

Fundamentals Level – Skills Module

Taxation (Russia)

Monday 7 December 2009

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 unless the question requires otherwise.
2. All apportionments should be made to the nearest month, unless the question requires otherwise.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

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

Personal and children allowances

Standard personal allowance	400 RR (up to 40,000 RR)
Children allowance	1,000 RR per child (up to 280,000 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 and additional insurance contributions for the accumulated part of labour pension – subject to certain conditions set out in the law)	120,000 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 <i>per diem</i> 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 + 5% per annum
Foreign currency bank deposits	9%
Rouble loans	2/3 of the CB refinancing rate
Foreign currency loans	9%

Threshold interest rates for profits tax purposes in 2009

Rouble loans	1.1 times the CB refinancing rate
Foreign currency loans	15%

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 up 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 6% 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 insured employee per annum

Certain advertising expenses, other than the unlimited types listed in the law, are limited to 1% of sales revenue

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

Special depreciation ratios

Fixed assets received under financial leasing	3 (upper limit)
For assets acquired in 2008:	
Passenger cars (cost > 600,000 RR per item)	0.5
Minivans (cost > 800,000 RR per item)	0.5

Allowances for receivables

General limitation	10% of sales
Aged 0–44 days	0% of receivable
Aged 45–90 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%
Tax on dividends	9%

Professional deductions

General deduction	20%
Deduction for photographers	30%

Central Bank refinancing rates (notional)

1 January 2009 to 31 January 2009	15%
1 February 2009 to 30 September 2009	20%
1 October 2009 to 31 December 2009	25%

Number of calendar days in calendar months for the year 2009

January	31
February	28
March	31
April	30
May	31
June	30
July	31
August	31
September	30
October	31
November	30
December	31

ALL FIVE questions are compulsory and MUST be attempted

- 1 ZAO Zollans ('Zollans') is a trading company operating in the Russian market and other CIS countries. Zollans is 85% owned by a Russian company SMS and 15% by a French company Sante SA.

Zollans has always applied the accruals method for both value added tax (VAT) and corporate profits tax purposes. In respect to both VAT and profits tax Zollans uses quarterly tax reporting.

Zollans position with regard to losses brought forward as of 1 January 2009 was as follows:

Year	Profit/(losses)	
	Accounting 000 RR	Tax 000 RR
2006	(1,030)	383
2007	364	1,100
2008	(2,300)	(1,900)

The annual salary paid by Zollans to its employees does not exceed 272,000 RR per person. Zollans uses the standard unified social tax (UST) rate. Zollans is not entitled to any UST incentives.

The following information is available for the year 2009. All figures are inclusive of VAT (where VAT is applicable) unless stated otherwise.

All goods sold on the Russian market are subject to the standard VAT rate. In 2009 all domestic sales are subject to VAT.

Sales, collections, prepayments for 2009

Domestic sales of goods	994,740,000 RR
Confirmed export sales	20,000,000 RR

	1 January 000 RR	31 December 000 RR
Prepayments from domestic customers	99,120	79,060
Sales receivable	21,240	17,700

During the year 2009 Zollans wrote-off 2,124,000 RR (including VAT) as a bad debt expense due to the debtor's official liquidation.

Merchandise inventory

The balance on the inventory account at the beginning of the year was 15,576,000 RR. During 2009 Zollans purchased 735,376,000 RR worth of merchandise inventory. In its profit and loss account for the year 2009 Zollans showed a gross margin (difference between sales net of VAT and cost of goods sold (COGS)) of 40% of sales net of VAT.

As at 31 December 2009 the unpaid amount of purchases was 20%. VAT invoices were provided for 95% of the purchases during the year.

The transportation expenses balance related to goods in inventory as at 1 January 2009 was 467,280 RR. Zollans incurred 36,768,800 RR for transportation expenses for the year 2009, which were invoiced separately, and the amount paid for transportation was equal to 80% of the total invoices received. At the same time suppliers submitted VAT invoices for only 75% of the transportation expenses incurred by Zollans.

