

2nd iNTeg-Risk Conference

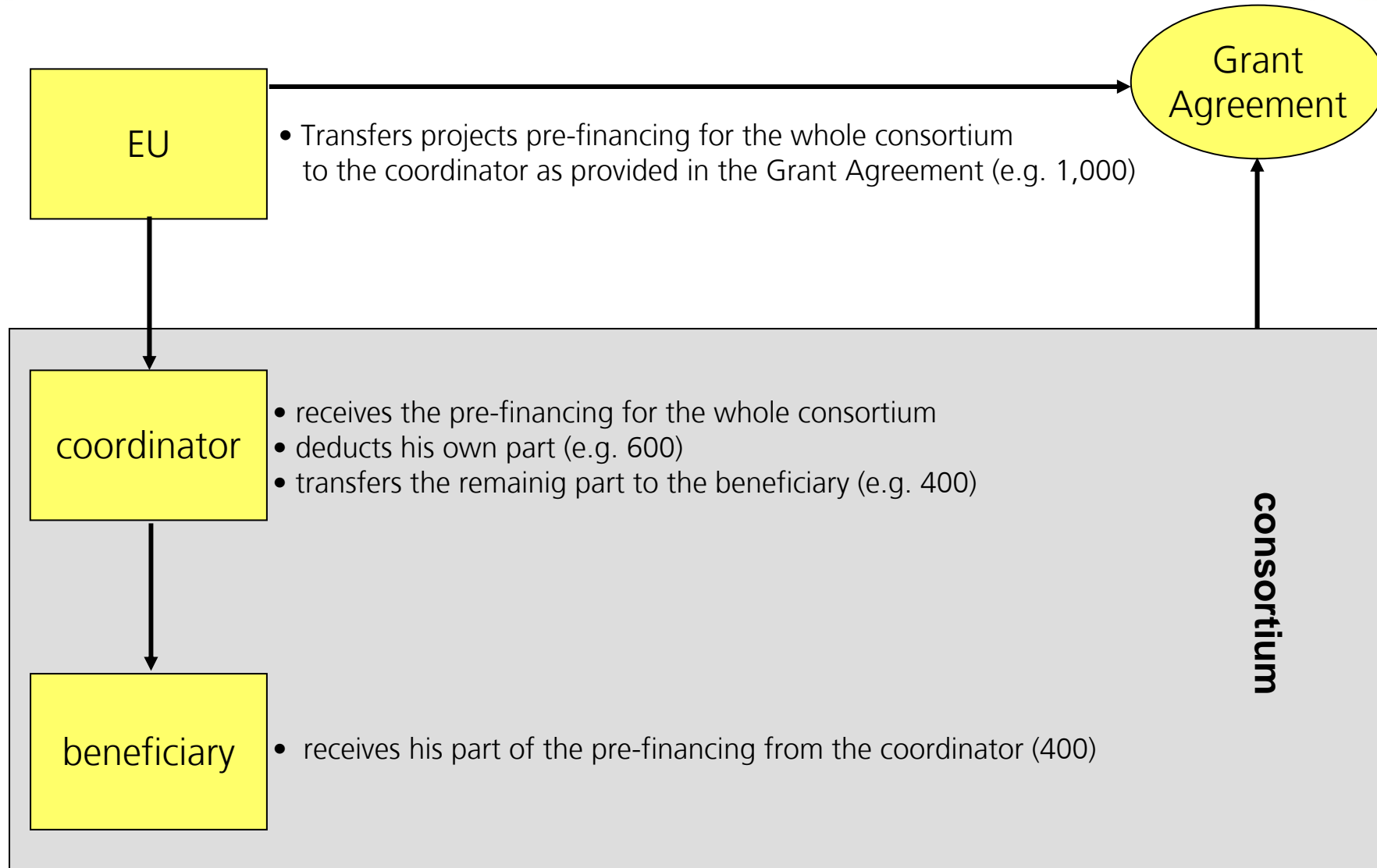
„EU Projects in the Financial Statements and Annual Reports of the Participating Partners, and Specific Tax-related Issues“

June 16th 2010

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Initial situation



Accounting treatment of pre-financing - coordinators level (1)

