Answers

Marks

1 OOO Villandra

(a) Profits tax liability for the year 2011

	RR	Marks
Domestic sales of goods (net of VAT) 266,209,593*100/118	225,601,350	½
Confirmed export sales (zero VAT)	15,000,000	½
Prepayments from domestic customers (non-taxable)	0	½
Total sales	240,601,350	
Direct expenses:		
Cost of goods sold (21,948,000 + 61,065,000)*100/118*80%	56,280,000	1
(½ for net of VAT, ½ for 80%)		
Transportation expenses (528,148 + 5,281,481)*100/118*80%	3,938,732	1½
(½ for net of VAT, 1 for 80%)		
Total direct costs	(60,218,732)	
Indirect expenses		
Wages and salaries ((250 x 320,000) + (100 x 180,000) + 480,000)	(98,480,000)	½
Social insurance contributions (Note 1)	(33,470,977)	2
Voluntary medical insurance for employees (Note 2)	(5,908,800)	½
Voluntary medical insurance for relatives (non-deductible)	0	½
One-off 30% write-off (Note 3)	(43,635,000)	2
Indirect depreciation (Note 4)	(48,067,547)	5
Advertising expenses:		
Advertising on TV – not subject to limitations 13,617,200*100/118	(11,540,000)	½
Advertising in press – not subject to limitations 6,808,600*100/118	(5,770,000)	½
Deductible advertising prizes (Note 5)	(2,406,014)	1
Total indirect expenses	(249,278,338)	
Non-sale expenses		
Rent expenses 60,180*100/118*12	(612,000)	½
Forex loss on loan 1,500,000*(41 – 37)	(6,000,000)	1
Interest expense (Note 6)	(1,128,000)	2½
Total non-sale expenses	(7,740,000)	
Total tax loss	(76,635,720)	
Total balance of tax losses carried forward (2,300,000 + 1,770,000 + 76,635,720)	(80,705,720)	½
		21

Note 1

Social insurance contributions:	
(320,000*250 + 180,000*100)*34% = 33,320,000	*1*
444,050*34% = 150,977	*1*
(½ for correct limit of 444,050, ½ for 34%)	
Total 33,470,977	*2*

Note 2

Deductible part 6%*98,480,000 = 5,908,800	*½*

Note 3

One-off 30% write-off:	
Passenger cars:	
619,500*100/118*30%*270 = 42,525,000	*1*
(½ for net of VAT, ½ for 30%)	
Capital improvements:	
NBV at 4,366,000*100/118*30% = 1,110,000	*1*
(½ for net of VAT, ½ for 30%)	
Total write-off – 43,635,000	*2*

	Marks
Note 4	
Notebooks: value per item is less than 40,000 RR, i.e. should be fully written off as expense:	
37,760*100/118*351 = 11,232,000	*1½*
(½ for net of VAT, 1 for immediate write-off as expenses not FA)	
Passenger cars (put into use from April 2011)	
NBV at 31 December 2011: 619,500*100/118*70%*270*(1 – 5.6%)^8 = 62,574,453	
(½ for 70%, ½ for correct formula, ½ for correct number of months)	*1½*
NBV at 1 April 2011: 619,500*100/118*70%*270 = 99,225,000	
Depreciation for the year: 99,225,000 – 62,574,453 = 36,650,547	*½*
Capital improvements:	
Depreciated within the depreciation term in compliance with the Government Statement for the capital improvement but not exceeding the rent period.	
NBV at 1 July 2011: 4,366,000*100/118*70%*6/(12*7) = 185,000	*1½*
(½ for 70%, ½ for correct months, ½ for correct use of depreciation period)	
Total indirect depreciation: 11,232,000 + 36,650,547 + 185,000 = 48,067,547	5
Note 5	
Limited by revenue net of VAT: 240,601,350*1% = 2,406,014	
(½ for revenue net of VAT, ½ – 1%)	
2,891,000*100/118 = 2,450,000, i.e only 2,406,014 will be deductible for prizes.	*1*
Note 6	
Interest expenses in currency are limited to CBR rate*0.8 = 10%*0.8 = 8%	*½*
1,500,000*8%*(31 – 5)/365*37.5 = 320,548	*1*
(½ for correct days, ½ for correct exchange rate)	
1,500,000*8%*30/365*39.5 = 389,589	
(½ for correct exchange rate)	*½*
1,500,000*8%*31/365*41 = 417,863	
(½ for correct exchange rate)	*½*
Total interest deductible 1,128,000	*2½*