Wages and salaries and other employees' expenses

Wages and salaries of staff directly involved in trade activities	164,000,000 RR
Wages and salaries of administrative personnel	18,000,000 RR

Zollans provided both one-year voluntary medical insurance to employees with an aggregate 2009 insurance premium of 7,000,000 RR and one-year voluntary medical insurance to employees' relatives with an aggregate 2009 insurance premium of 1,800,000 RR.

In addition, in 2009 Zollans spent:

- 500,000 RR on an annual voluntary life insurance against incidents abroad only for those employees who go on foreign business trips more than twice a month; and
- insured 100 key employees against the risk of accident resulting in the death or permanent physical disability of the employees (under a voluntary personal insurance agreement) and paid 1,610,000 RR for their policies.

Educational expenses

During the year 2009, Zollans paid 9,950,400 RR to send employees to different professional courses based on special arrangements with Russian licensed educational institutions, in accordance with the employees' labour agreements. 90% of these expenses were VAT exempt as educational services.

In addition, Zollans's HR department decided to attract 10 students to its trading and marketing activities by entering into a special arrangement with these trainees. The conditions of this arrangement were the following: Zollans paid for the professional training for these trainees, in their turn the trainees were bound to conclude labour agreements with Zollans within three months after finishing their professional training and to work for Zollans at least for the period of one year.

For the above arrangement Zollans incurred 49,752 RR of costs (including VAT) for each of the 10 persons for the year 2009. As a result, seven persons have concluded labour agreements within three months after the training and were treated as Zollans's employees at the year end.

Depreciation of owned fixed assets

Category of fixed asset	Quantity	Historic cost per unit including VAT RR	Tax useful life in years	Date of putting into use	Monthly non-linear depreciation rate
Passenger cars for sales representatives	400	509,760	5	September 2008	5.6%
Computers	500	42,480	3	March 2009	8.8%

Zollans applied the straight-line method of fixed assets depreciation up to and including the year 2008, but starting from the year 2009 the company decided to apply the non-linear method for its owned fixed assets for tax purposes. This fact was explicitly stated in the tax policy for the year 2009. Zollans tax policy for all years stipulates its right to an immediate 10% write-off on the fixed asset cost.

Interest

Zollans made a decision to take a loan from the French company Sante SA to finance some of its payables in Euros (EUR) in order to eliminate its foreign exchange loss exposure. On 10 April 2009 Zollans received a three-year loan with the value of 350,000 EUR with an interest rate of 7% per annum. Interest is paid by Zollans on a quarterly basis on the last day of each quarter (e.g. interest due for the second quarter was paid by the company on 30 June). On 30 September 2009 Sante SA decided to forgive both the loan and the current interest liability of Zollans.

Required:

- (a) Calculate the taxable profits and corporate profits tax liability of ZAO Zollans for the year 2009. Show separately all elements of taxable income items and deductible expenses.

Notes:

1. Round all figures to the nearest thousand roubles (000 RR).
2. Interest should be calculated in days.
3. The following notional EUR/RR exchange rates are to be used:

10 April 2009	45.5
30 April 2009	46.7
1 May 2009	47.0
31 May 2009	47.5
1 June 2009	47.7
30 June 2009	47.9
1 July 2009	47.8
31 July 2009	48.1
1 August 2009	48.5
31 August 2009	49.1
1 September 2009	49.3
30 September 2009	51.0
1 October 2009	52.0
31 December 2009	55.0

4. Ignore property tax. (23 marks)

- (b) Calculate ZAO Zollans's value added tax (VAT) liability for the year 2009. Show separately all elements of output/input VAT. (7 marks)

(30 marks)

- 2 Alina works as a senior brand manager of FMCG company Arrivalla. Alina is married to Andrey, they have two children: a son of three years old and a daughter of 20 years old. Her daughter studies biology at the daytime faculty of the State University. Alina's gross monthly salary was 179,000 RR up to June 2009 and 160,000 RR starting from July onwards.

