

Fundamentals Level – Skills Module

Taxation (Russia)

Monday 6 June 2011

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)
---	----------------------------

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)
------------------------------------	-------------------------

Professional deduction – general	20%
– for photographers	30%
– for architects	30%
– for sculptors	40%

Gains on property sales:

– immovable property	1,000,000 RR (upper limit)
– movable property	250,000 RR (upper limit)
Housing allowance (deduction)	2,000,000 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

From 1 January 2011 to 31 December 2012

Foreign currency loans	0.8 of the CBR refinancing rate
Rouble loans received	1.8 of the CBR refinancing rate

Single threshold for social insurance contributions for the year 2011

	Income amount in 2011	Rate
For employers (general) and individual entrepreneurs	up to 444,050 RR	34%
For employers (licences, copyrights, civil contracts)	up to 444,050 RR	31.1%

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 accidents 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.

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)
Historic cost of fixed assets	40,000 RR per unit (minimum)

Allowances for receivables

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

Value added tax (VAT) rates

Standard	18%
Exports	0%

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 June 2011	25%
1 July to 30 September 2011	20%
1 October to 31 December 2011	10%

Number of days in calendar months for the year 2011

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

**This is a blank page.
Question 1 begins on page 6.**

ALL FIVE questions are compulsory and MUST be attempted

1 000 Villandra ('Villandra') is a trading company engaged in trading operations with a diversified range of products both in Russia and abroad. Villandra is 85% owned by a Russian company, 000 Selena and 15% by a German company, Kulman GmbH.

Villandra 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, Villandra applies the non-linear method of depreciation of fixed assets (except for capital improvements of leased assets) for profits tax purposes and its tax policy for the year 2011 stipulates its right to an immediate 30% write-off on asset cost.

Villandra uses the standard social insurance contribution rates without any incentives on wages and salaries.

The following information is available for the year 2011. All amounts are inclusive of VAT unless stated otherwise. All products sold in Russia during the year 2011 were subject to VAT at the standard rate.

Sales, cash collections and prepayments for the year 2011

Domestic sales of goods	266,209,593 RR		
Confirmed export sales	15,000,000 RR		
		1 January 2011	31 December 2011
		RR	RR
Prepayments from domestic customers	13,310,480		6,211,557
Prepayments from foreign customers	0		0

Merchandise inventory

The balance on the inventory account as at 1 January 2011 was 21,948,000 RR. During the year 2011 Villandra purchased 61,065,000 RR worth of merchandise inventory. VAT invoices were received for 75% of the inventory purchased. 20% of the available 2011 inventory was not sold during the year 2011.

Regarding transportation expenses, Villandra incurred 5,281,481 RR for which only 90% of the VAT invoices were provided. The opening balance of transportation expenses as at 1 January 2011 was 528,148 RR.

Wages and salaries paid by Villandra for the year 2011

Staff directly involved in trading activities:
 250 persons with an annual salary 320,000 RR per person

Administrative staff:
 100 persons with an annual salary 180,000 RR per person

General Manager: 480,000 RR

In addition to the payments set out above, Villandra provided both annual voluntary medical insurance for its employees for 6,000,000 RR and annual voluntary medical insurance for their relatives for 2,402,380 RR.

Data on fixed assets purchased

Category of fixed asset	Quantity	Historic cost per unit RR	Date put into use	Monthly non-linear tax depreciation rate
Passenger cars	270	619,500	April 2011	5.6%
Notebooks	351	37,760	March 2011	5.6%

Capital improvements

Throughout the year 2011, Villandra rented a building for warehousing based on a five-year lease agreement with monthly rent payments of 60,180 RR. In March 2011 Villandra decided to install new cooling equipment in its warehouse and these capital improvements, which cost 4,366,000 RR, were put into use on 22 June 2011.

The tax statutory useful life of new cooling equipment is seven years. The useful life of the warehouse building is 30 years. Villandra applied the straight-line depreciation method to these capital improvements for profits tax purposes.

Advertising expenses

In 2011 Villandra incurred the following advertising expenses:

- 6,808,600 RR for advertising in the press;
- 13,617,200 RR for advertising on TV channels; and
- 2,891,000 RR for advertising prizes in public promo campaigns.