		Marks

(b) Value added tax (VAT) liability for the year 2011

	RR	
Output VAT		
Sales of products 266,209,593*18/118	40,608,243	½
Export sales (confirmed export)	0	½
VAT on 2011 prepayments from domestic customers at 31 December 2011		
6,211,557*18/118	947,526	½
Total output VAT	41,555,769	
Input VAT		
VAT on prepayments from domestic customers at 1 January 2011		
13,310,480*18/118	(2,030,412)	½
VAT on COGs 61,065,000*18/118*75%	(6,986,250)	1
(½ for net of VAT, ½ for 75%)		
VAT on transportation expenses 5,281,481*18/118*90%	(725,085)	1
(½ for net of VAT, ½ for 90%)		
VAT on voluntary medical insurance (exempt from VAT)	0	½
VAT on passenger cars purchased 619,500*18/118*270	(25,515,000)	½
VAT on computers purchased 37,760*18/118*351	(2,021,760)	½
VAT on capital improvements made 4,366,000*18/118	(666,000)	½
VAT on advertising expenses		
6,808,600*18/118*75% + 13,617,200*18/118*85%	(2,544,570)	1½
(½ for net of VAT, ½ for 75%, ½ for 85%)		
VAT on advertising prizes within the limit 2,406,014*18%	(433,082)	1
VAT on rent expenses 60,180*18/118*12	(110,160)	½
Total input VAT	(41,032,319)	
VAT recoverable	523,450	
		9
		30

2 Andrey and Jana

(a) Personal income tax liability of Andrey withheld at source by Maxilev for the year 2011

	RR	
Income taxed at 13%		
Gross salary accrued 230,000*12	2,760,000	½
No standard personal allowance		
(income exceeds the 40,000 RR threshold in January)	N/A	½
Children allowance (income exceeds the 280,000 RR threshold in February)		
for two children (1,000*2)	(2,000)	1
Birthday gift received	17,700	½
Gift deduction	(4,000)	½
Professional training from licensed company – non-taxable item	0	½
Semi-annual bonus	100,000	½
Bonus in the form of incentive trip	75,000	1
(½ for amount inclusive VAT, ½ for no 4,000 RR deduction)		
Medical voluntary insurance paid for himself by Maxilev (non-taxable item)	0	½
Medical insurance for his wife paid by Maxilev (non-taxable item)	0	½
Social deduction with respect to employer's withholding to non-state pension fund	(7,000)	1
Property allowance for land acquisition	(2,000,000)	1
Property allowance – loan interest (no actual interest expenditure in 2011)	0	1
(½ for 0, ½ for mentioning the reason)		
Total employment income	939,700	
Tax withheld at 13%	122,161	½
Income taxed at 35%		
Imputed interest income on corporate loan for the plot of land acquisition		
(loan was spent on land plot acquisition)	0	½
		10

		Marks

(b) Final settlement of Andrey's personal income tax liability for the year 2011

	RR	
Taxable base including benefits from employer (from (a))	939,700	
Sale of inherited plot of land (owned more than three years so exempt)	0	½
Social deductions (Note 1)	(120,000)	2½
Educational deduction for elder daughter (out of 54,000 RR)	(50,000)	1
Taxable base	769,700	
Tax due to the budget at 13%	100,061	½
Tax withheld by his employer (from (a))	(122,161)	½
Tax for refund under personal tax return at 13% rate	(22,100)	
		5