Alina received from Arrivalla annual voluntary medical insurance with the insurance premium of 16,000 RR per person. Arrivalla also proposed another type of annual voluntary medical insurance for its employees' relatives and children with the premium of 12,500 RR per relative and 10,000 RR per child respectively (100% of the premiums are paid by the employer). Alina has chosen the proposed type of insurance both for her sister, Maria, and her son.

Regarding her daughter's voluntary medical insurance Alina pays an annual insurance premium of 15,000 RR to a licensed insurance company.

In January 2009 Alina paid her own voluntary pension insurance contribution of 10,000 RR and additional insurance contributions for the accumulated part of labour pension of 7,000 RR for the year 2009.

In April 2009 Alina also paid 20,000 RR for her son's medical treatment in a licensed clinic.

In September 2009 Alina and Andrey also jointly paid an annual payment of 55,000 RR for their daughter's evening German language course at the licensed language school, Linguist and 62,000 RR for a special IT training program for Andrey provided by a licensed foreign company in Russia.

In 2009, Alina and Andrey decided to purchase jointly in equal shares a more comfortable apartment and to sell their small current apartment. The selling price of the old apartment was equal to 10,200,000 RR. The purchase price of the new apartment was agreed at the value of 15,200,000 RR and was payable in two instalments: 7,000,000 RR by the end of the year 2009 and the remainder by the end of January 2010. The old apartment had been owned solely by Andrey from July 2005. The sale and purchase deals were both signed on 1 August 2009.

On 15 January 2009, at Alina's request, Arrivalla provided her with a corporate loan of 3,000,000 RR to help her to finance the above mentioned purchase of the new apartment. Interest at the rate of 3% per annum is payable at the end of each quarter starting from the first quarter of 2010.

To help finance the purchase of the new apartment, Alina also took out a five-year mortgage loan of 1,500,000 RR from the bank on 25 January 2009, with interest at the rate of 10% per annum. It was agreed that the interest would be payable on the third day following the end date of each calendar quarter. The bank mortgage loan agreement contains a provision for changes in the Central Bank refinancing (CBR) rate. Starting from 15 August 2009 the actual interest rate was increased to 12% per annum.

Documents confirming Alina's and Andrey's title of ownership for their new apartment were only received in March 2009. They both managed to submit to their respective employers documents from the tax authorities confirming their entitlement to the housing allowance in May 2009. Neither Alina nor Andrey has ever used the housing allowance before.

In addition to the above, Alina received the following benefits from Arrivalla for the year 2009:

- (1) Reimbursement of the interest on the bank mortgage loan payable for the third and fourth quarters of the year 2009. This interest is treated as deductible for Arrivalla for profits tax purposes.
- (2) Reimbursement of the confirmed business calls made from her personal cell phone in the amount of 70,000 RR
- (3) A boutique certificate for the value of 25,000 RR received as a gift for Woman's Day
- (4) A bonus of 70,000 RR for her results accrued in the year 2008 was paid to her in March 2009.

Andrey works as a freelance photographer. For the year 2009 he received a copyright fee in the net amount of 540,096 RR under a copyright agreement with an advertising agency. The copyright fee was paid every month by unequal instalments, so that his year-to-date income exceeded 40,000 RR in January 2009 and exceeded 280,000 RR in June 2009. The agency provides Andrey with all relevant allowances at source.

In October 2009 he made a donation to a charitable institution of 15,000 RR in cash, paid 20,000 RR for his voluntary medical insurance, and financed a surgery operation for a relative in a licensed hospital for the amount of 24,000 RR.

Required:

Assuming that all the above mentioned expenses incurred by Alina and Andrey are confirmed with proper supporting documents and that where possible, all tax allowances have been split between the spouses in the most beneficial proportion:

- (a) Calculate the personal income tax of Alina withheld at source by her employer Arrivalla, for the year 2009. (9 marks)
- (b) Calculate the final settlement of Alina's personal income tax liability (additional payment or refund) for the year 2009. (6 marks)
- (c) Calculate the final settlement of Andrey's personal income tax liability (additional payment or refund) for the year 2009. (10 marks)

Show separately the amounts of all personal income tax deductions claimed by Alina and Andrey for the year 2009 and deductions carried forward to future years, if any.

