

What Does the War in Ukraine Have to Do with Accounting and Taxes? Read on to Find Out

By Michael J. Andriola, Partner

Our hearts go out to those entangled in war in Ukraine. Despite this harsh reality, life and business continue to go on in the rest of the world. Consequently, it's crucial to recognize the potential financial impact this war could have on your business. With the supply chain already weakened by the pandemic, the sanctions on Russia and dire conditions in Ukraine will only serve to do more damage. Here are some important, timely considerations.

Remember Who Your Customers Are

Do you export goods to Russia? Many global companies are halting exports to that part of the world. Although not prohibited by current sanctions, at least not yet, doing business with Russia can impact a company's reputation as buyers and sellers focus on being socially responsible. It may be cheaper for a company to divest an interest in a particular geographical region than it is to repair their reputation. Consequently, you may want to explore the feasibility of discontinuing a line of business, or if your customer concentration risk has now changed. Are there potential impairments or tax write-offs that come as an intended (or unintended) consequence? Depending on how you structure these transactions could have a significant financial impact.

Consider Supply and Demand – Both Long- and Short-Term

Ukraine plays a large role in the agricultural industry. Everyone knows that Russia plays a large role in the oil and gas industry. There's no secret there. Prices are sure to increase in these respective industries, but what about some of the less obvious challenges that may be lurking around the corner?

Russia is also an important resource for the materials that we need to make chips. If you think supply and demand is out of control due to COVID-19, just wait. While the US has not yet sanctioned the import of these chips, perhaps due to the potential impact it could have on the economy, it's not completely off the table. That begs the question about what to do with current inventory. Do you continue to sell as normal when the opportunities present themselves or do you hold some back for when demand increases? In other words, do you take the single today or try and hit the grand slam tomorrow? Are there social or ethical consequences to your decision? Obviously, there are many financial concerns to weigh out in this decision, but there could be much more at stake.

During the pandemic, companies implemented or refined their vendor risk management program, which includes vendor due diligence, risk assessment, contract management, monitoring and offboarding. Companies with robust vendor risk management programs proactively and continuously assess vendor risks. One of the mitigating steps, especially for critical vendors, is to identify U.S.-made products in order to avoid supply issues and increased costs due to fuel costs.

Charitable Gifts with Purpose

Companies and individuals alike are doing their part by donating Bitcoin and other resources to Ukraine. While clearly a noble effort, could a little tweak to the process result in a financial benefit to the donor? Rather than making a gift to a government, consider making a gift through a donor-advised fund. Perhaps you could earn yourself a tax deduction and help contribute to worthy causes making a difference in the current crisis.

Where Do We Go From Here?

Although your company may not be directly, or even indirectly, impacted by this current situation, what would your response be if this conflict were to occur somewhere else? Do you have the ability to protect

your business from the decisions of foreign governments? How nimble are you? If you had to run all of your processes domestically, would you be able to make that transition? Luckily, these aren't decisions that companies need to make at this very moment but having the contingency plan in place could be the difference between success and failure.

Contact Us

As they say, tough times require tough decisions. We are here to help. Please reach out to your PKF O'Connor Davies engagement team or:

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