
Answers

Section B

Marks

1 (a) AO Fervest (Fervest)

(i) Option 1 – Free contribution from Veter GmbH

Veter GmbH owns more than 50% of Fervest's share capital. Therefore, the contribution will be exempt from profits tax and no taxable income need be recognised by Fervest.

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($\frac{1}{2}$ for mentioning 50%, $\frac{1}{2}$ for exemption)

(ii) Option 2 – Loan from AO Orange Bank

A loan from a third party Russian bank with a guarantee from a foreign shareholder (Veter GmbH) with an ownership interest exceeding 20% is treated as a controlled loan.

$\frac{1}{2}$

Lower limit of interest rate: $75\% \times 20\% = 15\%$

$\frac{1}{2}$

10% is below the lower limit, so is deductible at the actual interest rate.

$\frac{1}{2}$

Interest due on loan at 30 September 2016:

$(500,000,000 \times 10\% \times (30 - 15) / 365) = 2,054,795$ RR

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Net assets as at 30 September 2016:

$(806,000,000 - 730,000,000 + 77,000,000) = 153,000,000$ RR

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Net assets*3 = $(153,000,000 \times 3) = 459,000,000$ RR

$\frac{1}{2}$

$(500,000,000 + 2,054,795) = > 459,000,000$

$\frac{1}{2}$

Capitalisation ratio: $(\text{loan} + \text{interest}) / (\text{net assets} \times 3 \times 55\%)$

$((500,000,000 + 2,054,795) / (459,000,000 \times 55\%)) = 1.98873 > 1$

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Interest deductible for profits tax purposes: $(2,054,795 / 1.98873) = 1,033,220$ RR

$\frac{1}{2}$

Portion of interest which will be reclassified as dividends:

$(2,054,795 - 1,033,220) = 1,021,575$ RR

$\frac{1}{2}$

Withholding tax: $(1,021,575 \times 13\%) = 132,805$ RR

$\frac{1}{2}$

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(iii) Option 3 – Loan from Friendly Ltd

A loan provided from a foreign shareholder who owns more than 20% of Fervest's share capital is treated as a controlled loan (Friendly owns 45%).

$\frac{1}{2}$

In this case, the withholding tax on the dividends will be at the rate of 15%.

$\frac{1}{2}$

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(b) Withholding tax at the rate of 0% can be applied to a dividend paid to a Russian resident shareholder if both the following criteria are met:

- (1) the Russian resident shareholder owns more than 50% of the Russian company; and
- (2) the Russian resident shareholder has owned the shares for more than one year.

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2 Social insurance contributions for the year 2016

(a) Victoria, under a labour agreement

	RR	
Salary (97,000*12)	1,164,000	1/2
Semi-annual voluntary medical insurance for herself	10,000	1/2
Annual medical insurance for her son (exempt)	0	1/2
Reimbursement of her business trip expenses (exempt)	0	1/2
Additional contributions for the accumulated pension paid by Raduga (45,000 – 12,000)	33,000	1
Material aid (booked as a non-deductible expense) (30,000 – 4,000)	26,000	1
Total tax base for SIC	1,233,000	
Social insurance contributions (SIC):		
Pension fund: (711,000*22% + (1,233,000 – 711,000)*10%)	208,620	1
Social security fund: (670,000*2.9%)	19,430	1/2
Federal fund of obligatory medical insurance: (1,233,000*5.1%)	62,883	1/2
Total SIC	290,933	6

(b) Dmitriy, under a licence agreement

(i) Documents confirming his actual expenses

	RR	
Remuneration	660,000	1/2
Actual expenses	(350,000)	1/2
SIC tax base	310,000	
SIC:		
Pension fund: (310,000*22%)	68,200	1/2
Federal fund of obligatory medical insurance: (310,000*5.10%)	15,810	1/2
Total SIC	84,010	

(ii) No documents confirming actual expenses

	RR	
Remuneration	660,000	
Professional deduction 660,000*40%	(264,000)	1/2
SIC tax base	396,000	
SIC:		
Pension fund: (396,000*22%)	87,120	1/2
Federal fund of obligatory medical insurance: (396,000*5.1%)	20,196	1/2
Total SIC	107,316	

No social fund contributions.		1/2
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3 (a) Natalia

Personal income tax (PIT) implications of each option

Option 1: Bank loan

Interest expenses for the month of March 2016 1,300,000*16%*31/365	17,666 RR	1/2
No imputed income arises because 16% > CBR rate.		1/2

Option 2: Sale of garage

The garage will be sold more than three years from its date of acquisition, therefore, the income from the sale will be exempt from PIT.

