Answers

Marks

1 ZAO Venier

(a) Corporate profits tax liability for the year 2014

	RR	Marks
Domestic sales of milk products (net of VAT) 701,051,681*100/110	637,319,710	½
Confirmed export sales (0% VAT)	12,500,000	½
Prepayments from domestic customers (non-taxable)	0	½
Total sales	649,819,710	
Direct expenses		
Raw materials 58,760,460*100/110*80%	(42,734,880)	1
(½ for net of VAT, ½ for 80%)		
Packaging materials 8,320,481*100/118*80%	(5,641,004)	1
(½ for net of VAT at 18%, ½ for 80%)		
Direct wages 25,000*300*12*80%	(72,000,000)	1
(½ for 12 months, ½ for 80%)		
Direct social insurance contributions on wages		
Since (25,000*12) < 568,000 RR, 72,000,000*30%	(21,600,000)	½
Direct depreciation (Note 1)	(3,376,184)	3½
Total direct costs	(145,352,068)	
Indirect expenses		
Amortisation of trademark (7 years) 798,860*100/118*12/(12*7)	(96,714)	1
(½ for 100/118, ½ for 7 years)		
Indirect expenses: depreciation (Note 2)	(4,800,000)	1
Obligatory property insurance	(5,200,000)	½
Business interruption insurance – non-deductible item	0	½
Salaries (610,000*12) + (70,000*51*12)	(50,160,000)	1
(½ for including 610,000, ½ for including 70,000)		
Social insurance contributions (Note 3)	(10,923,200)	2½
Voluntary medical insurance for employees (Note 4)	(8,409,600)	1
Voluntary medical insurance for relatives (non-deductible)	0	½
Voluntary personal insurance for permanent employees against accidents at work 15,000*(1 + 51 + 300) = 5,280,000 (out of 7,350,000)	(5,280,000)	1
(½ for 15,000, ½ for correct number of employees)		
Business entertainment expenses (Note 5)	(49,000)	4
Total indirect expenses	(84,918,514)	
Non-sale expenses		
Interest expense (Note 6)	(233,014)	1½
Total taxable income	419, 316,114	
Total tax losses brought forward (FIFO basis):		
2008 loss	(227,000,000)	½
2010 loss	(125,000,000)	½
2011 loss 419,316,114 – 227,000,000 – 125,000,000	(67,316,114)	½
2011 loss to be carried forward at year end 2014: 29,683,886 RR (97,000,000 – 67,316,114)		½
Taxable income after loss utilisation	0	25

Marks

Notes:

1. **Direct depreciation of the production equipment**

NBV at the date of purchase 43,559,700*100/118*70% = 25,840,500 — *1*
(½ for net of VAT at 18%, ½ for 70%)

NBV at 31 December 2013 25,840,500*(1 – 1.8%)^10 = 21,548,438 — *1*
(½ for correct formula and ½ for correct months)

NBV at 31 December 2014 21,548,438*(1 – 1.8%)^12 = 17,328,208 — *½*
(½ for correct months)

Depreciation: 21,548,438 – 17,328,208 = 4,220,230 — *½*

Direct depreciation 4,220,230*80% = 3,376,184 — *½*

3½

2. **Indirect depreciation**

Unit cost is less than 40,000 RR:

37,760*150*100/118 = 4,800,000 — *1*
(½ for immediate write-off, ½ for net of VAT)

3. **Social insurance contributions**

Middle management staff
Since 70,000*12 = 840,000 > 568,000, 568,000*30% + (840,000 – 568,000)*10% = 197,600 — *1*
(½ for applying 30% to 568,000, ½ for correct application of 10% to the difference)

197,600*51 = 10,077,600 — *½*

Salary of GM 610,000*12 = 7,320,000 exceeds 568,000 RR, thus 568,000*30% + (7,320,000 – 568,000)*10% = 845,600 — *1*
(½ for applying 30% to 568,000, ½ for correct application of 10% to the difference)

Total of social contributions in indirect costs 10,077,600 + 845,600 = 10,923,200 RR — *2½*