VAT invoices were received during 2011 for the value of 75%, 85% and 100% respectively of the above categories of advertising expenses.

Interest expense

On 5 October 2011 Villandra received a five year loan for 1,500,000 EUR from Kulman GmbH with interest at the rate of 8% per annum. Interest is payable on the last day of each month (i.e. the first interest instalment was payable on 31 October 2011). No repayments of loan principal were made in 2011.

Tax losses

Villandra had the following data on unutilised deductible tax losses as of 1 January 2011:

2009	1,770,000 RR
2008	2,300,000 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 Villandra for the year 2011. Show separately all elements of taxable income and deductible expenses and the unused balance of tax losses, if any.**

Notes:

1. For social insurance contributions purposes ignore all expenses other than salaries.
2. Ignore property tax.
3. Relevant EUR/RR exchange rates (notional) are as follows:

5 October 2011	37.0
31 October 2011	37.5
1 November 2011	38.0
30 November 2011	39.5
1 December 2011	40.0
31 December 2011	41.0

(21 marks)

- (b) **Calculate OOO Villandra's value added tax (VAT) liability for the year 2011. Show separately all elements of output/input VAT.**

(9 marks)

(30 marks)

2 Andrey works as a marketing group manager for a big retailer Maxilev. He is married to Jana and they have two daughters aged five years and 16 years respectively. Andrey's gross monthly salary is 230,000 RR.

In addition to his salary during the year 2011, Andrey received the following benefits from his employer:

- in March 2011, a birthday gift with the value of 17,700 RR (VAT inclusive);
- in May 2011, a professional training course in marketing with a licensed training company costing 32,000 RR;
- in July 2011, a semi-annual bonus of 100,000 RR for six months of the year 2011; and
- in November 2011, an additional bonus in kind as a reward for his achievements in the form of an incentive trip to Kuala-Lumpur with a value of 75,000 RR (VAT inclusive).

On 25 January 2011 Maxilev provided all of its employees with an annual voluntary medical insurance with a premium of 16,000 RR per employee. Maxilev also offered voluntary medical insurance of 12,000 RR per relative and Andrey obtained the proposed relative insurance for his wife. In respect of his two daughters, in 2011 he paid himself 25,000 RR to the licensed insurance company with which they were already insured. In addition to the above, in 2011 Andrey contributed 45,000 RR for his father's surgery operation in a licensed cardio hospital.

After long discussions with different pension funds, starting from 1 March 2011 Maxilev's HR department gave its employees the option to pay 7,000 RR annually to the licensed non-state pension fund AIV by way of withholding of the above amount from the employee's salary. Andrey used this opportunity in November 2011.

On 15 March 2011 Andrey paid 54,000 RR out of a total of 60,000 RR for a one-year preliminary course in the licensed University of Foreign Languages for his elder daughter. The remaining 6,000 RR was paid by his wife, Jana. Regarding other educational expenses, he paid 55,000 RR for the daily study of his 20-year-old sister, Marina, at the licensed Moscow Sports Academy in April 2011.

In April 2011 Andrey decided to sell the plot of land inherited from his father in 2007 with the value of 3,500,000 RR. The selling price of this plot was fixed at 4,200,000 RR.

In May 2011 Andrey decided to invest in another plot of land with a better location and environment for future construction, with the value of 7,000,000 RR. To finance this investment he requested a corporate loan from his employer. On 5 June 2011 Maxilev provided him with a mortgage loan of 3,000,000 RR at the interest rate of 4% per annum for a five year period. Interest is payable on this loan starting from the year 2012.

The document confirming Andrey's entitlement to the property allowance for the land acquisition from the tax inspection was provided to Maxilev in November 2011. Andrey has never used this allowance before.

Jana works as a freelance photographer for the construction holding Girafa. Her gross remuneration in 2011 was: January, 38,000 RR; February, 61,000 RR; March, 180,000 RR; April, 77,000 RR and for the rest of the year, 1,623,000 RR. Jana has lost all of the documents confirming her business expenses incurred for the year 2011.

