Fundamentals Level – Skills Module

Taxation (Russia)

Monday 1 December 2008

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–4.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F6 (RUS)

ACCA

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest RR.
2. All apportionments should be made to the nearest month, unless the law requires otherwise.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions unless the question states otherwise.

Personal and children allowances

Standard personal allowance	400 RR (up to 20,000 RR)
Children allowance	600 RR (up to 40,000 RR)

General limitation on 'housing' allowance

Investments in residential property for tax purposes	1,000,000 RR (upper limit)

Statutory exclusions from taxable income

Prizes and awards	4,000 RR (upper limit)
Gifts at work	4,000 RR (upper limit)
Support payments	4,000 RR (upper limit)
Maximum limit for social deductions listed below (medical, personal educational, non-state pension insurance and voluntary pension insurance – subject to certain conditions set out in the law)	100,000 RR
Educational deduction for children	50,000 RR (upper limit)
Gains on property sales:	
– immovable property	1,000,000 RR (upper limit)
– movable property	125,000 RR (upper limit)
Statutory *per diem* rate for personal income tax:	
– for domestic business trips	700 RR per day
– for foreign business trips	2,500 RR per day

Threshold interest rates for personal income tax purposes

Rouble bank deposits	CB refinancing rate
Foreign currency bank deposits	9%
Rouble loans	3/4 of the CB refinancing rate
Foreign currency loans	9%

Combined unified social tax rates for individual entrepreneurs

Income amount	
up to 280,000 RR	10%
from 280,001 RR to 600,000 RR	3.6%
from 600,001 RR	2%

Combined unified social tax rates for employers

Income amount	Employer (general)	Employer (licences, copyrights and under civil contracts)
up to 280,000 RR	26%	23.1%
from 280,001 RR to 600,000 RR	10%	9%
from 600,001 RR	2%	2%

Expenses for profits tax purposes

Voluntary medical insurance expenses (subject to conditions set out in the law) are limited to 3% of labour costs

Voluntary life insurance expenses (subject to conditions set out in the law) are limited to 12% of labour costs

Voluntary personal insurance against accident at work resulting in death or permanent physical disability are limited to 15,000 RR per employee per annum

Certain advertising expenses are limited to 1% of sales revenue

Entertainment expenses (subject to conditions set out in the law) are limited to 4% of labour costs for the reporting period

Statutory rate for domestic business trips 100 RR per day

Special depreciation ratios

Fixed assets received under financial leasing	3 (upper limit)
Effective from 2008:	
Passenger cars (cost > 600,000 RR per item)	0.5
Minivans (cost > 800,000 RR per item)	0.5
For assets from 2007:	
Passenger cars (cost > 300,000 RR per item)	0.5
Minivans (cost > 400,000 RR per item)	0.5

Allowances for receivables

General limitation	10% of sales
Aged 0 to 44 days	0% of receivable
Aged 45 to 90 days	50% of receivable
Aged more than 90 days	100% of receivable

Value added tax (VAT)

Standard rate	18%
Exports	0%

Profits tax

General rate	24%
Tax on dividends for residents	9%
Tax on dividends for foreign companies	15%

Property tax

Rate	2.2%

Personal income tax

Basic rate	13%
Higher rate	35%

Central Bank refinancing rates (notional)

1 January 2007 to 30 April 2008	50%
1 May 2008 to 30 September 2008	40%
1 October 2008 to 31 December 2008	30%

Number of calendar days in calendar months for the year 2008

January	31
February	29
March	31
April	30
May	31
June	30
July	31
August	31
September	30
October	31
November	30
December	31

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Question 1 begins on page 6.

ALL FIVE questions are compulsory and MUST be attempted

1 OOO Congus ('Congus') is operating as an IT company providing development of software packages, as well as maintenance services, according to its clients' requirements in Russia and abroad. Congus is 80% owned by a Russian company BIS and 20% by an Irish company Gletch Ltd.