- At the date of signing the Grant Agreement the coordinator
 - has a **claim** for pre-financing against the EU
 - has a **liability** for transferring the beneficiaries percentage of pre-financing

booking:	accounts receivable (EU)	1,000	to	revenue	600
				other liabilities (beneficiary)	400

- Coordinator receives the pre-financing from EU: receivables netted

booking:	bank	1,000	to	accounts receivable (EU)	1,000
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Accounting treatment of pre-financing - coordinators level (2)

▪ Transfer of beneficiaries percentage of pre-financing

 **two possible cases:**

1.) Transfer of the complete amount

booking:	other liabilities (beneficiary)	400	to	bank	400
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2.) Transfer just a part of the beneficiaries percentage (e.g. 50%)

booking:	other liabilities (beneficiary)	200	to	bank	200
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Accounting treatment of pre-financing - beneficiaries level

- At the date of signing the Grant Agreement the beneficiary
 - has a **claim** for his part of pre-financing
 - has an **accounts receivable** against the coordinator (to transfer the EU contribution)

booking: accounts receivable (coordinator) 400	to	revenue 400
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- Beneficiary receives the pre-financing from coordinator: receivables netted

1.) Receiving the complete amount of pre-financing

booking: bank 400	to	accounts receivable from coordinator 400
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2.) Receiving a percentage of pre-financing (e.g. 50 %)

booking: bank 200	to	accounts receivable from coordinator 200
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Accounting treatment of project costs (1)

- For each EU Project should be set up a **separate project account**, which records the project income (subsidies/pre-financing) and direct as well as indirect costs of the project

➔ **Two alternatives to record the project-costs**

1) Recording all costs occurred by the project

➔ For treatment at the end of the year and for EU-cost statement

- Elimination of non eligible costs
- Addition of subsidized/eligible indirect costs (= overhead costs as a percentage of eligible costs)

2) Recording just eligible costs

Accounting treatment of project costs (2)

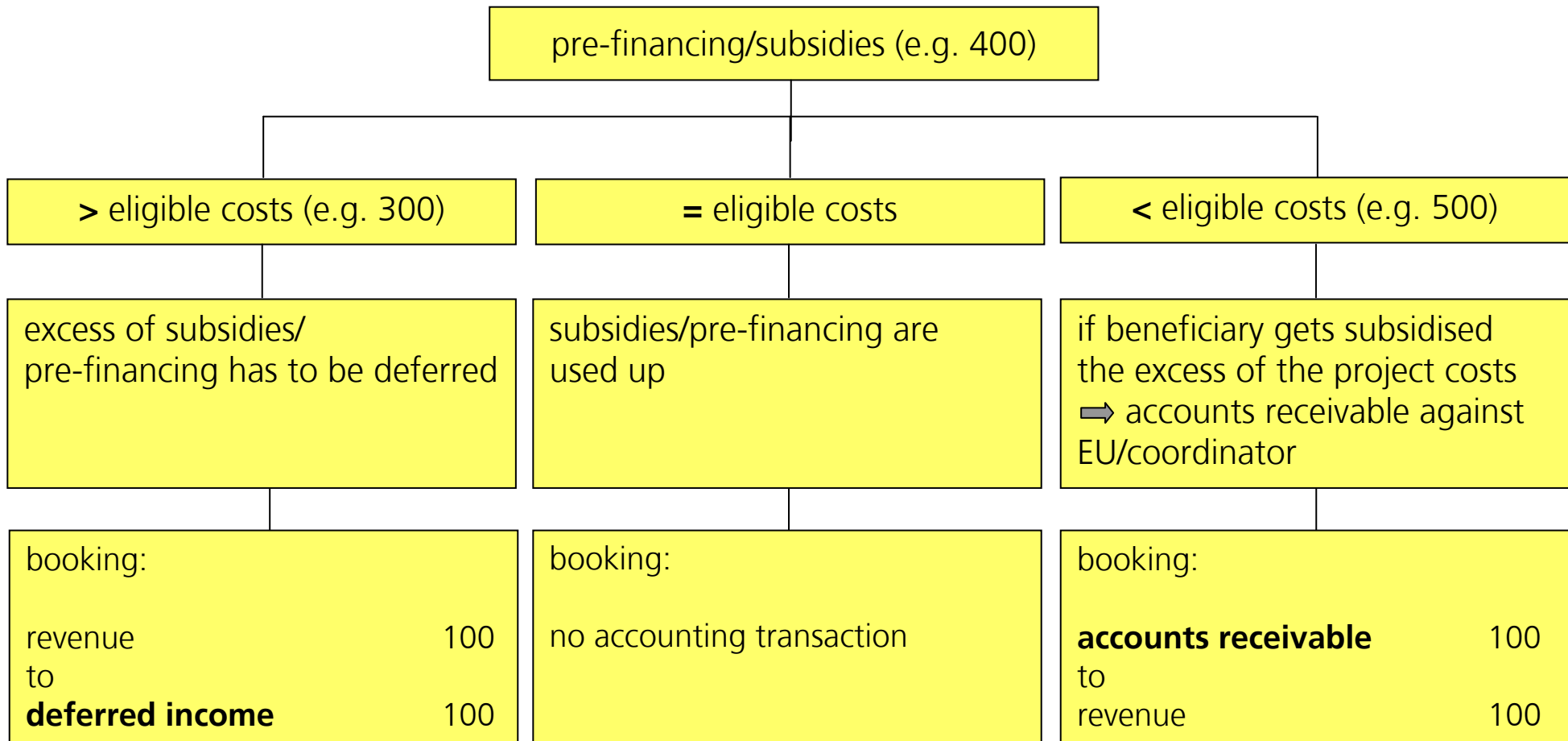
- The **direct costs** should be recorded on the appropriate expense accounts:
 - cost of materials/purchased services: e.g. expenses for seminars/workshops
 - personnel expenses: e.g. wages and salaries of the projects associates including social costs
 - other operating expenses: e.g. travelling expenses