Note: rounding the answer to the nearest thousand roubles is NOT permitted in this question.

(25 marks)

- 3 (a) Construction company 000 Deltaplus ('Deltaplus') applies the quarterly value added tax (VAT) reporting and payment regime and uses the straight-line depreciation method.

Deltaplus has recently analysed its use of the following two assets: Planeta and Aquarium: Planeta is booked as a real estate object; Aquarium is a special equipment (fixed asset). The management of Deltaplus has made a decision not to use these two assets solely in the regular VAT taxable activities of the company but to also start using them in its VAT-exempt business activity (intra-company transfer).

Fixed asset	Historical cost inclusive of VAT 000 RR	Accounting life in years	Date put into use	Date of transfer to VAT exempt activity
Planeta	413,000	25	24 February 2007	15 October 2009
Aquarium	495,600	15	1 April 2005	30 September 2009

Deltaplus's total sales of goods and services for the year 2009 were 554,600,000 RR (net of VAT) of which VAT exempt sales were 83,190,000 RR.

Required:

Calculate the value added tax (VAT) liability due to the budget in 2009 as a result of the intra-company transfer of each of the two assets. Give brief explanations to support your calculations and in the case of Planeta, state the deadline for the VAT tax return. (7 marks)

- (b) Trading company 000 Maron ('Maron') had the following trade receivables as at 1 July 2009 (all figures are VAT inclusive unless stated otherwise):

Customer's Name	Date of due payment	Amount RR	Comments
Venice	1 March 2008	18,054,000	Venice asked for a debt waiver
Heracle	15 June 2009	14,750,000	Heracle asked for a payment deferral

Maron has always used the accruals method and quarterly reporting for both profits tax and VAT purposes.

Based on the agreement with Heracle, Maron is obliged to provide a volume bonus of 7,000,000 RR to Heracle for the second quarter at the end of June. But the responsible department of Maron has forgotten to book this bonus, as well as to present the relevant documents to Heracle.

In the mid-year review meeting with the finance management of Maron, the credit manager proposed to consider the following possible options for Venice:

- (1) reassign this debt with a 7% (notional) discount to a special collection company on 31 August 2009;
- (2) write off the debt at the end of August 2009; or
- (3) waive the debt at the end of August 2009.

With regard to Heracle the only considered option was to offset part of Heracle's debt with the relevant bonus amount on 31 August 2009.

Maron did not create any bad debt reserve at 31 December 2008 or at 30 June 2009, and neither of the above mentioned debts were covered under a bank guarantee.

Required:

Advise 000 Maron on both the value added tax (VAT) and profits tax outcome for both itself and its debtors (Venice and Heracle) in the case of each option proposed by the credit manager with respect to the trading receivables. Clearly state the timing of recognition of the respective tax liabilities (or tax deductions).

(8 marks)

(15 marks)

- 4 (a) Igor Kruzhavin works as an IT manager for the company OOO Zima ('Zima'). Igor is married and has a son of four years old. His net monthly salary was 95,000 RR in all months in 2009 except for those months in which Igor was entitled to various allowances and deductions at source.

On 17 April 2009 Igor asked his employer for a mortgage loan to finance the final contribution for the purchase of a new apartment for 1,200,000 RR. On 30 April 2009 Igor received this loan of 500,000 RR for the five-year period with interest at the rate of 3.5% per annum. The loan principal is repayable at the end of the loan period. Interest is payable on the 10th day following the end of each month. Igor has never claimed the housing deduction in the past. He is the sole owner of the new apartment.

On 1 October 2009 Igor was sent to a special IT seminar in Paris arranged by the Russian licensed training school. On 4 October 2009 he landed back in Moscow and returned to work.

