

ACCOUNTING AND TAX SPECIFICS OF SELECTED ECCLESIASTICAL INSTITUTION

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Abstract: Conducted article deals with the issue of ecclesiastical institutions. Authors are focused specifically on accounting and tax treatment of such institutions that differ in many areas from corporate practices. The article describes current position of ecclesiastical institutions in the national economy and legislative framework related to providing activities as the religious legal person. Then the accounting and tax aspects of these entities are explained in relation to the article objective. The main objective of conducted article is to identify the weak points in two mentioned areas using the example of selected ecclesiastical institution (parish) and recommend changes leading to more efficiency in activities currently provided by the organization in the accounting and tax area. Authors used methods of literary research, qualitative research (semistructured interviews) and deep analysis of internal financial documents of analyzed organization to be able to identify weak points, asses their threatment and propose final solution that will be further implemented and used by the parish.

Keywords: accounting, ecclesiastical institution, nonprofit organization, NGOs, taxes

JEL Classification: M410, M480

INTRODUCTION

Ecclesiastical institutions belonging to the group of nonprofit organizations represent specific subjects of economic sector. The main purpose of such organizations is to fulfill the mission and activities they were set up for. By the term activities are, in this case, ment socially necessary and desirable services. Provision of these services is the essence of existence of a nonprofit organization. The most significant changes in nonprofit organizations developoment were visible since 1989 when all-society significance of these organizations grew.

Public awareness of nonprofit organizations is still growing and also the amount of people being included to their activities increases. Even if the general perception of nonprofit organizations is positive, the ecclesiastical organizations as a group of nonprofit organizations are still viewed as a specific subject with no importance for the whole society. But these organizations provide irreplaceable services in areas that are not otherwise secured (Charity of the Czech Republic), because other organizations are not interested in providing them.

This article deals with the issue of ecclesiastical institutions and is focused specifically on their accounting and tax treatment, because those two areas differ from generally known principles applicable in the business sector.

Methods of research used by the article authors were literary research, qualitative research (semistructured interviews) and deep analysis of internal financial documents of analyzed organization.

1. THE STATUS OF ECCLESIASTICAL INSTITUTIONS WITHIN NONPROFIT ORGANIZATIONS IN THE CZECH REPUBLIC

At the beginning, it is necessary to define the nonprofit sector, its objectives and organizations that belong to it.

By Ott and Dicke (2012, p. 1) is nonprofit sector „at least partially a product of the democratic-capitalistic government system that have evolved in the United States and other countries.” With respect to Ott and Dick the objective of the organizations belonging to this sector can be defined as provision of specific services as a reaction to marketplace failures and failures of government with the intention to serve citizens needs to fill the gap which resulted from these failures.

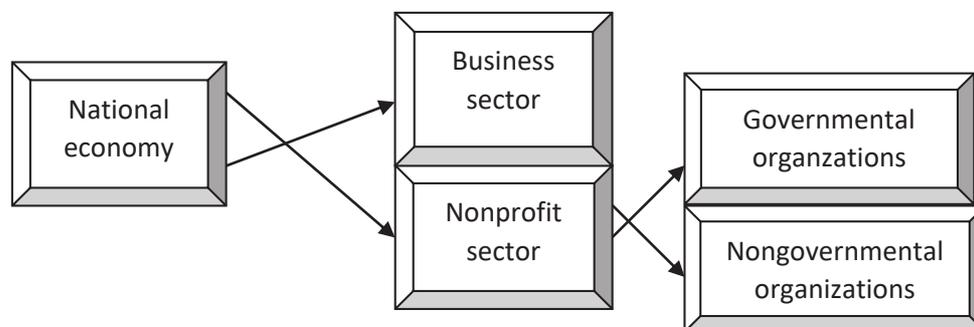
Definition of nonprofit organization can be find in books by Drucker (2011), McLeish (2011) or Hopkins (2018, p. 9) who states that: „nonprofit entity is ordinarily understood to differ from a for-profit corporation principally because it is bared from distributing its net earnings, if any, to individuals who exercise control over it, such as members, officers, directors, or trustees.”