For costs, which are charged in the next period but concern the current period a **provision** has to be accrued (e.g. from fees or audit costs)

booking :	personnel expenses	to	provision for fees
		or	
	other operating expenses	to	provision for audit costs

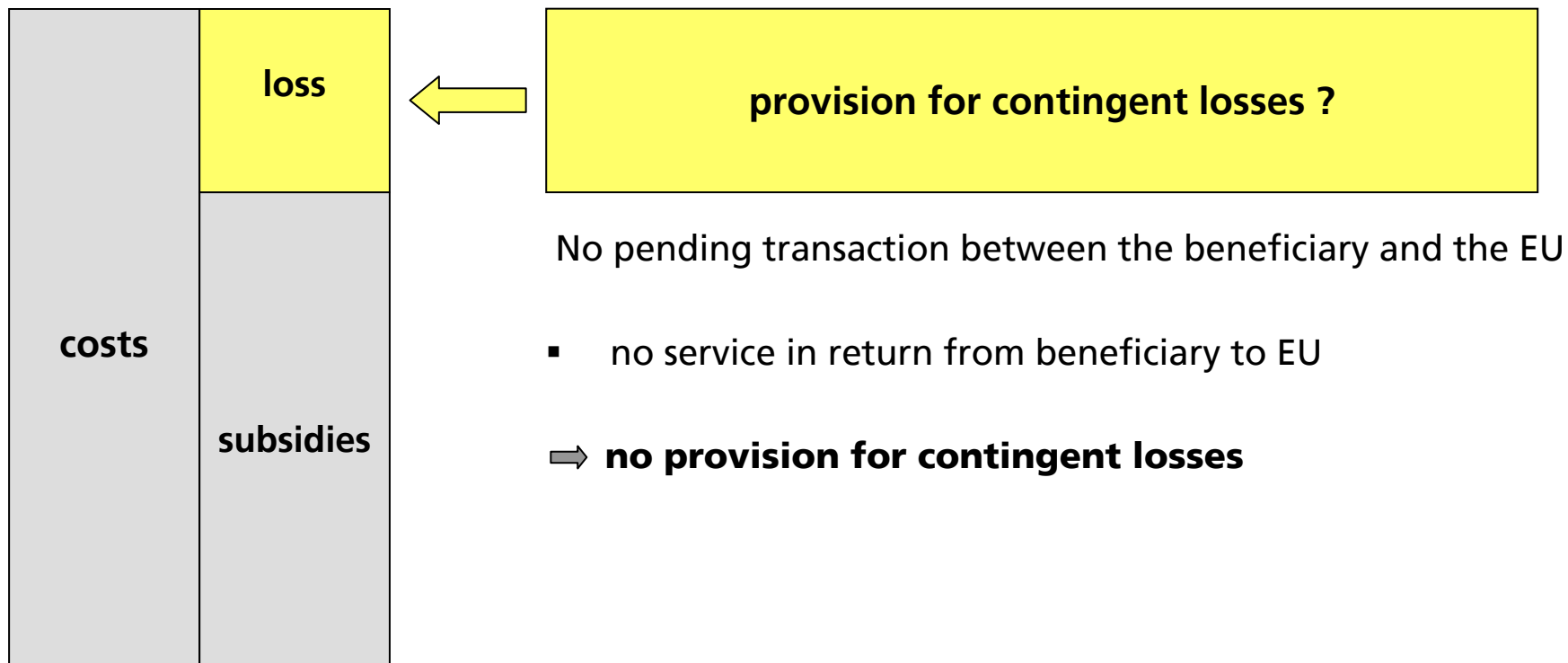
Accounting treatment at the end of the year (1)

