USE OF EQUIPMENT ON PROJECTS' COMPLETION: CURRENT STATUS AND OPTIONS

In response to the 19th Governing Board's request to look into the current practice of the use of equipment on projects' completion the Secretariat would like to detail and summarize the current STCU practice and how the historical procurement system works and how equipment is dealt with under the current system.

STCU Current Procurement Procedures

STCU Administration Department is responsible for procuring all project items.

- Once procured the equipment are immediately expensed and fully depreciated up front upon purchase.
- The asset is not actually in the STCU's books accounting wise as an asset but rather placed as an item on an equipment list.
- The assets are purchased (customs cleared as necessary), and forwarded to the Institute concerned for their use. This is confirmed normally by documentary evidence by checking the delivery receipt (Not physical delivery from STCU side).
- Under the project agreement it states that title of equipment for less than $2,500 is vested to the participating Institute at the time of release.
- Equipment more than US$2,500 remains the property of STCU until termination or cessation/completion of the project at which time the title will be vested to the participating Institute unless appropriate instructions will be provided by STCU. (STCU has never provided such instructions).
- During the tern of the project the assets (over US$2,500) legally remain the property of STCU and the STCU can legally take repossess these assets yet the STCU allows these assets to be continued to be used by the Institutes etc.
- On completion of the project an equipment transfer act is signed between the STCU and the Institute(s).
- As the equipment is fully depreciated up front the asset has in essence` no value after the project expires.
- In reality generally after 3 years of a projects life the equipment in reality would effectively be worth nothing anyway. For example Computers which generally have a lifespan and are depreciated over 3 years anyway.
- The fact that we depreciate assets up front and do not have these assets on our books but only on an inventory list allows for more manageability in respect to accounting and checking of assets.
- The STCU Project Account and Senior Specialist will during normal monitoring of active projects will check whether the purchased items are in place and used properly, based on our equipment list. Random test checks will be made by our external auditors as well.
- Historically the checking of asset inventory has not been done after the expiry of the project.

Differences between STCU & ISTC including Pros & Cons

- STCU procurement items tend to be for small amounts / items compared (i.e less than US$75,000), with much larger big-ticket fixed asset equipment items procured by ISTC.
- The only real big ticket asset purchase item in the past was for the Y2K project where there was an issue to prove transfer of assets to the project users but this was resolved via a Memorandum of Cooperation devised by STCU.

- A similar scenario currently exists for the Kharkiv Europium Test Facility Project No: P-095 whereby STCU issued a memorandum of cooperation extension to circumvent potential tax liability by the Institute on asset / equipment ownership.
- STCU fully depreciates the asset upon purchase. Does not have the assets on its books but maintains an Inventory/Equipment register which is used during the life of the project for monitoring and asset checking purposes.
- The STCU agreement states that the equipment will automatically be vested to the Institute upon project completion via a signed Transfer Act.
- ISTC assets remain in the ISTC books and they do not sign any transfer or acceptance certificates. We understand that the ISTC may send letters to the Institutes to the effect that the Institute keeps the equipment for the reasons of temporary storage.
- The ISTC has a much more complicated and mixed accounting system and has both accounting and tax problems with project assets. It appears the Russian Tax Authority is more difficult than the Ukrainian Tax Authority.
- ISTC are currently looking at a procedure to write off the assets from their books after project expiry. (In process).
- The STCU system works well and the Tax Authorities have left us alone in ALL Countries that the STCU is present in. Thus there is no reason to upset or change this system
- Some difficult questions arise on types of specialist equipment for example hazardous materials. If it remains the property of STCU or then later held by the Institute after project expiry who would be liable should an accident occur with this material. STCU or the Institute. So far this is hypothetical and has not occurred or been an issue.

Use of assets after project expiry & potential tax problems

- The project assets legally remain the property of STCU until the project matures. After this point there is no longer a grant situation. Thereafter the STCU will sign a transfer and acceptance certificate with the relevant Institute and the equipment will automatically be vested over to the Institute.
- Should the assets be granted in kind or signed over to the Institute then "potentially"; (contrary to Western tax regulations), the receiver of the asset or having received benefit of use in kind has to pay income tax at 30% of the facilities use or pay tax on the outstanding market value or useful life left.
- In reality the STCU and the Institutes have had no real problems with the Tax Authority who have left us alone. If there were problems then the Scientists would contact us but these incidents have been very rare. It appears the Ukrainian Tax Authority have a clearer understanding of the accounting and tax issues of grant assets than their Russian counterpart(s).
- Potentially the only likely people who may have problems with the Tax Authority are small private company project participants since they may be subject to more thorough tax inspections.
- STCU does not want to get involved with any long term monitoring of equipment and after project maturity the STCU does not check on these assets. Essentially, the asset is fully depreciated and thus has not enough value to warrant for us to do that.
- The responsibility for looking after the equipment should rest with the concerned Institute during and after the project.
- Likewise it is up to the Institute to share this equipment as they see fit after the expiry of the project.
- The STCU has the option to exercise its rights to take back the equipment prior to project maturity. – Historically and in actuality this has never been done.

Questions for the Governing Board to consider

- Based on the above explanation(s), does the GB wish to change the current procedure? Bearing in mind that STCU does not want to change the current set up which works well with no previous issues with the authorities, but will conform to the wishes of the Parties.

The STCU Secretariat is open for discussion and is ready to answer any questions on these issues.