4. **Voluntary medical insurance**

Limit to 6% of deductible labour costs
(72,000,000*100/80 + 50,160,000)*6% = 8,409,600 < 8,500,000
hence only 8,409,600 RR is deductible. — *1*
(½ for 100/80,½ for 6%)

5. **Business entertainment expenses**

Business entertainment expenses are limited to 4% of labour costs, including insurance costs:
(72,000,000*100/80 + 50,160,000 + 8,409,600 + 5,280,000)*4% = 6,153,984 — *2*
(½ for correct total salaries (direct and indirect), ½ for including medical insurance costs, ½ for including insurance against accidents at work, ½ for 4%)

Only the official reception (dinner), interpreter's services, and transportation services are deductible:

	RR	
Transportation in Moscow to the office and back 11,328*100/118	9,600	*½*
Official dinner in a restaurant 29,500*100/118	25,000	*½*
Interpreter's services rendered by a professional firm 16,992*100/118	14,400	*½*
City guide (not deductible)	0	*½*
Total business entertainment expenses	49,000	*4*

6. **Interest expense**

9.5% is not within the limit of 1.8*5% = 9% for Rouble loans, so deductible interest is limited.

November 21,000,000*9%*(30 – 16)/365 = 72,493 — *1*
(½ for 9%, ½ for correct days)

December 21,000,000*9%*31/365 = 160,521 — *½*
(½ for correct days)

Total interest expense 233,014 RR — *1½*

Marks

(b) Value added tax (VAT) liability for the year 2014

	RR	
Output VAT		
Sales of goods 701,051,681*10/110	63,731,971	½
Export sales (confirmed export)	0	½
VAT on 2014 prepayments from domestic customers at 31 December 2014 9,182,250*10/110	834,750	½
Total output VAT	64,566,721	
Input VAT		
VAT on prepayments from domestic customers at 1 January 2014 8,745,000*10/110	(795,000)	½
VAT on direct raw materials 58,760,460*10/110	(5,341,860)	½
VAT on direct packaging materials 8,320,481*18/118	(1,269,226)	½
VAT on coolers (acquired in 2014) 37,760*150*18/118	(864,000)	½
VAT on all types of insurance, interest (exempt from VAT)	0	½
VAT on business entertainment expenses related to deductible part: 49,000*18% *(½ for 18%, ½ for deductible part only)*	(8,820)	1
Total input VAT	(8,278,906)	
VAT payable	56,287,815	5
		30

2 Vladimir and Olga

(a) Personal income tax liability of Vladimir withheld at source for the year 2014

	RR	
Income taxed at 13%		
Gross salary accrued 270,000 + (314,000*11)	3,724,000	½
Children allowance (income exceeds the 280,000 RR threshold from February)	(1,400)	1
Medical voluntary insurance for himself (non-taxable item)	0	½
Medical voluntary insurance for his daughter (non-taxable item)	0	½
Social deduction at source re pension contributions to non-state pension fund	(10,700)	1
Material aid in kind of reimbursement of medicines used for medical treatment	12,000	½
Material aid deduction	(4,000)	1
Birthday gift from employer (professional photo camera)	35,000	½
Gift deduction	(4,000)	1
Incentive trip to the Altai region	25,000	½
Emotional intelligence training (non-taxable)	0	½
Housing allowance (Note 1)	(1,333,333)	1
Housing allowance – corporate loan interest (Note 2)	(10,959)	1½
Total employment income	2,431,608	
Tax withheld at 13%	316,109	½
Income taxed at 35%		
No imputed interest income on corporate loan eligible for housing allowance	N/A	½
		11

Notes:

1. **Housing allowance**

Maximum allowance 2,000,000 RR	½
Agreed and claimed by Vladimir for himself and his daughter – 2/3*2,000,000 = 1,333,333 RR	½
	1

Marks

2. **Housing interest accrued**

Interest accrued starting from the day following the date the corporate loan was provided, i.e. from 2 August to 30 September.