- At the end of the year each beneficiary has to oppose the received pre-financing to the eligible project costs booked within the separate project account



Accounting treatment at the end of the year (2)

If no cost-recovering for the full project costs:



Accounting treatment at the beginning of the following year

- The deferred **excess of subsidies** has to be released to income

booking:	deferred income	100	to	revenue	100
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Accounting treatment of the Guarantee Funds

- Under the terms of the Grant Agreement the EU deducts 5 % of the contribution (so called Guarantee Funds = G. F.)

➔ Each beneficiary has a claim (5 % of the received pre-financing e.g. 400)

booking: accounts receivable G. F.	20	to	revenue	20
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- Guarantee Funds constitute an assurance to the EU in case that the beneficiaries have to refund contributions already paid out by the EU. Because of this risk the beneficiaries have to set a provision

booking: other operating expenses	20	to	provision for G. F.	20
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- In case of paying out the Guarantee Funds the beneficiaries have to book

booking: provision for G. F.	20	to	other operating income	20
other operating expenses	20	to	accounts receivable G. F.	20
bank	20	to	revenue	20

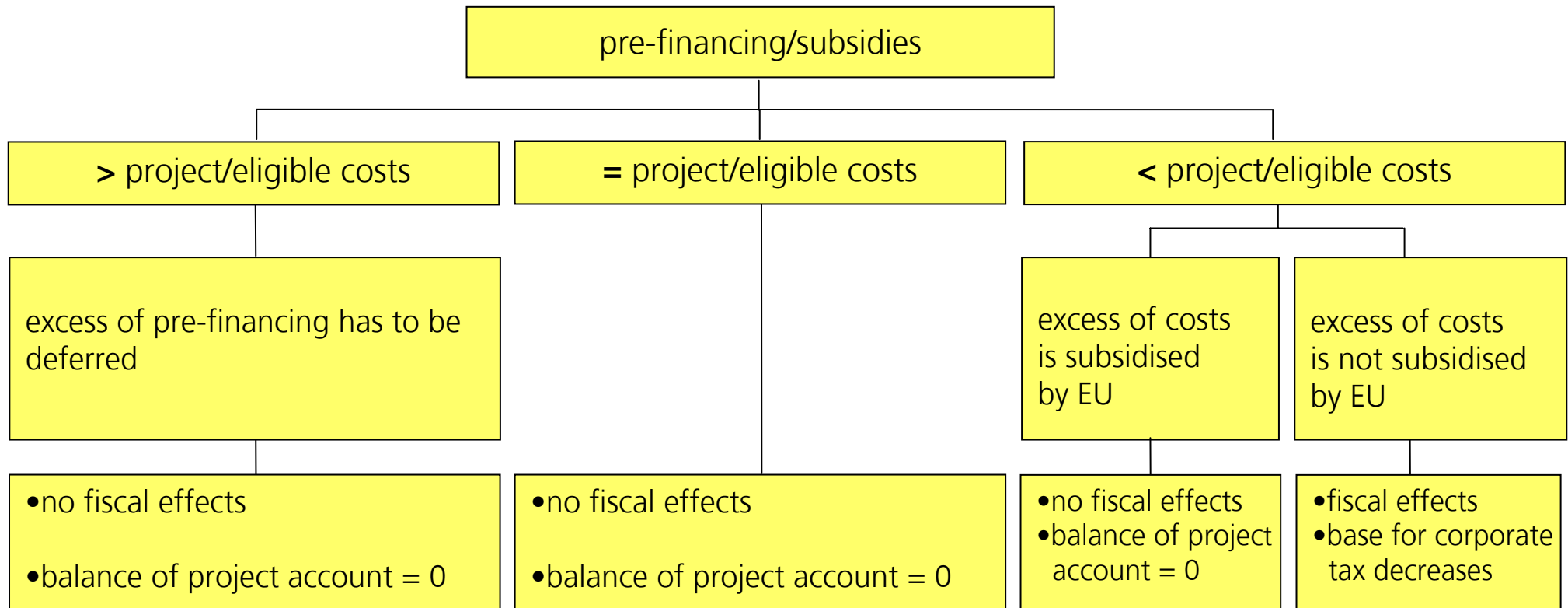
Tax Issues - Corporate Tax

Taxation of grants

EU-contribution taxable? \Rightarrow **Yes** (if received by a taxable entity)

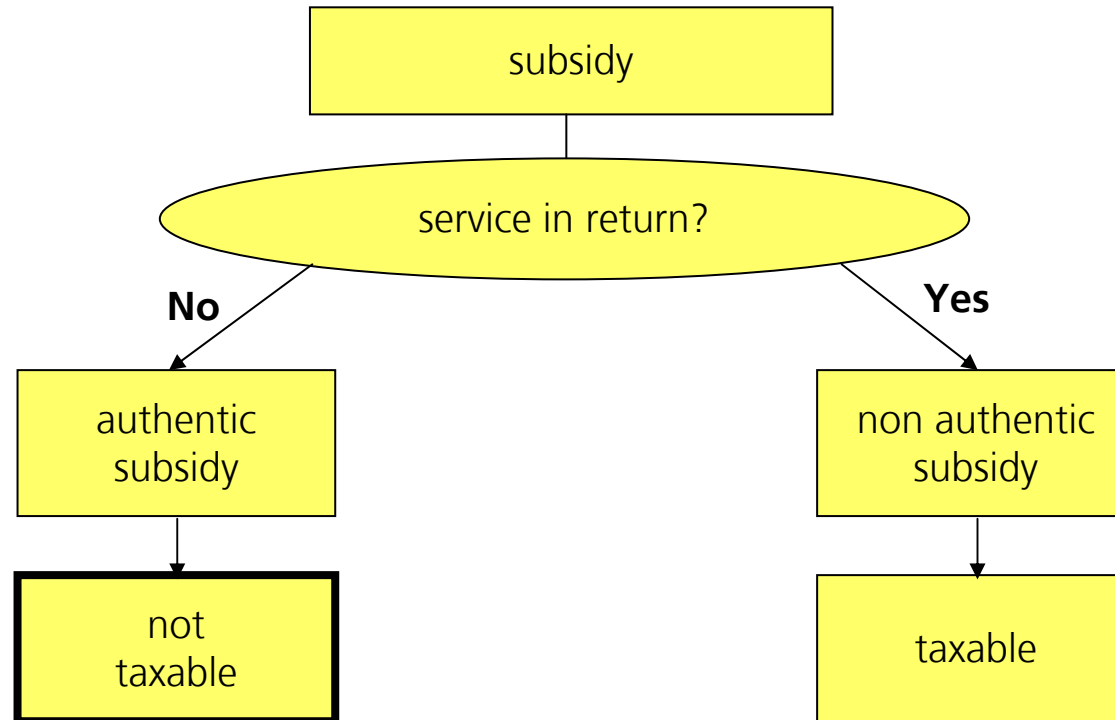
\Rightarrow base for corporate tax increases by EU-contribution

\Rightarrow base for corporate tax decreases by project costs



Tax Issues – VAT (1)

