

Fundamentals Level – Skills Module

Taxation (Russia)

Monday 6 December 2010

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)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black rectangular background.

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 all questions on this paper 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 'property' allowance

Investments in residential property and land for tax purposes	2,000,000 RR (upper limit)
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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 120,000 RR
(medical, personal educational, non-state pension insurance, voluntary pension insurance and additional insurance contributions for the accumulated part of labour pension – subject to certain conditions set out in the law)

Educational deduction for children	50,000 RR (upper limit)
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Professional deduction – general	20%
– architects	30%
– for sculptors	40%

Gains on property sales:

– immovable property	1,000,000 RR (upper limit)
– movable property	250,000 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 increased by 5%
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

Foreign currency loans – 15%
Rouble loans received – 1.1 of the CBR refinancing rate

Single threshold for social insurance contributions for the year 2010 (several categories of insurance contributions subject to special incentives and reduced rates are not examined)

	Income amount	Rate
For employers (general) and individual entrepreneurs	up to 415,000 RR	26%
For employers (licence, copyrights, civil contracts)	up to 415,000 RR	23.1%

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 are limited to 1% of sales revenue.

Reimbursement of interest on employees' mortgage loans is limited to 3% of labour costs.

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

Special depreciation ratios:

Fixed assets received under financial leasing	3 (upper limit)
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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) rates

Standard	18%
Exports	0%

General profits tax rate

General profits tax rate	20%
Tax on dividends for residents	9%
Tax on dividends for foreign companies	15%

Property tax rate

2.2%

Personal income tax rates

Basic rate	13%
Higher rate	35%
Tax on dividends for residents	9%

Central Bank refinancing rates (notional)

1 January to 30 April 2010	30%
1 May to 30 September 2010	20%
1 October to 31 December 2010	10%

Number of calendar days in calendar months for the year 2010

January	31
February	28
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

1 000 Maxiagent ('Maxiagent') is a company engaged in providing consulting services and arranging different promotional and advertising events for their customers both in Russia and abroad. Maxiagent is 90% owned by a Russian company and 10% by a UK company, Future Brands Int.

Maxiagent always applies the accruals method for both value added tax (VAT) and corporate profits tax purposes and uses a quarterly profits tax reporting period. Regarding fixed assets, Maxiagent applies the non-linear method of depreciation for profits tax purposes and its tax policy for the year 2010 stipulates its right to an immediate 30% write-off on asset cost.

Maxiagent uses the standard social insurance contribution rates without any incentives.

Regarding direct costs, Maxiagent's tax policy provides for the immediate write-off of its direct expenses in the relevant reporting period without allocation.

The following information is available for the year 2010. All amounts are inclusive of VAT unless stated otherwise. All services provided in Russia during the year 2010 were subject to VAT at the standard rate.

Sales, cash collections and prepayments for the year 2010 (in RR):

Domestic sales of consulting services		60,385,500
Domestic sales of arranging advertising events		27,140,000
Sales to embassies of foreign states (0% VAT rate)		5,700,000
	1 January	31 December
Sales receivables	11,032,000	12,434,000
Prepayments from domestic clients	7,056,000	7,689,000

Direct costs of services (in RR)

Materials (all purchased in 2010, VAT invoices were received for the value of 90% of these purchases)	23,600,000
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Salaries – see 'Remuneration' table below

Depreciation of fixed assets (part of direct costs) by category:

Category of fixed asset	Quantity	Historic cost per unit in RR (VAT inclusive)	Date put into use	Monthly non-linear tax depreciation rate
Notebooks	100	31,860	February 2010	5.6%

Remuneration

The table below sets out details of the remuneration paid by Maxiagent in 2010.

Job title	Salary per person paid in 2010 RR	Number of persons	Legal status	Direct or administrative cost
General director	3,693,000	1	Employee	Administrative
Personal assistant	289,000	3	Employee	Administrative
Deputy director	3,000,000	2	Employee	Administrative
Expert	300,000	15	Civil law contractor	Administrative
Event manager	335,000	40	Employee	Direct

In addition to the payments set out above, Maxiagent provided both voluntary medical insurance for its employees for 1,733,000 RR and voluntary medical insurance for their relatives for 340,000 RR. In both cases the term of the insurance agreement was one year.