In May 2009 Jana had acquired an apartment with the value of 4,300,000 confirmed by supporting documents. However, she forgot to claim any deduction on this acquisition. In September 2011 Jana sold the above apartment for the market price of 6,200,000 RR.

In October 2011 Jana sold her old car, which she had owned since August 2009, for 260,000 RR and purchased a new car for the value of 550,000 RR.

On 16 November Jana won a two-week cruise with the value of 43,000 RR (VAT inclusive) in an advertising lottery.

Required:

Assuming that all the expenses incurred by Andrey and Jana in 2011 are confirmed with proper supporting documents unless specifically stated otherwise:

- (a) Calculate the personal income tax of Andrey withheld at source by Maxilev for the year 2011, assuming that Andrey has asked Maxilev for all possible deductions to be given. (10 marks)
- (b) Calculate the final settlement of Andrey's personal income tax liability (additional payment or refund) upon submission of his 2011 personal income tax return. (5 marks)
- (c) Calculate the final settlement of Jana's personal income tax liability for the year 2011. (9 marks)
- (d) Advise Jana whether she can still claim for the housing allowance in respect of the apartment purchased in 2009 and if so, state the relevant amount available.

Note: no calculations are required for part (d). (1 mark)

Notes relevant to all subparts:

1. To the extent possible use all the personal income tax deductions that are potentially available to Andrey and Jana.
2. State separately the amounts of all personal income tax deductions claimed and the deductions (if any) carried forward to future years.
3. Ignore social insurance contributions.

(25 marks)

- 3 (a)** ZAO Svaros ('Svaros'), a trading company engaged in the supply of veterinary goods, had the following transactions during the year 2011:

On 14 February 2011 Svaros made a 100% prepayment to its supplier Zentman for goods in the amount of 1,454,350 RR. Zentman issued an advance value added tax (VAT) invoice on 18 February and submitted it to Svaros on 19 February.

The goods were only received in early April 2011, when their sales price was amended. The shipment was accompanied by the applicable shipment document and with a final VAT invoice for the value of 1,556,155 RR as of 10 April 2011.

Svaros has always applied the accruals basis for VAT and all amounts are stated inclusive of the standard VAT rate.

Required:

- (i) Calculate ZAO Svaros' VAT recoverable for each quarter of the year 2011 as a result of the above transactions. Clearly identify the VAT amount for each transaction occurring and state the relevant period;** (2 marks)
- (ii) State, giving reasons, whether receipt of an advance VAT invoice from a supplier is sufficient for an immediate VAT recovery provided the invoice is completed fully in compliance with the tax law.** (1 mark)

- (b)** OOO Vicont ('Vicont') normally applies the standard value added tax (VAT) rate to its trading operations. However, starting from April 2011 Vicont sold goods to various state institutions and these shipments were treated as VAT exempt according to the law.

Vicont's total sales for the second quarter (Q2) were 11,255,000 RR, of which the exempted sales were 2,700,000 RR.

Goods purchased were:

– for use only for vatable sales	4,277,500 RR
– for use for both exempt and vatable sales	3,376,500 RR
– for use only for exempt sales	477,900 RR

Other indirect expenses incurred in respect of the goods used were:

– only for vatable sales	855,500 RR
– for both exempt and vatable sales	844,125 RR
– only for exempt sales	47,790 RR

All amounts above are stated inclusive of VAT where applicable. All the purchases and all the expenses of Vicont are subject to VAT at the standard rate. All VAT invoices and other source documents are in place.

Required:

- (i) Calculate OOO Vicont's VAT liability for the second quarter (Q2) of the year 2011, identifying the amount of VAT to be included in the cost of goods sold for Q2;** (10 marks)
- (ii) Explain how the amount and timing of OOO Vicont's VAT liability would be affected if the sales of goods to the state institutions were subject to zero-rate VAT in case of export (rather than being treated as VAT exempt).**

Note: no calculations are required in subpart (ii). (2 marks)

(15 marks)

4 Alexander Kustovskiy works as Head of Operations in the company OOO Bronkai. For the year 2011 his net monthly salary is 250,000 RR. Alexander is married and has two daughters, aged six and nine years and one son, aged two years.