Note 1

Social deductions	RR	
Voluntary medical insurance for two daughters	25,000	½
Medical expenses incurred for his father's operation	45,000	½
Education for his sister Marina	55,000	*1*
Total possible social deductions	125,000	
But subject to a maximum of 120,000 RR *(for mentioning maximum level of 120,000)*		½
		2½

(c) Final settlement of Jana's personal income tax liability for the year 2011

	RR	
Income taxed at 13%		
Gross salary accrued (38,000 + 61,000 + 180,000 + 77,000 + 1,623,000)	1,979,000	½
Standard personal allowance		
(gross income exceeds the 40,000 RR threshold in February)	(400)	½
Children allowance (income exceeds the 280,000 RR threshold in April) (1,000*2*3) *(½ per correct months, ½ for correct number of children)*	(6,000)	1
Professional deduction 30% for photographers 1,979,000*30%	(593,700)	1
Educational deduction for her daughter (60,000 – 54,000 within 50,000)	(6,000)	1
Proceeds from the apartment sold	6,200,000	½
Expenses incurred (confirmed by documents) (The most effective option is to use actual costs incurred rather than the deduction of 1,000,000 RR for property owned for less than three years)	(4,300,000)	1
Proceeds from car sale	260,000	½
Property deduction (less than three years of ownership)	(250,000)	1
Taxable income:	3,282,900	
Tax at 13%	426,777	½
Income taxed at 35%		
Lottery prize (value of cruise received)	43,000	½
Prize deduction	(4,000)	½
Value after deduction	39,000	
Tax at 35%	13,650	½
Total tax due to the budget at different rates	440,427	
		9

(d) Property deduction for Jana for the year 2009

The property deduction is still available since the three-year period has not yet expired. Hence, Jana can claim the property deduction of the maximum amount of 2,000,000 RR by submitting an amended personal income tax return for the year 2009. **1**

(½ for mentioning three years, ½ for 2,000,000)

25

Marks

3 (a) ZAO Svaros

(i) Value added tax (VAT) recoverable

Quarter 1 (Q1) Input VAT

14 February: 100% prepayment paid – no booking on VAT account		
19 February: advance VAT invoice received (1,454,350*18/118)	221,850 RR	½
Total VAT recovered for Q1	(221,850) RR	

Quarter 2 (Q2) Input VAT

	RR	
10 April: (1,556,155*18/118)	237,380	½
Claw back of previously recovered VAT in February	(221,850)	1
Total VAT recovered for Q2	(15,530)	
		2

(ii) An advance VAT invoice completed in compliance with the tax law is not sufficient itself for VAT to be recovered. According to the law there are two other requirements: the documents confirming the prepayment received need to be presented and a provision regarding prepayment should be stipulated in the agreement between the parties. 1

(b) OOO Vicont

(i) Quarter 2 (Q2) value added tax (VAT) liability

Output VAT for Q2 of 2011:
(11,255,000 – 2,700,000)*18/118 = 8,555,000*18/118 — 1,305,000 RR — ½

Exempted sales in total sales net of VAT:
2,700,000/(8,555,000*100/118 + 2,700,000) = 27.13568% — 1
Vatable sales in total sales = 100 – 27.13568% = 72.86432%

Note to markers: *if the candidates calculate vatable sales in total sales, i.e. 72.86432%, directly, with no intermediate step, the same marks should be awarded.*

VAT is recoverable 100% only if the exempt costs in total period costs incurred for both activities is less than 5%.

Purchases for both activities allocated to exempt sales:
3,376,500*100/118*27.13568% = 776,471 — 1
(½ for net of VAT, ½ for correct %)

Indirect expenses incurred for both activities allocated to exempt sales:
844,125*100/118*27.13568% = 194,118 — 1
(½ for net of VAT, ½ for correct %)

Exempt costs for purchased goods net of VAT 477,900*100/118 = 405,000 — ½

Exempt costs for indirect expenses net of VAT 47,790*100/118 = 40,500 — ½

Exempt costs in total period costs without VAT:
(776,471 + 194,118 + 405,000 + 40,500)/(4,277,500 + 3,376,500 + 477,900 + 855,500 + 844,125 + 47,790)*100/118 = 1,416,089/8,372,301 = 16.91% > 5% — 1½
(½ for correct total exempt costs, ½ for period costs net of VAT, ½ for comparison)

Therefore, only part of the input VAT related to both exempt and vatable sales (allocated to vatable sales) will be recovered.