Software licences

During the year 2010, Maxiagent purchased five non-exclusive software licences for the total value of 94,400 RR (18,880 RR each).

Advertising expenses

Maxiagent incurred 8,850,000 RR for advertising in the press and 3,540,000 RR for participation in exhibitions during the year 2010. VAT invoices were received for the value of 75% and 100% respectively of these expenses.

Business entertainment expenses in 2010 incurred in favour of Maxiagent's business partners (in RR)

Official dinners	6,372,000
Transportation expenses to the business conferences and back	955,800
Services of an interpreter during the negotiations	4,130,000
Hotel expenses	7,198,000
Theatre tickets and other cultural entertainment event costs	3,250,000

Interest expense

On 7 December 2010, Maxiagent received a seven-year loan for 2,500,000 GBP from Future Brands Int, with interest at the rate of 5% per annum. Interest is payable on the last date of each quarter (i.e. the first interest instalment was payable on 31 December 2010).

On 31 December 2010, Future Brands Int made a decision to forgive part of the loan principal to the value of 1,000,000 GBP.

Tax losses brought forward

At 1 January 2010, Maxiagent had the following unused tax losses:

2008 year – 600,000 RR
2009 year – 1,700,000 RR

Required:

- (a) Assuming that all the expenses referred to in the scenario are properly confirmed by necessary documents, calculate the taxable profit and corporate profits tax liability of OOO Maxiagent for the year 2010. Show separately all elements of the taxable income and deductible expenses. Identify any non-deductible expenses without calculations.

Notes:

1. For social insurance contributions purposes ignore all expenses other than salaries.
2. Ignore property tax.
3. The following notional GBP/RR exchange rates are to be used:

1 September 2010	47.0
30 September 2010	52.0
1 October 2010	51.5
31 October 2010	49.0
1 November 2010	49.5
30 November 2010	50.0
1 December 2010	50.5
7 December 2010	48.0
31 December 2010	51.0

(21 marks)

- (b) Show how the direct cost amount in your calculation in (a) would change if OOO Maxiagent's tax policy was to allocate its direct costs based on the services completeness ratio by reference to when the acts of acceptance were signed. Assume the acts of acceptance for services rendered had been signed by customers for 75,402,000 RR out of the total services billed of 93,226,500 RR for the year 2010. (2 marks)

- (c) Calculate OOO Maxiagent's value added tax (VAT) liability for the year 2010. Show separately all elements of output/input VAT. (7 marks)

(30 marks)

2 Sonya works as a corporate advisor for a realty agency, Luxlook. She is married to Pavel and they have two sons aged nine years and 17 years respectively. Sonya's gross monthly salary is 210,000 RR.

Starting from 11 January 2010, Luxlook gave its employees the option to pay 10,000 RR annually to the licensed non-state pension fund XXX by the withholding of the above amount from the employee's salary. Alternatively, the employees had the option of paying this contribution themselves, directly to fund XXX. Sonya chose to pay an annual contribution of 7,000 RR directly to fund XXX herself. However, she also agreed that an additional 10,000 RR would be withheld from her salary by Luxlook and paid to fund XXX in favour of her mother in the year 2010.

On 15 January 2010, Luxlook paid for voluntary medical insurance policies for its employees under a one-year agreement with the insurer RosInsur for the value of 15,000 RR per person. Luxlook also offers its employees the opportunity to insure their relatives at the employer's expense at the special discount of 10% to the standard rate of 14,000 RR per person. Sonya decided to get medical insurance from her employer for her two sons in the year 2010. In respect of her sister Jana, Sonya paid 13,000 RR herself as a voluntary medical insurance to a Russian licensed clinical centre.

On 25 February 2010, Sonya paid 57,000 RR out of the total fee of 65,000 RR for a one-year course in the State Academy of Information Technologies for her elder son. The remainder of the fee was paid by her husband, Pavel.