Igor received a daily allowance advance of 12,000 RR from his employer. On 6 October 2009 he filed his expense report with the accounting department and claimed the full amount of his advance received plus the following expenses:

Hotel accommodation – 450 EUR

Taxi transfer from the airport to the hotel on his arrival and back from the hotel to the airport on his departure day – 110 EUR

Required:

- (i) Calculate Igor's personal income tax withheld at source by OOO Zima for the year 2009 if he did NOT manage to provide his employer with confirmation of his actual housing expenses and his entitlement to the housing deduction from the tax authorities;

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

1 January 2009	47.8	
4 October 2009	47.9	
6 October 2009	47.0	
30 October 2009	50.0	(7 marks)

- (ii) Calculate Igor's personal income tax withheld at source by OOO Zima for the year 2009 if he had submitted the confirmation from the tax authorities of his entitlement to housing deduction including interest expenses to his employer on 17 December 2009; (3 marks)

- (iii) Calculate the unified social tax liability (UST) payable by OOO Zima in respect of Igor for the year 2009. (1 mark)

- (b) Vasily Kruzhavin, Igor's brother is also married with one child, a daughter, aged four years old. Vasily is registered as an individual entrepreneur and works for OOO Zima as a freelancer under a civil law contract.

In 2009 Vasily received gross income from OOO Zima equal to the gross salary received by his brother Igor. He also received a mortgage loan of 500,000 RR from OOO Zima on the same terms as that received by Igor, to finance his purchase of a new apartment; but as a freelancer Vasily was not sent to the IT seminar.

Vasily has lost all records of his business expenses for 2009 and has not kept any of the supporting documents but he did manage to submit all necessary documents confirming the purpose of the mortgage loan to the tax authorities. Like Igor, Vasily is the sole owner of his apartment, which cost him 1,350,000 RR and he has never claimed the housing deduction in the past.

Required:

Calculate Vasily's personal income tax liability and unified social tax (UST) liability as an individual entrepreneur for the year 2009. (4 marks)

(15 marks)

- 5 You have been assigned as a tax consultant to the company 000 Chance ('Chance'). Chance is an accruals basis tax payer, which reports and pays corporate profits tax on a quarterly basis.

From the year 2006, Chance has been 40% owned by the foreign company, Luckwell and 60% owned by the Russian company Mig. In its turn company Mig is 30% owned by the foreign company Polet.

The following forecast data is available in respect of Chance's assets and liabilities:

	As at 30 September 2009	As at 31 December 2009
	RR	RR
Assets	65,000,000	67,000,000
Liabilities	64,000,000	70,500,000
Including tax liabilities	1,000,000	500,000

Chance has no current outstanding loan balances, nor has any adjustment been made for any future debt financing in the forecast liability figures above.

Chance has now approached you regarding its need for debt financing of 1,000,000 EUR or a RR loan in an equivalent amount.

Required:

Assuming that in all cases the date of the provision of any loan to 000 Chance is 7 October 2009:

- (a) Show, with supporting calculations, why it would be more tax efficient (i.e. would result in the lower profits tax liability) in 2009 if the currency of the loan was in EUR and not RR.

Notes:

1. In answering part (a) ignore any interest liability or deduction.
2. The following notional EUR/RR exchange rates are to be used:

1 July 2009	47.0
30 September 2009	47.5
1 October 2009	47.7
7 October 2009	48.1
31 October 2009	48.5
1 November 2009	48.0
30 November 2009	49.0
1 December 2009	52.0
31 December 2009	55.0

(2 marks)

- (b) Assuming that the loan is to be provided in RR, is not to be secured with a surety or pledge, interest payable is at the rate of 5% per annum due on a quarterly basis on the third day of the month following the relevant quarter and interest is not compound, Prepare calculations to show why 000 Chance should not borrow the funds from Luckwell.

(10 marks)

- (c) State the general rules for the maximum deductible rate of interest on loans in (1) EUR and (2) RR.

(3 marks)

(15 marks)

End of Question Paper