Congus has always applied the accruals method for both value added tax (VAT) and corporate profits tax purposes. In respect of profits tax reporting Congus uses a quarterly profits tax reporting period. Regarding fixed asset depreciation and intangible asset amortisation, Congus applies the straight-line method of accounting depreciation and the non-linear method of amortisation for tax purposes. The tax policy of Congus stipulates its right to an immediate 10% write-off on the cost of fixed assets and has a provision regarding the immediate write-off of its direct expenses in the relevant reporting period without allocation. Congus' accounting systems do not allow the direct method of allocation of costs to products and services.

The annual salary paid by Congus to its employees does not exceed 280,000 RR per person. Congus uses the standard unified social tax (UST) rate without any incentives.

The following information is available for the year 2008. All amounts are inclusive of VAT unless stated otherwise.

All maintenance and other services sold on the Russian market in 2008 are subject to the standard VAT rate, except for the sale of non-exclusive rights to software packages under licence agreements, which are VAT exempt. In 2007 all sales were subject to VAT.

Sales and prepayments for 2008 (in 000 RR):

Domestic sales of non-exclusive rights under licence agreements	35,721
Domestic sales of support, maintenance and other services	18,065
Export sales of software and related services	1,700

	1 January 2008	31 December 2008
Sales receivable	5,546	3,346*
Prepayments from domestic customers for services	2,360	3,717

* In November 2008 Congus received a positive court decision for penalties and interest charges in respect of customer debts due to Congus for the value of 900,000 RR (net of VAT). The principal amount receivable, 2,200,000 RR, was paid by the customer in December 2008.

Direct expenses incurred in the production and sale of services (in 000 RR):

Materials (all purchased in 2008)	708
Salaries	25,800

Depreciation of fixed assets:

Category of fixed asset	Quantity	Historic cost per unit in 000 RR	Tax depreciation in years	Date first put into use
Server M1	3	168.74	5	February 2008
Computer	50	30.94	3	June 2007

Indirect expenses incurred for the year (in 000 RR):

Intangible assets:

Congus is an IP owner of the following licence (not subject to VAT):

Name	Quantity	Historic cost per unit in 000 RR	Patent term	Date first put into use
Licence 1	1	300	5	December 2004

Depreciable assets:

Category of fixed asset	Quantity	Historic cost per unit in 000 RR	Tax depreciation in years	Date first put into use
Passenger car M	3	725.7	5	June 2008

Staff costs

Salaries of Congus' own administrative personnel were 5,000,000 RR.

Congus also attracted other professional personnel by using a staff leasing agreement with a specialised agency. Based on the above agreement the staff leasing fees paid for the year 2008 were 590,000 RR.

Business training was provided for both Congus' permanent employees (90%) and the leased employees (10%) to the value of 300,000 RR. The training agreement was concluded with a licensed Russian educational institution which enjoys VAT exemption for the services provided.

Congus provided both voluntary medical insurance for its own employees for 1,248,000 RR and voluntary medical insurance for the employees' relatives for 250,000 RR. The term of each insurance contract was one year.

Entertainment expenses

The following entertainment expenses were incurred in respect of a two day visit of BIS and Gletch shareholders (in RR).

Official dinner in a restaurant	82,600
Interpreter's services rendered by a professional firm	17,700
Air tickets from Dublin to Moscow	60,000
Hotel expenses	56,160
Transportation to the Congus office and back (taxi firm invoice)	3,540

Required:

(a) Calculate the taxable profits and corporate profits tax liability of OOO Congus for the year 2008. Show separately all elements of the taxable income items and deductible expenses.

Note: you should ignore property tax. (23 marks)

(b) Calculate OOO Congus' value added tax (VAT) liability for 2008. Show separately all elements of output VAT and input VAT.

Note: you should ignore the VAT claw-back rules. (7 marks)

(30 marks)

2 Anna works as a credit manager of a well-known production company, Bars. She is married to Vladimir, they have one daughter of seven years. Anna's gross monthly salary is 100,000 RR.