For each nonprofit organization is very important its objective and mission. Main characteristics of nonprofit organizations explained by Worth (2014) or originally by Salamon and Anheier (1997) can be summarized as:

- Organized entities (organization).
- Private entities (privacy).
- Non-profit distributing entities. (Profit, if any, is reinvested during fulfilling the objectives of organization.)
- Self-governing entities. (They are not controlled by other institutions.)
- Entities with voluntary membership.
- Of public benefit entities.

The following figure (Fig. 1) shows division of organizations within the national economy.

Fig. 1: National economy - division of organizations by purpose of their creation in the Czech Republic



Source: own in accordance with Pelikánová (2016), 2018

Division to governmental and nongovernmental organizations reflects the relationship between these organizations and state authorities who are, in the case of governmental organizations, their founders. This kind of nonprofit organizations division is used specifically in the Czech Republic. Following table (Tab. 1) summarizes types of nonprofit organizations in the Czech Republic by their legal forms.

Tab. 1: Types of nonprofit organizations in the Czech Republic - legal forms

Type of nonprofit organization	Regulated by
Civic associations and their organizational units	Civil Code (§ 214 and further)
Foundations and endowment funds	Civil Code (§ 306 and further)
Religious legal persons or purpose-built facilities of churches	Act No. 3/2002 Coll., on the Freedom of Religious Expression and the Position of Churches and Religious Societes, as amended
Public benefit corporations	Act No. 424/1991 Coll., on Association in Political Parties
Institutes	Civil Code
Educational legal persons (Church schools)	(Registered by Ministry of Education, Youth and Sports.)

Source: own in accordance with Government of the Czech Republic (2016), 2018

This article is further focused on religious legal persons or purpose-built facilities of churches defined by Act No. 3/2002 Coll., on the Freedom of Religious Expression and the Position of Churches and Religious Societes, as amended.

2. LEGISLATIVE FRAMEWORK GOVERNING THE ECCLESIASTICAL INSTITUTIONS FUNCTIONS IN THE CZECH REPUBLIC

Ecclesiastical institutions belong to nonprofit organizations not founded by the state authorities what means that the profit is not redistributed among its members or management and that these organizations are self managed independently of the state authorities (Ministry of Culture of the Czech Republic, 2018b).

Legislative standards most important for setting the ecclesiastical institutions are summarized in the following table (Tab. 2).

Tab. 2: Laws governing the creation and functioning of ecclesiastical institutions in the Czech Republic

Law	Solved area
Charter of Fundamental Rights and Freedoms	Mutual independence between the state and religion.
Act No. 3/2002 Coll., on the Freedom of Religious Expression and the Position of Churches and Religious Societes, as amended	Establishing (creation), activities, registration and termination of activity of ecclesiastical institution.
Act No. 117/2001 Coll., on Public Collections	Public Collections.
Act No. 561/2004 Coll., on pre-school, primary, secondary, higher professional and other education (Education Act)	Religious education.
Internal standards and regulation	Other activities of ecclesiastical institutions.

Source: own, 2018

2.1 Financing of ecclesiastical institutions in the czech republic

Financing of ecclesiastical institutions includes economic, financial and social elements. Financial sources can be divided to the three groups:

- own sources - acquired by own activities of the institution,
- foreign sources - especially loans,
- potential sources - donations, grants, contributions.

The income of ecclesiastical institutions is described in the Act No. 3/2002 Coll., on the Freedom of Religious Expression and the Position of Churches and Religious Societes, as amended (§ 27).

This income consists mainly of contributions from natural and legal persons, sale or lease of moveable and immoveable property, donations and grants. Income may also arise as the income from profitable activities. This specific income is further used as the source of finance for main nonprofit activities of ecclesiastical institution.

Property settlement is solved by Act No. 428/2012 Coll., on Property Settlement with Churches and Religious Societies (Ministry of Culture of the Czech Republic, 2018a). The same Act solves also the provision of contribution to support activities of such organizations.

2.2 Accounting framework for ecclesiastical institutions in the czech republic

Legislative framework for the accounting area in ecclesiastical institutions consists of the following documents (Ministry of the Interior of the Czech Republic, 2018):

- Act No. 563/1991 Coll., on Accounting (Accounting Act),
- Implementing Decrees to the Accounting Act (Decree No. 504/2002 Coll., Decree No. 325/2015 Coll., etc.),
- Czech Accounting Standards.