Input VAT

	RR	
3,376,500*18/118*72.86432%	375,294	1
844,125*18/118*72.86432%	93,824	1
4,277,500*18/118	652,500	½
855,500*18/118	130,500	½
Total input VAT	1,252,118	
VAT refund = output VAT – input VAT (1,305,000 – 1,252,118)	52,882	

			Marks
	VAT to be included into the cost of goods sold: 8,372,301*18% – 1,252,118	254,896	1
			10

(ii) If OOO Vicont's sales to the state institutions are subject to zero-rate VAT, all of the input VAT would be recoverable, and OOO Vicont would be in a net VAT refund position. 1

However, such recovery of the input VAT related to zero-rate sales is only available when the 181 days period after the shipment date expires or in the case of export sales, export is confirmed according to the established procedure. 1

2

15

4 Alexander Kustovskiy

(a) (i) Personal income tax liability withheld by OOO Bronkai for the year 2011 (no entitlement to housing allowance)

	RR	
Income taxed at 13%		
Gross salary 250,000*100/87*12	3,448,276	½
No personal allowance (salary exceeds 40,000 RR threshold in January)	N/A	½
No children allowance (salary exceeds 280,000 RR threshold in January)	N/A	½
Inherited plot of land from his grandfather (close relative)	0	1
Housing allowance (entitlement only received in January 2012)	0	½
Total employment income	3,448,276	
Tax withheld at 13%	448,276	½
Income taxed at 35%:		
Imputed interest income (Note 1)	80,232	3
Tax withheld at 35%	28,081	½
Total tax withheld at different rates	476,357	
		7

Note 1

10 July to 30 September 2011
3,500,000*(2/3*20% – 5%)*(31 – 10 + 31 + 30)/365 = 65,499 *1½*
(½ for 2/3, ½ for correct CBR rate, ½ for correct days)

1 October to 31 December 2011
3,500,000*(2/3*10% – 5%)*(31 + 30 + 31)/365 = 14,733 *1½*
(½ for 2/3, ½ for new CBR rate, ½ for correct days)

Total imputed interest income: 80,232

3

(ii) Provided that Alexander did not manage to submit the entitlement to the housing allowance for the year 2011 to his employer until 1 January 2012, Alexander can submit a personal income tax return for the year 2011 up to 30 April 2012 to the tax inspection. If he does so then he will receive the relevant housing allowance on his account from the tax inspection. 1

(½ for relevant deadline, ½ for comment on receiving allowance from tax inspection)

		Marks

(b) Personal income tax liability withheld by OOO Bronkai for the year 2011 (entitlement to housing allowance received in November 2011)

	RR	
Gross salary 250,000*100/87*12 (same as (a))	3,448,276	
No personal allowance (same as (a))	N/A	
No children allowance (same as (a))	N/A	
Housing allowance (Note 1)	(2,083,425)	4½
Total employment income	1,364,851	
Tax withheld at 13%	177,431	½
Income taxed at 35%:		
Imputed interest income (Note 2)	0	1
		6

Note 1

Actual expenses incurred:

	RR	
Access to electricity network (VAT included)	141,600	*½*
Development of project documentation (VAT included)	177,000	*½*
Wages of construction workers gross-up 180,000*100/87	206,897	*½*
Social insurance contributions 206,897*34%	70,345	*1*
Total expenses incurred	595,842	

Amount borrowed from employer – 3,500,000 RR

Hence the maximum 2,000,000 RR is available as a housing allowance for Alexander, including the 595,842 RR. *½*

Interest paid during the year 2011:
3,500,000*5%*(31 – 10 + 31 + 30 + 31 + 30 + 31)/365 = 83,425 1
(½ for correct formula, ½ for correct days)

The interest can be added to the 2,000,000 RR i.e. total housing allowance for the year 2011 will be 2,083,425 RR. *½*

4½

Note 2

Since Alexander managed to submit his entitlement for housing allowance before the year end, the imputed interest will not be taxable for the year end 2011.