During the year 2010, Sonya received the following additional benefits from Luxlook:

- Project management training in London in May 2010, costing 70,000 RR
- SPA certificate as a gift on her birthday, to the value of 27,000 RR

On 5 March 2010, Sonya received one half of a plot of land as an inheritance from her grandmother. The other half of the plot was received by her brother, Dmitriy. The market value of the whole plot of land is 4,000,000 RR.

Also in March 2010, Sonya, her husband, Pavel, her brother, Dmitriy and his wife, Maria, decided to build a new residential house for both families on this inherited land.

Sonya invested 1,700,000 RR from her personal savings in the construction of the residential house. In addition, on 15 March 2010 Luxlook provided her with a 2,050,000 RR mortgage loan with an interest rate of 5% per annum for a seven-year period. Interest is payable on this mortgage loan starting from the year 2011.

Pavel works as a construction engineer for the construction holding EKS. His normal monthly gross salary is 250,000 RR, but due to a lack of work in the first three months of the year 2010, he only received 35,000 RR (gross) in January and 50,000 RR (gross) in February and March respectively.

In April 2010, Pavel sold a garage for 750,000 RR, which he had purchased in August 2006 for 540,000 RR.

Pavel invested 3,050,000 RR from his personal savings in the construction of the residential house and asked the bank for the additional finance in the form of a mortgage loan of 700,000 RR. The bank provided him with the requested mortgage loan on 2 April 2010, at the interest rate of 10% per annum for a ten-year period. Interest is payable on this loan on a quarterly basis on the last date of each quarter (i.e. interest for the second quarter of 2010 is payable on 30 June 2010). The loan principal amount is to be repaid at the end of the loan period, not by instalments. The bank loan agreement contains a provision for changes in the CBR rate.

The actual expenses incurred by Sonya, Pavel, Dmitriy and Maria for the construction of their new house in the year 2010 were 15,000,000 RR (3,750,000 RR each).

Dmitriy is a freelance architect. His gross remuneration for the year 2010 was 4,200,000 RR, including January gross remuneration of 280,000 RR. Dmitriy kept all the documents for his business expenses incurred for the year with the total value of 1,300,000 RR. He and Maria have one daughter, who is aged five years.

Sonya, Pavel, Dmitriy and Maria received joint ownership rights for their newly constructed house in November 2010. Sonya managed to submit to her employer, Luxlook, the document from the tax inspector confirming her entitlement to property allowance in December 2010. Sonya has never used her property allowance before but Pavel and Dmitriy had both already used their property allowance, in the years 2007 and 2008 respectively, for the apartments where their families currently live.

Required:

(a) Assuming that all the expenses incurred by Sonya, Pavel and Dmitriy in 2010 are confirmed with proper supporting documents:

- (i) Calculate the personal income tax of Sonya withheld at source by her employer for the year 2010, assuming that Sonya has asked Luxlook for all possible deductions to be given; (8 marks)**
- (ii) Calculate the final settlement of Sonya's personal income tax liability (additional payment or refund) upon submission of her 2010 personal income tax return; (4 marks)**
- (iii) Calculate the final settlement of Pavel's personal income tax liability for the year 2010; (9 marks)**
- (iv) Calculate the final settlement of Dmitriy's personal income tax liability for the year 2010, assuming that Dmitriy intends to maximise all possible deductions available to him. (3 marks)**

Notes:

- 1. To the extent possible use all the personal income tax deductions that are potentially available to Sonya, Pavel and Dmitriy.
- 2. State separately the amounts of all personal income tax deductions claimed by Sonya, Pavel and Dmitriy for the year 2010 and the deductions (if any) carried forward to future years.
- 3. Ignore social insurance contributions and value added tax (VAT).

(b) State the personal income tax consequences (if any) for Pavel if all interest paid by him to the bank during the year 2010 is to be reimbursed by his employer.

Note: calculations are not required for this part. (1 mark)

(25 marks)

- 3 (a) On 10 June 2010, OOO Casis ('Casis') made an export shipment of veterinary products to Hungary to the value of 5,600,000 EUR. The products were customs cleared and the export regime was confirmed on the same date. Payment for these products was received in the bank account of Casis on 5 August 2010, in the amount of 5,600,000 EUR. The costs incurred by Casis before the date of shipment and related to this export shipment were 125,160,000 RR inclusive of value added tax (VAT).