Legislative standards allow the ecclesiastical institution provide accounting outcomes in a simplified form. Conditions for recording and reporting financial information are defined by the Accounting Act.

Accounting units using this type of accounting are allowed to simplify records in accounting books, to use simplified accounting in accounting books, to combine accounting in journal with accounting in general ledger and have also the possibility to prepare Financial Statements in simplified form.

Chart of accounts is prepared for each accounting period with the possibility to add individual necessary accounts also during the accounting period. In the case when accounting unit prepares accounting in the full extent, it is necessary to use chart of accounts defined by the Annex No. 3 of the Decree No. 504/2002 Coll. to the Accounting Act. This chart of accounts differs from the chart of accounts used by business units. Differences are described in the table number 3 (Tab. 3).

Tab. 3: Differences between chart of accounts used by ecclesiastical institutions and business units

Class of accounts	Ecclesiastical institutions	Business units
2	Financial accounts	Short-term financial assets and cash and cash equivalents
4	Open	Capital accounts and long-term liabilities
7	Used in accordance with internal standards and regulation	Balancing and off-balance sheet accounts
8	Used in accordance with internal standards and regulation	Management (Cost) accounting
9	Equity, the economic result, balancing accounts	Management (Cost) accounting

Source: own in accordance with Ministry of the Interior of the Czech Republic (2018), 2018

Accounting classes number 0, 1, 3, 5 and 6 are the same for both types of organizations. Numbers of synthetic accounts depend on decision of the accounting unit.

Other difference is related to evaluation of non-current assets. Ecclesiastical institutions use the same rules for evaluation of non-current assets with the exemption for evaluation of cultural monuments, museum collections and church buildings where 1 Czech crown (CZK) is used. Because of this differ also the rules for recording depreciation. Such types of assets are not depreciated.

Financial Statements are prepared with respect to the three documents mentioned at the beginning of this chapter, Accounting Act, Decree No. 504/2002 Coll. and Czech Accounting Standards. Audited Financial Statements are obliged to prepare all special purpose facilities using the public sources. In relation to ecclesiastical institutions can be as this facility meant the special purpose facility registered by the ecclesiastical institution with the amount of net turnover higher than 10 million CZK.

2.3 Taxation of ecclesiastical institutions in the czech republic

All non profit organizations in the Czech Republic are the subjects to taxation. However, they also meet the requirements to be the publicly beneficial tax payers, therefore they can use specific tax reliefs. How mentioned Nebuželská (2017), tax specifics offered to publicly beneficial tax payers are in particular:

- narrow tax base,
- income from donations exempt from tax,
- reduction of the tax base,
- under specific conditions not to submit tax returns.

Authors' own research has brought the knowledge that among the taxes collected in the Czech Republic concerning the ecclesiastical institutions belong usually:

- corporate income tax (income of such a kind of institution is most often exempt from tax or it is not subject to tax),
- real estate tax (property tax).

Another advantage used by ecclesiastical institution is the reduction of the tax base with respect to Act No. 586/1992 Coll., § 20. This reduction represents the reduction in the tax base by 30 % maximally by 1 000 000 CZK. If the reduction by 30 % is lower than 300 000 CZK, it is possible to deduct from the tax base 300 000 CZK (Ministry of Finance of the Czech Republic, 2018).

Exemptions for ecclesiastical institutions exist also in the area of property tax. If the organizations meet the conditions set by the Act No. 338/1992 Coll., on property tax (Financial Administration, 2018).

Accounting and tax rules influencing the management of ecclesiastical institution in financial area will be shown on the case of selected West Bohemian parish in the next section of the article.

3. ACCOUNTING AND TAXES IN THE SELECTED WEST BOHEMIAN PARISH

This part of conducted article analyzes the current situation in the areas of accounting and taxes in the selected West Bohemian parish. Analyzed institution belongs to religious legal persons. Its mission is to „live a life serving life”. Main activities of the parish are:

- worships,
- pastoral activities,
- church ceremonies,
- and help the needy.