(c) If Alexander received the same loan from the bank and his employer, OOO Bronkai reimburses to him the interest paid, this will have no impact on Alexander's personal income tax for the year 2011 since the interest reimbursed on this kind of mortgage loan is exempt from PIT provided that the expense is deductible by OOO Bronkai for profits tax purposes. 1
(½ for PIT exemption, ½ for condition of deductibility for profits tax purposes)

15

5 (a) ZAO Shafran

Calculation of deductible interest under different debt financing options

Quarter 3 (Q3)

Net assets as at 30 September 2011:
(234,000,000 – 237,000,000 + 2,000,000) = (1,000,000) RR 1

Loan from STN:
51% shareholding exceeds the 20% threshold for an affiliated loan. ½

Loan amount exceeds negative net assets*3. ½

Therefore, all the interest accrued on an STN loan will be treated as non-deductible. ½

Loan from Mr Cherkasskiy:
17% shareholding is less than 20%, therefore the thin capitalisation rules will not apply. ½

Marks

Interest on RR loans is limited to 1.8*CBR rate, but 1.8*20% = 36% > 20% rate. ½

Therefore the interest is fully deductible, i.e. 15,000,000*20%*(30 – 2)/365 = 230,137 RR. 1

Loan from Mr Volkov:
32% shareholding exceeds 20%, so will be treated as an affiliated loan. ½

Also, total loan amount exceeds negative net assets*3 so the total interest amount will be treated as non-deductible. ½

Outcome: the only loan provider that will generate deductible interest is Mr Cherkasskiy. ½

Quarter 4 (Q4)

Net assets as at 31 December 2011:
(240,000,000 – 220,000,000 + 4,000,000) = 24,000,000 RR 1

Loan from STN:
Ownership criteria is met 51% > 20% (same as Q3).

380,000*40.9 = 15,542,000 RR ½

Interest for Q4: 15,542,000*10%*(31 – 7 + 30 + 31)/365 = 361,937 RR ½

Since total controlled debt (15,542,000 + 361,937) < 24,000,000*3, the thin capitalisation rules will not be applied. ½

Since deductible interest on EUR loan is limited to 0.8 of CBR rate (10%):

15,542,000*10%*0.8*(24 + 30 + 31)/365 = 289,550 RR 1

Loan from Mr Cherkasskiy:
Ownership criteria is not met 17% < 20% (same as Q3).

Interest in RR is limited to 1.8*10% = 18% ½

i.e. deductible interest will be equal to 15,000,000*18%*(31 – 7 + 30 + 31)/365 = 628,767 RR. 1

Loan from Mr Volkov:
Ownership criteria is met 32% > 20% (same as Q3).

Interest: 15,000,000*15%*(31 – 7 + 30 + 31)/365 = 523,973 RR 1

Since total controlled debt (15,000,000 + 523,973) < 24,000,000*3, the thin capitalisation rules will not be applied. ½

Outcome: the cheapest loan will be the loan from STN, resulting in deductible interest of 289,550 RR. However, the highest deductible amount would be the loan from Mr Cherkasskiy. ½

13

(b) OOO Cordamon

Dividend payments to shareholder OOO Imbir

	RR	Marks
Profits tax base before tax	270,000,000	
Tax at 20%	54,000,000	½
Profits tax after tax	216,000,000	
Dividends subject to distribution (5%)	10,800,000	½

Amount payable to 100% shareholder OOO Imbir: 10,800,000*100% = 10,800,000 RR

The dividend should be subject to withholding tax at the 0% rate since both criteria are met:

– the period of ownership of the shares exceeds one year; and
– Imbir's shareholding in Cordamon is more than 50%. 1

2

15