On 12 February 2008 Anna decided to prolong her bank deposit of 100,000 RR for one year at a flat rate of interest of 45% per annum from the date of prolongation. The interest is to be received on a quarterly basis on the fifth day of the month following the end of the relevant calendar quarter (i.e. on 5 April for the 1st quarter).

On 5 April 2008 Bars paid for voluntary medical insurance policies for all of its employees under a one year agreement with the insurer Renig at a cost of 10,000 RR per person. Bars also offers its employees the opportunity to insure their relatives at Bars' expense at a cost of 12,000 RR per person. Anna decided to obtain medical insurance for her daughter from Bars in the year 2008. In respect of her husband, Anna decided not to apply for the employer's insurance, but in 2008 herself paid 18,000 RR under an annual medical services agreement with a special licensed clinical centre.

During the year 2008 Anna also made a contribution to the non-state pension fund of 50,000 RR for herself and 60,000 RR in favour of her parents in equal shares.

Anna and Anna's sister jointly owned a three-room apartment in the north region of Moscow. In May 2008 Anna's sister decided to go abroad for a long-term foreign assignment and she agreed to sell her 50% share in this Moscow apartment to Anna in June 2008. The market value of the sister's share in the apartment was 3,500,000 RR. Anna's sister has owned her share in the apartment since the year 2002.

In order to finance the above purchase Anna raised two loans in June 2008, the terms and conditions of which were as follows:

1. Anna agreed with her employer for a loan of 1,750,000 RR for a ten-year period. On 15 June 2008 Bars provided her with this loan with the interest rate of 5% per annum. Interest is payable starting from 15 January 2009 on the last date of each month. Anna and her husband received joint ownership rights for her sister's share in the apartment in equal parts. Anna managed to submit to her employer the document confirming her entitlement for housing allowance received from the tax inspectorate, in late October 2008. She has never used her housing allowance before.
2. On 25 June 2008 Anna obtained a bank loan of 1,750,000 RR for a five-year period with the interest rate of 10% per annum. The loan principal amount is to be repaid at the end of the loan period, not by instalments. Interest is to be accrued for the entire loan period and is payable starting from 30 September 2008 on the last day of each month (i.e. the first interest payment is for the entire period from June to September, while subsequent interest payments are to be made strictly on a monthly basis). The bank loan agreement contains a provision for changes in the Central Bank refinancing (CBR) rate, but no changes were made in the actual interest rate during 2008.

On 27 August 2008 Anna paid 30,000 RR out of a total of 55,000 RR for a special one-year German language programme in a licensed school for her daughter. The remainder of the fee was reimbursed by Vladimir.

Based on her excellent professional experience Anna received an annual bonus of 144,000 RR for the year 2008 in equal parts as follows: the first part was received on 20 December 2008; the second part is scheduled to be paid by Bars by no later than 5 March 2009.

Vladimir works as a senior manager in a recruitment agency. He received a monthly net salary of 147,900 RR in 2008, except for the month of January in which he only received 38,000 RR gross.

Vladimir had concluded an investment agreement with a construction company in 2005 for the purchase of a 100% share in an apartment under construction for the value of 3,000,000 RR (which was fully paid by him in 2005). As at 1 July 2008 he had still not received the title of ownership documents. However, receipt of these ownership documents is scheduled for the beginning of December 2008. The market value of Vladimir's share reached the value of 6,000,000 RR in July 2008. As at 1 July 2008 Vladimir had not made a final decision whether to sell his share in the apartment in July 2008 or, alternatively, to sell it at a later date. Vladimir has never used his housing allowance before.