In February, Alexander decided to construct a new residential house on a plot of land which he inherited from his grandfather in January 2011. The market value of the land was 4,700,000 RR. Alexander started construction using his own savings and incurred the following expenses as confirmed by documents on the first stage in 2011:

	RR
Access to electricity network (VAT inclusive)	141,600
Development of project documentation (VAT inclusive)	177,000
Wages of construction workers (net of taxes)	180,000

In order to finance the remainder of the construction, Alexander asked his employer for a mortgage loan. On 10 July he received the loan principle amount of 3,500,000 RR. Interest is payable on this loan at the rate of 5%, at the end of each quarter starting from 30 September 2011. The loan agreement contains a provision for a possible change in the interest rate. The principal amount will be repaid starting from the year 2012.

Required:

(a) Assuming that Alexander did not manage to submit the entitlement to the housing allowance for the year 2011 to his employer until 1 January 2012:

(i) Calculate the personal income tax withheld from Alexander by OOO Bronkai for the year 2011. (7 marks)

(ii) State whether or not Alexander can receive the housing allowance in the year 2011 and if so, any deadline(s) that apply. (1 mark)

(b) Assuming that Alexander managed to submit the entitlement to housing allowance to his employer in November 2011, calculate the personal income tax withheld from Alexander by OOO Bronkai for the year 2011. (6 marks)

(c) Assuming that instead of the loan from his employer Alexander obtained a loan for the same amount and under same conditions from a bank, and before the year end OOO Bronkai reimbursed him all of the interest paid to the bank during the year 2011, state the impact of this reimbursement on Alexander's personal income tax liability for 2011.

Note: no calculation is required in part (c). (1 mark)

(15 marks)

5 (a) Company ZAO Shafran ('Shafran') is owned by three parties: a foreign company and two Russian physical persons as follows:

- 51% by the foreign company STN;
- 17% by Mr Cherkasskiy; and
- 32% by Mr Volkov.

The following extracts from the balance sheets of Shafran are available as at the end of the third (Q3) and fourth (Q4) quarters of 2011:

Reporting date	Q3	Q4
	30 September	31 December
	RR million	RR million
Total assets	234	240
Total liabilities	237	220
Including tax liabilities	2	4

Shafran now requires further financing for its current operations of 15,000,000 RR and the three shareholders have offered the following options:

- STN will provide a loan for 380,000 EUR at interest of 10% per annum.
- Mr Cherkasskiy will provide a RR loan of 15,000,000 RR at interest of 20% per annum.
- Mr Volkov will provide a RR loan of 15,000,000 RR at interest of 15% per annum.

In all three cases:

- interest will be payable on a quarterly basis at the end of each quarter; and
- the loan could be provided on either 2 September in Q3 or 7 October in Q4.

Required:

Prepare calculations of the interest deductible in the case of each loan provider:

- at the end of Q3 (30 September 2011) assuming the loan is provided on 2 September 2011; and
- at the end of Q4 (31 December 2011) assuming the loan is provided on 7 October 2011.

Ignore interest calculation on a monthly basis.

For each quarter state which shareholder would be the most tax efficient provider of the debt financing.

Notes:

1. Deal with each quarter separately.
2. Ignore any forex gains/losses.
3. Relevant EUR/RR exchange rates (notional) are as follows:

1 September 2011	37.5
2 September 2011	38.5
30 September 2011	39.0
1 October 2011	39.5
7 October 2011	40.2
30 October 2011	41.1
1 November 2011	42.0
30 November 2011	40.5
1 December 2011	41.5
31 December 2011	40.9

(13 marks)

(b) In May 2011 company OOO Cordamon ('Cordamon') decided to pay a dividend of 5% of its 2010 financial year's after-tax profits. Cordamon's profits tax base for 2010 was 270,000,000 RR.

The only dividend beneficiary is another Russian company, OOO Imbir, which has owned 100% of the shares in Cordamon since 1 January 2009.

Required:

Calculate the dividend payment to be made to OOO Imbir by OOO Cordamon in May 2011 and state, giving reasons, the rate of withholding tax applicable. (2 marks)

(15 marks)

End of Question Paper