Taxation of grants*



*according to Umsatzsteuerrichtlinie UStR R 150

Tax Issues – VAT (2)

Project Income

- No service in return (no exchange of services: beneficiary ↔ EU)
 - ⇒ EU-contribution is a **non-taxable revenue**
(recognition in tax declaration as non taxable revenue)

Project costs

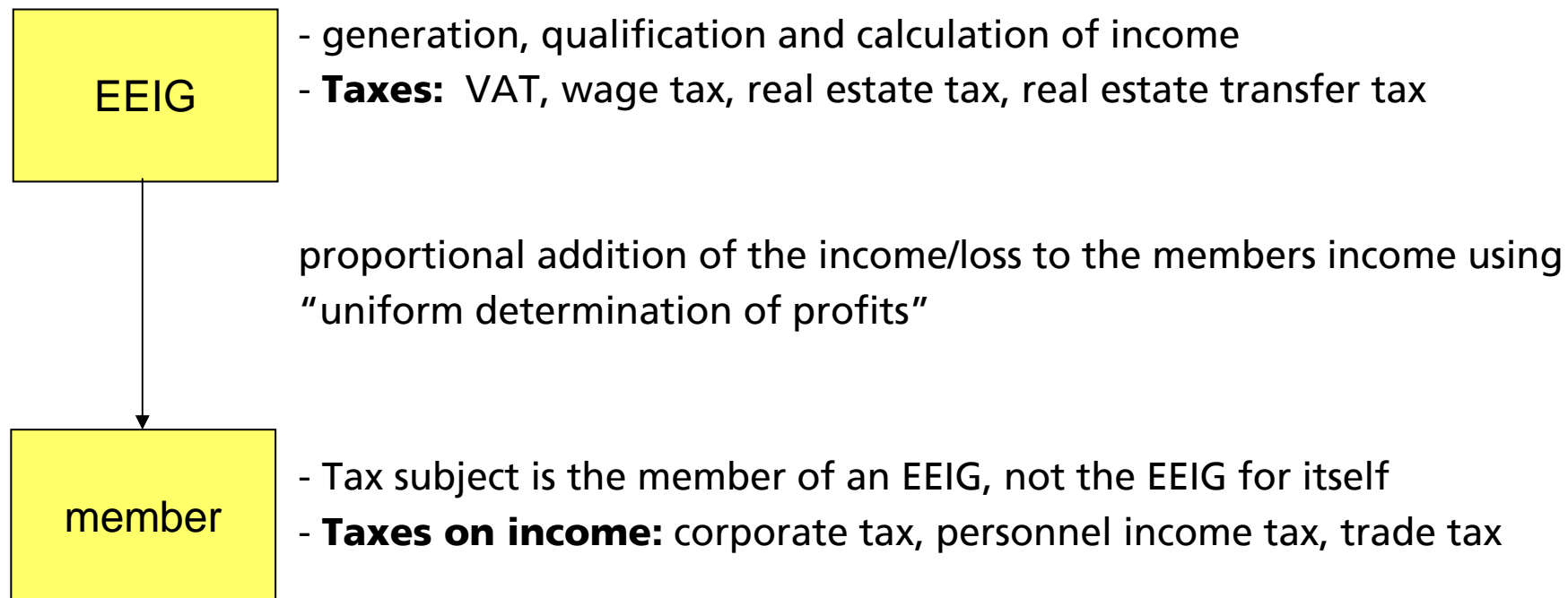
- If beneficiary has VAT-tax deduction:
 - ⇒ VAT non eligible costs.

However:

- Costs related to tax-free revenues: no VAT-tax deduction
 - only if activities for EU-project are related with other (VAT-) taxable activities:
 - ⇒ VAT-tax deduction (split up if necessary)

Excursion - Taxation of an EEIG

- No uniform system of taxation for an EEIG
- Application of the national fiscal law of the state where the EEIG-member is located
- In Germany: similar to taxation of an oHG





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Prüfung und Beratung
mittelständischer Unternehmen
und Konzerne

Öffentliche Hand

Prüfungen nach § 53 HGrG

Risikomanagementsysteme

Interne Revision

Unternehmensbewertung