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Option 3: Corporate (company) loan

Interest expense incurred:

The actual interest rate is less than 2/3 of the CB rate of 15%, therefore, the deemed income will be recognised at the end of March 2016, no matter the actual date of the interest payment.

Imputed income $(1,300,000 \times (2/3 \times 15\% - 6\%) \times 31/365)$ <i>(1/2 for 2/3, 1/2 for 15%, 1/2 for correct days)</i>	4,416 RR	1 1/2
PIT at 35%	1,546 RR	1/2
		<u>5</u>

(b) Maxim**(i) Personal income tax (PIT) liability**

	RR	
Insurance value	1,500,000	1/2
Repair works confirmed	(1,000,000)	1/2
Insurance premium paid	(70,000)	1
Expenses related to the investigation (not taken into account)	(0)	1/2
Tax base	<u>430,000</u>	
PIT at 13%	<u>55,900</u>	1/2
		<u>3</u>

- (ii)** In compliance with the Tax Code, the insurance company acting as a tax agent should accrue, withhold and pay the PIT to the budget.

The PIT should be transferred to the budget by no later than the day following the insurance value payment, i.e. by 16 June 2016.

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4 (a) OOO Ambassador**(i) Value added tax (VAT) liability for Quarter 4 (Q4) 2016**

The date of defining the VAT base is the last date of each tax period:
i.e. in this case, 31 December.

	RR	
Materials written off $(1,457,300 \times 100/118)$	1,235,000	1/2
Wages and salaries of workers and engineers	1,700,000	1/2
Social insurance contributions	510,000	1/2
Depreciation of fixed assets used in construction	45,000	1/2
VAT base	<u>3,490,000</u>	
Output VAT at 18%	628,200	1/2
Input VAT		
Materials $(1,457,300 \times 18/118)$	(222,300)	1/2
VAT on warehouse accrued (as above)	(628,200)	1
VAT refund	<u>(222,300)</u>	
		<u>5</u>

- (ii)** If the materials were transferred to a third party contractor under a tolling agreement:

- no input VAT would arise on this toll transfer of materials; 1/2
- VAT would arise only on the part built by Ambassador's own workforce, i.e. excluding the part built by the toll contractor. 1/2

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Marks

(b) OOO Kamchatka

The tax base is defined as the market value of the goods subject to the transfer. 1/2

Since Kamchatka provided the coffee machines to its employees on a free of charge basis, the date of the VAT tax base recognition would be the date of the transfer to the employees, i.e. 25 November 2016. 1

	RR	
Tax base on the 10 coffee machines purchased: 21,240*10*100/118	180,000	1/2
Input VAT: 180,000 at 18%	(32,400)	1/2
Output VAT: 180,000 at 18%	32,400	1
<i>(1/2 for including free of charge transfer, 1/2 for 18%)</i>		
VAT liability	<u>0</u>	

A VAT invoice should be issued by Kamchatka for the free of charge transfer. 1/2

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5 Valeriya

(a) Personal income tax (PIT) withheld by employer OOO Drive

	RR	
Gross salary (70,000*12)	840,000	1/2
Children allowance:		
Income exceeds 280,000 RR in April (1,400*3*2)	(8,400)	1
<i>(1/2 for 3, 1/2 for 2 children)</i>		
Professional seminar in Sochi – exempt	0	1/2
Semi-annual voluntary medical insurance for herself	12,000	1/2
Annual voluntary insurance for her children – exempt	0	1/2
Gift certificate	35,000	1/2
Gift allowance	(4,000)	1/2
Maximum deductions claimed at source (except for housing deduction):		
Educational deduction for her son and daughter – swimming school (within 50,000 RR limit per each child) (12,000*2)	(24,000)	1
<i>(1/2 per each child)</i>		
Educational deduction for her daughter – maximum	(50,000)	1
Total taxable income	<u>800,600</u>	
PIT withheld at 13%	<u>104,078</u>	1/2
Imputed interest income on mortgage loan (entitlement for housing allowance has not been received by employer in year 2016)		
7 to 30 September: CBR rate is 7%		
6% is more than 4.67% (2/3*7%), no imputed interest income	0	1
<i>(1/2 for 2/3, 1/2 for correct outcome)</i>		
1 October to 31 December: CBR rate is 5%		
6% is more than 5%, no imputed interest income	0	1/2
		<u>8</u>

