of Germany

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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