The parish provides services of charitable nature, pastoralism and library services. Economic activities are represented by renting part of their own buildings, selling property and land rentals.

Financial sources used by the parish are donations and grants, liturgical collections and loan from the bishopric.

3.1 Accounting aspects of analyzed parish

Parish analyzed by the article authors recorded financial information with respect to the Accounting Act and used the system of simple accounting till 2006. Since that year started to be used the double-entry bookkeeping. In reaction to this movement were done activities like inventorying of assets or preparation of guidelines for evaluation of assets.

Accounting period of the parish is the calendar year, course of the Czech National Bank is used when converting currencies. The amendment to the Accounting Act valid from 2016 allows ecclesiastical institutions use the simple accounting again. Analyzed parish does not use this allowance and records financial information still using the double-entry bookkeeping. Individual groups of accounts used by the parish are summarized in the following table (Tab. 4).

Tab. 4: Classes of accounts and analytical accounts used by the analyzed parish

Group of Accounts	Analytics
02. - Tangible fixed assets - depreciable	Division of individual types of buildings.
03. - Tangible fixed assets - non depreciable	Land, culture monuments, artworks.
04. - Intangible and tangible assets under construction	
08. - Accumulated depreciation - tangible fixed assets	
21. - Cash and cash equivalents	Division of cash in CZK and EUR.
22. - Bank accounts	CZK, EUR and public collection.
24. - Short-term financial assistance	
31. - Receivables	Divided by types.
32. - Payables	Divided by types.
33. - Receivables and payables with employees and institutions	
34. - Taxes and subsidies receivable and payable	
38. - Temporary accounts of assets and liabilities	
50. - Consumed purchases	Divided by types of material.
51. - Services	Tax deductible and non-taxable.
52. - Personal expenses	Division of wages.
54. - Other operating expenses	Donations, premiums, fees.
60. - Revenues from own products, services and merchandise	Divided by type of revenue.
64. - Other operating revenues	Divided by type of revenue.
68. - Received contributions	Divided by type of contribution (donation).
69. - Operating grants	Grants by the purpose.
90. - Equity	Divided by the type of source.
91. - Funds	
93. - The economic result	
95. - Loan	

Source: own in accordance with conducted research, 2018

Analysis of the Financial Statements from the years 2014 - 2016 showed that the greatest part of organization's expenses is represented by the operating expenses and purchased material and services. Income consists of donations (that are used mainly for financing construction activities), contributions, leasing and church collections. There is no set membership fee. Income is also represented by the revenues from services and rental income.

Donations (subsidies) as not the greatest, but very significant financial source, have to be recorded separately as the specific order. Parish uses as the financial source both types of subsidies, operational and investment. The main steady source is represented by the church collections that are exempt from the income tax. As was written above, parish has no set membership fee, therefore its members uses the possibility of one-time or regular contribution to parish financial sources. Other types of income of the parish are revenues from services and rental income.

3.2 Tax aspects of analyzed parish

Analyzed parish provides economic activity that does not reach the amount of 1 000 000 CZK for 12 immediately foregoing consecutive months, therefore this subject is not a value added tax (VAT) payer. There is also no need to pay the road tax, because the parish does not have the car used by the parson in its own property (it is rented from the bishopric).

It was found that there are just two types of taxes solved by the parish, the income tax and real estate tax (property tax).

3.3 Problematic areas and recommendations to improve the current situation

During the conducted survey (qualitative research using the semistructured interviews and deep analysis of internal financial documents), were found some weak points in the areas of accounting and tax treatment. They can be summarized as:

- insufficient extent of parish own economic activities,
- not so clear accounting of wages,
- insufficient detail of records of evidence for the calculation of income tax.

These issues may be solved by the following measures.

Insufficient extent of parish own economic activities means in fact wider, but not used possibilities in the area of use of buildings that the parish has in its own property. The first proposed solution is based on the fact that there are still buildings that may be rented. Some of them, especially old church owned by the parish, should be reconstructed. Its expected that the parish will use suitable offered subsidy titles as the financial source for doing so the same way as it currently does, but only if the conditions set for the applicant's own contribution share will be acceptable. This church should be then used as a historical monument and made available (for a fee) to the public.