		Marks
(b) Final settlement of PIT liability for the year 2016		
	RR	
Taxable base (from (a))	800,600	½
Housing allowance – lesser of two limits: 2,000,000 RR per person		
Actual cost of 21,000,000 RR*60% <i>(½ for 2,000,000, ½ for 60% of actual cost)</i>	(2,000,000)	1
Mortgage interest paid (1,000,000*6%*(30 – 7)/365*60%) <i>(½ for correct days, ½ for 60%)</i>	(2,268)	1
Sale of inherited plot of land (less than three years of ownership)	5,000,000	½
Less residential property sale deduction	(1,000,000)	1
Sale of old apartment (exempt – more than three years) <i>(½ for exemption, ½ for 3 years indication)</i>	0	1
Taxable income	<u>2,798,332</u>	
PIT at 13%	363,783	½
Less PIT withheld (from (a))	<u>(104,078)</u>	½
Tax due to the budget	<u>259,705</u>	
		<u>6</u>
(c) General criteria for a social charity deduction		
The taxpayer should make a donation in cash to a non-commercial legal entity.		½
The deduction available is the lesser of the actual expense incurred and 25% of the income subject to PIT at the rate of 13% in the relevant tax year.		½
		<u>1</u>
		<u>15</u>

6 000 Bird

Corporate profits tax liability for the year 2016

	RR	
Domestic sales of sports products (net of VAT) (634,840,000*100/118)	538,000,000	1/2
Confirmed export sales (zero VAT)	59,000,000	1/2
Prepayments (non-taxable)	0	1/2
Total sales	597,000,000	
Direct expenses		
Cost of goods sold:		
((61,950,000 + 185,850,000 – (185,850,000*25%)*100/118)	170,625,000	1
(1/2 for 100/118, 1/2 for 25%)		
Transportation expenses:		
(4,012,000 + 12,095,000)/(61,950,000 + 185,850,000)*170,625,000	11,090,625	1
Note to the markers: If the candidate calculates the proportion of cost of goods sold to purchases as stipulated in the Tax Code, the full mark should be given.		
Total direct costs	181,715,625	
Indirect expenses		
Wages and salaries (400*630,000 + 200*350,000)	322,000,000	1
(1 for inclusion of all salaries into indirect costs)		
Annual voluntary personal insurance against accidents at work ((400 + 200)*15,000) (limit)	9,000,000	1
(9,000,000 RR deductible out of 9,630,000 RR)		
Depreciation:		
Net book value (NBV) at 1 January 2016		
(20*590,000*100/118*70%*(1 – 5.6%)^8) = 4,414,423 RR		2
(1/2 for net of VAT, 1/2 for 70%, 1/2 for correct formula, 1/2 for correct months)		
NBV at 31 December 2016 (4,414,423*(1 – 5.6%)^12) = 2,210,741 RR		1/2
(1/2 for correct months)		
Depreciation for 2016 (4,414,423 – 2,210,741)	2,203,682	1/2
Intangible asset – exclusive rights (531,000*100/118/36*4)	50,000	1
(1/2 for net of VAT, 1/2 for correct months)		
Placement of advertising boards (no limitation) (12,036,000*100/118)	10,200,000	1
Software licences (less than 100,000 RR, 100% immediate write-off) (25*16,000)	400,000	1
(1/2 for comment on less than 100,000 RR, 1/2 for immediate write-off)		
Reimbursement of interest on the mortgage loan is limited to 3% of labour expenses (322,000,000*3%)	9,660,000	1
(9,660,000 deductible out of 9,700,000)		
Total indirect expenses	353,513,682	
Non-sale expenses		
Bonuses paid to customers (non-vatable item)	34,000,000	1
Total taxable base before loss deduction	27,770,693	
Tax losses 2013 (utilised on FIFO basis)	(27,770,693)	1
Tax base	0	
Total unutilised losses to be carried forward to 2017:		
2013 to 2015: (48,000,000 + 37,000,000 + 5,000,000 – 27,770,693)	62,229,307	1/2

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