Required:

Assuming that all the above mentioned expenses incurred by Anna and Vladimir are confirmed with proper supporting documents:

(a) Calculate Anna's personal income tax withheld at source by her employer, Bars for the year 2008. (5 marks)

(b) Calculate the final settlement of Anna's personal income tax liability (additional payment or refund) upon her 2008 personal income tax return. (9 marks)

(c) Calculate the final settlement of Vladimir's personal income tax liability for the year 2008 assuming that he did not sell his rights to the unfinished apartment in 2008. (4 marks)

(d) Assuming that today's date is 1 July 2008, calculate the tax payable by Vladimir if he were to sell his 100% share in the apartment in July 2008 and explain how the amount of tax payable could be reduced by delaying the sale of the apartment to a later date/tax period. Support your explanations with tax calculations for the relevant tax periods. (7 marks)

Notes:

1. To the extent possible use all the personal income tax deductions which are potentially available to Anna and Vladimir, clearly identifying the amounts of all personal income tax deductions claimed by Anna and Vladimir for the year 2008 and the deductions carried forward to future years if any.
2. For the purposes of part (d) you should assume that the current tax law, tax rates and allowances will continue to apply for the foreseeable future.

(25 marks)

3 **(a)** OOO Devante ('Devante') had the following fixed assets in its balance sheet as at 1 January 2008 which were the subject of transfers during the year 2008 (all amounts are inclusive of value added tax (VAT)):

Fixed asset	Historic cost (000 RR)	Tax and accounting useful life, in years	Date first put into use	Transfer date	Note
Equipment	2,950	7	20 May 2006	1 September 2008	(1)
Passenger car	472	5	1 February 2006	7 December 2008	(2)

Notes:

(1) The equipment was transferred in the form of a charitable donation to a qualified hospital. The market value of the equipment as at 1 September 2008 was 708,000 RR.

(2) The car was transferred into the ownership of an employee at no consideration. The independent appraiser estimated that the market value of this car as at 7 December 2008 was 177,000 RR.

Additional information:

– All the activities carried out by Devante in the years 2006, 2007 and 2008 were subject to VAT.
– Devante applies the straight-line depreciation method for both accounting and tax purposes.
– Devante applies the 10% immediate tax write-off to its fixed assets.

Required:

(i) Calculate the value added tax (VAT) liability for OOO Devante due to the budget as a result of the above transactions, showing separately the output VAT and the input VAT, stating the deadlines for the payments to be made to the budget. (4 marks)

(ii) Advise on the deductibility for profits tax of the net book values of the fixed assets subject to each of the above transfers. Support your advice with calculations of the deductible and non-deductible amounts. (5 marks)

(iii) Calculate the personal income tax liability of the employee as a result of the above transfer of the passenger car, stating the deadline for making the personal tax payment. (1 mark)

(b) OOO Applestroy ('Applestroy') started to build a new warehouse using its own workforce in January 2008. The construction was completed and the fixed assets booked on 1 September 2008. The state registration of the building was also received by the company in September 2008. Details of the construction costs are summarised below (in 000 RR):

Materials used for construction (including VAT)	21,240
Wages and salaries of construction workers (net of unified social tax (UST))	17,000
Services paid to subcontractors (including VAT)	18,880

In order to finance the construction of the new warehouse Applestroy obtained a three-year loan on 30 January 2008 for 20,000,000 RR from ART bank with an interest rate of 30% per annum. Interest is to be paid on a monthly basis on the day following the last day of each calendar month (e.g. interest due for February is paid on 1 March). The loan principal amount is repayable at the end of the loan period. The loan agreement contains a provision for possible changes in the interest rate.

All of Applestroy's activities are subject to VAT.

Required:

Calculate the effect of the above transactions on OOO Applestroy's value added tax (VAT) liability for 2008 showing all elements of the output VAT and the input VAT.

Note: you are not required to state the timing of any payment(s) or offset of VAT in this part. (5 marks)

(15 marks)

4 Svyatoslav works as an analyst in the research department of the company NWest. His monthly net salary is 110,000 RR. He has a six-year-old son and a four-year-old daughter.

On 30 April 2008 Svyatoslav purchased 450 shares of GVC, a listed company, for 2,300 RR per share. The total expenses incurred for the above transaction were as follows:

Broker's commission – 4.5% of the acquisition price
Registration fee – 12,000 RR
Other related expenses – 15,200 RR

To finance in part the above transaction, Svyatoslav raised a five-year loan from his employer of 500,000 RR. The full amount of the loan was received on 25 April 2008. The interest rate is fixed for the whole term of the loan at 35% per annum and interest is payable starting from 30 April 2008.