Required:

- (i) **Explain and calculate OOO Casis's VAT liability for Quarter 3 of the year 2010, if a full set of documents confirming the export were submitted to the tax authorities on 20 September 2010;** (3 marks)
- (ii) **Explain and calculate OOO Casis's VAT liability for both Quarter 2 and Quarter 4 of the year 2010, if a full set of documents confirming the export were only submitted to the tax authorities on 15 December, stating the dates of recognition for the output VAT base.** (5 marks)

Notes:

- In subpart (ii) you should ignore any VAT payable/recoverable in Quarter 3 of 2010.
- Relevant EUR/RR exchange rates are as follows (notional):

1 June 2010	43.7
10 June 2010	43.5
30 June 2010	43.0
30 July 2010	43.3
1 August 2010	43.4
5 August 2010	43.6
30 August 2010	43.9
1 September 2010	44.0
20 September 2010	44.5
30 September 2010	44.7
1 October 2010	44.6
31 October 2010	44.8
15 December 2010	44.7
31 December 2010	44.4

- (b) OOO Hamstern ('Hamstern') conducts activities that are 100% subject to value added tax (VAT) at the general rate. Hamstern reviewed its accounts receivable as of 1 March 2010 and based on this analysis, the finance director decided to sell the accounts receivable from Multik and Spitz to the factoring company Priveta, and to write-off the account receivable from Holts on the following conditions:

Hamstern accounts receivable (all amounts are inclusive of VAT unless stated otherwise):

Name of customer	Date of due payment	Amount RR	Date of sale	Date of write-off	Proceeds from sale RR
Multik (see note)	30 December 2009	8,968,000	21 April 2010	–	9,595,760
Spitz	10 November 2009	9,853,000	30 April 2010	–	8,867,700
Holts	1 October 2008	3,038,500	–	15 May 2010	N/A

Note: The account receivable from Multik was acquired in 2009 under a cession agreement. 8,968,000 RR is the historic cost of acquisition of this receivable.

On 15 March 2010, Hamstern paid a rent prepayment for the next quarter for the amount of 3,044,400 RR. A VAT invoice for this prepayment was received from the landlord on 20 March 2010. On 30 June 2010, the landlord provided Hamstern with the final VAT invoice for the quarterly rent for the same amount.

In addition, an outstanding debt receivable from customer Funtik, which was due on 15 December 2009, had been offset against Hamstern's account payable to Funtik relating to purchases made for business purposes on 25 February 2010 for the amount of 4,448,600 RR. An agreement for the offset of this amount was signed on the same date and VAT invoices dated 28 February 2010 were exchanged between Hamstern and Funtik.

Required:

- (i) Explain and calculate the VAT base for OOO Hamstern for Quarter 1 and Quarter 2 of the year 2010, based on the above transactions. Show separately the output VAT, input VAT and VAT payable/recoverable for each return; (5 marks)
- (ii) Based on your calculations in (i):
- with respect to any VAT payable state the deadline(s) for payment, together with the amount(s) payable; and
 - with respect to any VAT recoverable, state the desk audit period for the return and the deadline for the tax authorities to make a decision on the VAT recovery if no mistakes are found during desk tax audit. (2 marks)

(15 marks)

4 Ivan Skuratov works as a business excellence director for the company OOO Olymp. His net monthly salary for January 2010 was 230,000 RR and 265,000 RR for all other months. Ivan is married and has two daughters, aged six and nine years.

On 30 August 2010, Ivan was sent on a business trip to Toronto (Canada) for four days. On 3 September 2010, he landed back in Moscow and returned to work. Ivan did not receive any cash prepayment into his bank account for the business trip, but after the trip he submitted an approved expense report with supporting documents to the accounting department on 5 September, with the following breakdown of expenses incurred:

Flight ticket in business class Moscow–Toronto–Moscow with the value of 2,800 CAD

Accommodation in Toronto – 600 CAD

Taxi transfer from Toronto airport to his hotel – 50 CAD

Per diems – 200 CAD

Reimbursement of all the amounts incurred, as per the expense report, was transferred to Ivan’s bank account by OOO Olymp on 30 September 2010.