Analyzed parish uses very effectively analytical accounts. However, the area of wages is the exemption. It may be useful to use analytics for division of health insurance and social insurance. Some of currently used accounting records may be omitted, because, with respect to the current accounting legislative Framework, they are not necessary to be recorded.

This is specifically the case described in the following table (Tab. 5).

Tab. 5: Accounting of wages – expendable accounting entry

Accounting document	Accounting case	Debet	Credit
Z20160090	Wages – 2016	331	331

Source: own in accordance with conducted research, 2018

The last recommendation relates to the fact that currently prepared background for income tax calculation seems to be insufficient. What needs to be improved is the immediate apparency of tax and non-tax items. With this intention was prepared, with respect to the tax legislation, following chart (Tab. 6) that enables quick calculation of the tax base.

Tab. 6: Division of income and expenses for the tax purposes – case of analyzed parish (in CZK)

Income and Expenses for tax purposes (2016)												
No subject to tax - exempt			Main activity (I > E)					Economic activity - taxable				
Not subject to tax (§18)												
Account	Name of account	Income	Account	Name of account	Income	Expenses	Difference	Account	Name of account	Income	Expenses	Difference
682xxx	Contributions	464 980,95	501xxx	Material		423 670,96		501510	Material - minor		26 017	
691xxx	MK ČR subsidies	300 000	502xxx	Energies		230 153		501 820	Material - other taxable		8 409	
649xxx	Income from activities - non-taxable	9 990,05	511xxx	Repairs and maintenance		491 829,50		502100	Energies		52 100	
Exempt from tax (§19)			512xxx	Travel expenses		215		511310	Repairs - other taxable		4 084	
Account	Name of account	Income	515xxx	Services, actions		10 500		521100	Wages - illnesses		1 820	
6491xx	Church collections	1 018 457	518xxx	Other services		148 779,88		521200	Wages		96 932	
602400	Religious activities	27 890	521xxx	Wages		110 580		521300	Wages - inc. taxes		45 000	
			527xxx	Statutory social security expenses		482		524	Statutory social security insurance		32 665	
			532xxx	Real estate tax		904		527100	Statutory social security expenses		150	
			538xxx	Other taxes and fees		340		532100	Real estate tax		2 217	
			544xxx	Interest on loan		147 909		551200	Deprec.-taxable		94 275	
			545xxx	Foreign exch. loss		6 491,34						
			549xxx	Bank fees		7 374		602200	Rental-buildings	344 100		
			551xxx	Depreciation		500 865		602201	Buildings -energies (flat rate)	48 500		
			546xxx	Gifts		241 891		602202	Rental-others	1 000		
			513xxx	Entertainment and promo exp.		4 565		602300	Rental-land	37 263		
			515xxx	Services, actions		127 535		602301	Rental-land (restit.)	10 245		
			518xxx	Other services		4 884		602330	Rental - contribution - DNV	2 217		
			649500	Income - actions	131 393			602600	Fee-tow.	150 045,98		
Total		1 821 318			131 393	2 458 968,68	-506 257,68			593 370,98	364 153	229 217,98
Economic result		-277 039,70						Tax base				229 217,98

Source: own in accordance with conducted research, 2018

CONCLUSION

This contribution deals with the possibility of enhancing the effectiveness of processes in the accounting and tax area of selected ecclesiastical institution – selected parish. In accordance with the tendency of churches to become independent in relation to the state increases the amount of economic activities ensured by these institutions. This leads to defining the strict requirements on proper and correct setting of activities in financial and economic area in such institutions.

Financial documents (Financial Statements and others) plays the significant role as the document base for control activities of the state authorities. With respect to this situation were proposed improvements to the existing state that should lead to more efficient setting of activities provided by the analyzed

organization. Their real incorporation into the existing organization processes depends on its staff dealing with the economic issues, but it seems, that there is the tendency to implement and use them. Chart for effective calculation of the tax base described in the last section of the article should be also used by other ecclesiastical institutions of the same or similar size (similar scope of activities). Realization of this idea is conditioned by future detailed survey of the accounting and tax processes set up by organizations with prerequisites for implementation of proposed solution.

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