On the occasion of his birthday on 15 July 2008, Svyatoslav received 300 shares in company VBM as a birthday gift from a distant relative. The inheritance and gift tax he paid for this gift was 28,000 RR.

After analysis of the market situation, Svyatoslav decided to sell 200 of the GVC shares on 12 October 2008 for 2,500 RR per share and reinvest the proceeds in other assets. The expenses incurred in relation to this sale were 8,000 RR.

On 12 October 2008 GVC shares were traded on only one stock exchange at the following quoted prices per share (in RR):

10:00	2,800
11:00	2,600
12:00	2,400
14:00	2,200
15:00	2,100
16:00	2,000

Required:

(a) Calculate Svyatoslav's personal income tax withheld at source by his employer, NWest for the year 2008. (5 marks)

(b) Calculate Svyatoslav's final personal income tax liability for the year 2008, including the effect of the sale of the GVC shares, assuming that Svyatoslav has confirmed all his expenses with proper documents and claimed all applicable tax deductions in the maximum possible amount. (9 marks)

(c) Explain an employer's obligation in respect of the payment of personal income tax withholding, effective from 1 January 2008. (1 mark)

(15 marks)

5 **(a)** Company A, a foreign company owns a 60% share in another company, Company B, registered in Russia and 40% in Russian Company C respectively. Company B acquired a 70% share in Company E in 2005 and a 30% share in Company D in early 2008. Both Company E and Company D are Russian companies and their other owners are all unrelated Russian companies with Russian capital. Company D has a 100% Russian subsidiary Company G.

On 8 October 2008 Company D received a five-year loan from Company E for 2.5 million EUR to finance the expansion of its retailing activities. This loan is not secured with a pledge or surety. The fixed interest rate on the loan is 10% per annum. Interest is payable on a quarterly basis, and the first interest payment is payable on 10 January 2009. Interest is not compound.

On 15 October 2008 Company D received a 1 million EUR loan from Company A. The interest rate on the loan is 7.5% per annum. Interest is payable on a quarterly basis.

Company D applies quarterly profits tax reporting for the year 2008.

The following data is available in respect of the assets and liabilities of Company D (in million RR)

Reporting date	30 September 2008	31 December 2008
Total assets	265	268
Total liabilities	253	256
Including tax liabilities	7	10

Required:

Calculate the interest deductible by Company D for profits tax purposes for the year 2008.

Note: the following EUR/RR exchange rates are to be used (notional data):

1 October	36.2
8 October	36.4
15 October	36.5
31 October	36.3
1 November	36.0
30 November	36.6
1 December	36.7
31 December	36.8

(8 marks)

(b) In addition to scenario in part (a) the following supplemental data is available in respect of dividends distribution in 2008 for the year 2007.

Companies C and D apply a common dividend policy. In 2008 they distributed 12% of their after-tax 2007 profits to their shareholders.

2007 accounting profits from trading (equal to the profits tax base subject to the general rate of tax) were as follows:

Company C	120,000,000 RR.
Company D	100,000,000 RR.

Company D received interim dividends in 2008 from subsidiary G of 2,900,000 RR.

In 2008 Company E paid a dividend of 5,500,000 RR to Company B. The total value of Company B's investment in the capital of Company E is equal to 520,000,000 RR.

Profits tax base (equal to the accounting profits) of E was 200,000,000 RR for 2007.

All shares are of the same class of shares, and are entitled to dividends on a proportional basis.

Required:

(i) Calculate the tax to be withheld on each of the following dividends payments:

- **the dividend paid by Company C to Company A; and**
- **the dividend paid by Company D to Company B.** (5 marks)

(ii) State, giving reasons, whether Company E will have an obligation to withhold tax from the dividend paid to Company B, and if so at what rate. (2 marks)

Note: in your answer to part (b) ignore interest exceeding thin capitalisation limits.

(15 marks)

End of Question Paper