Ivan also received the following benefits from his employer in 2010:

- On 16 November, an annual membership in the new sports club, Fort, as a gift from his employer. The market value of this gift was 45,000 RR.
- Annual voluntary medical insurance for Ivan of 17,000 RR and for his wife and children of 14,000 RR per each relative.
- One-off material aid of 15,000 RR after a car accident involving his grandmother.

On 31 December 2010, Ivan decided to leave OOO Olymp and received compensation for his unused vacation equal to 310,000 RR.

Required:

(i) Calculate the personal income tax withheld from Ivan by OOO Olymp for the year 2010;

Note: relevant CAD/RR exchange rates are as follows (notional):

30 August 2010	28.5	
31 August 2010	28.6	
1 September 2010	28.7	
2 September 2010	28.75	
3 September 2010	28.8	
5 September 2010	29.0	
30 September 2010	28.9	(10 marks)

(ii) List the reimbursements, compensations and benefits (other than salary) received by Ivan from OOO Olymp for the year 2010 which are (1) subject to social insurance contributions and (2) exempt from social insurance contributions.

(5 marks)

(15 marks)

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Question 5 begins on page 14.**

- 5 (a) Vitaliy Shestakov is a sculptor. In 2010, he received a gross amount of 800,000 RR under the licence agreement for the right of usage of his works with the company NBV. Vitaliy's expenses incurred in his professional activity under the licence agreement were 600,000 RR (all supporting documents are in place).

During the year 2010, Vitaliy also received other remuneration in the amount of 200,000 RR under a civil law agreement with the consulting company Voice. He had to visit several cities on behalf of Voice under this agreement and the total amount of expenses incurred relating to this work for travel and accommodation was 30,000 RR.

Required:

- (i) Calculate the minimum possible social insurance contributions payable by NBV with respect to Vitaliy's remuneration under the licence agreement. (2 marks)
- (ii) Calculate the social insurance contributions payable by Voice with respect to Vitaliy's remuneration under the civil law agreement. (1 mark)
- (b) OOO Vulf ('Vulf') is 40% owned by OOO Zigma ('Zigma'). Zigma is jointly owned by two foreign companies: Helmut (75%) and Elza (25%).

Vulf requires debt financing of 1,200,000 EUR. The debt financing will be provided by either Helmut or Elza and received by Vulf on 15 October 2010. The interest rate will be 5% per annum and interest will be payable on a quarterly basis, on the first day of the following quarter (interest is not compound). The amount of required financing (including accrued interest forecast) has been taken into calculation of the liabilities forecast as at 31 December 2010.

The following forecasted data of Vulf's assets and liabilities as at 31 December 2010, including any accrued interest on the debt financing, is available (in RR):

Assets	104,000,000
Liabilities	98,000,000
Including tax liabilities	1,250,000

Required:

Prepare calculations to show which company (Helmut or Elza) would be the most tax efficient provider of the debt financing for OOO Vulf.

Note: relevant EUR/RR exchange rates are as follows (notional):

1 October 2010	43.5	
15 October 2010	43.2	
30 October 2010	43.1	
1 November 2010	42.9	
30 November 2010	42.5	
1 December 2010	42.7	
31 December 2010	42.3	
1 January 2011	42.4	(7 marks)

- (c) In July 2010, the shareholders of OOO Zhirona ('Zhirona') decided to pay a dividend of 7% of its 2009 financial year's after-tax profits. Zhirona's profits tax base (equal to its pre-tax accounting profits for 2009) was 350,000,000 RR.

The following companies were the dividend beneficiaries.

OOO Ostrov, which owns 25% in Zhirona.

ZAO Luchia, which owns 50% in Zhirona. This 50% interest cost ZAO Luchia 6,000,000 RR in September 2008.

Breg LLC, a foreign company which owns 25% in Zhirona.

Zhirona received 5,870,000 RR (gross amount) as an interim dividend from its subsidiary ZAO Calvos in June 2010.

Except where stated otherwise, all of the companies referred to in the scenario are Russian companies.

Required:

Calculate the relevant taxes to be withheld on the dividend payments made by OOO Zhirona. (5 marks)

(15 marks)

End of Question Paper