4,000,000*2.5%*(31 – 1 + 30)/365 = 16,438	*1*
(½ for the rate, ½ for correct number of days)	
16,438*2/3 = 10,959	*½*
	1½

Tutorial note: *Since Vladimir submitted the documents confirming ownership and the interest payment in October, he has a right to add to his housing allowance the relevant interest paid during the year 2014.*

(b) Final settlement of Vladimir's personal income tax liability for the year 2014

	RR	
Taxable base including benefits from employer (from (a))	2,431,608	
Sale of inherited apartment (ownership > 3 years)	0	1
(½ for exemption, ½ for 3 years period indication)		
Income from insurance agreement 1,500,000 – 1,000,000 – 52,000	448,000	1
(½ for deducting 1,000,000, ½ for deducting 52,000)		
Educational deduction for his daughter (50,000 RR out of 61,000 RR)	(50,000)	1
Educational expenses for his sister's education (50,000 RR out of 52,000 RR)	(50,000)	1
Sale of motorbike (ownership less than 3 years)	700,000	
Actual expenses	(550,000)	1
Movable property deduction is not efficient in this case since only 250,000 RR can be deducted		½
Taxable base	2,929,608	
Tax due to the budget at 13%	380,849	½
Tax withheld by his employer (from (a))	(316,109)	½
Tax for payment under personal tax return at 13% rate	64,740	½
		7

(c) Final settlement of Olga's personal income tax liability for the year 2014

	RR	
Income taxed at 13%		
Gross salary for the year	779,000	½
Children allowance (income exceeds the 280,000 RR threshold from April) (1,400*3)	(4,200)	1
(½ for 1,400, ½ for correct months)		
Professional deduction for a photographer of 779,000*30% exceeds actual expenses, so more tax efficient to apply the professional deduction	(233,700)	1
Social deduction (120,000 maximum):		
Annual voluntary medical insurance	(27,000)	½
Interest to be included in addition to housing allowance (16,438 (part (a))*1/3)	(5,479)	1
Taxable income before housing allowance	508,621	
Housing allowance (Note 1) to be utilised for the current year	(508,621)	1
Taxable income	0	
Housing allowance to be carried forward for the year 2015: 666,667 – 508,621 = 158,046 RR		½

	RR	*Marks*
Income taxed at 35%		
Advertising prize – trip to Mexico	115,000	
Prize deduction	(4,000)	1
Taxable income	111,000	
Tax at 35%	38,850	½
		7
		25

Note:

1. **Housing allowance**

Housing allowance available 1/3*2,000,000 = 666,667 RR	½
Limited to taxable profits of 508,621 RR	½
	1

3 OOO Molcor

(a) The date for defining the value added tax (VAT) taxable base for construction works conducted by a company's own workforce is the last date of each tax period, i.e. the last date of the reporting quarter for VAT purposes. 1

(b) **VAT liability**

	RR	
Quarter 1 of 2014		
Output VAT on constructed premises:		
(322,966*100/118 + 483,000 + 483,000*30%)*18%	162,288	2
(½ for 100/118, ½ for inclusion of labour expenses, ½ for 30%, ½ for 18%)		
Input VAT:		
VAT on prepayments made and confirmed by invoices 203,550*18/118	(31,050)	½
VAT on materials (322,966*18/118)	(49,266)	½
VAT on investment in non-current assets (as above)	(162,288)	1
VAT refund	(80,316)	
Quarter 2 of 2014		
Output VAT on constructed premises:		
((339,114 + 356,070)*100/118 + (507,150*2) + (507,150*2)*30%))*18%	343,391	2*
(½ for 100/118, ½ for inclusion of labour expenses, ½ for 30%, ½ for 18%)		
Claw-back of input VAT on prepayments made in Q1	31,050	1
Input VAT:		
VAT on services from subcontractors: (407,100*85% + 427,455*95%)*18/118	(114,730)	1½
(½ for 85%, ½ for 95%, ½ for 18/118)		
VAT on materials (339,114 + 356,070)*18/118	(106,045)	½
VAT on investment in non-current assets (as above)	(343,391)	1
VAT refund	(189,725)	
		10

Markers note*: If a candidate includes the cost of services of subcontractors (net of VAT) into the formula and claims the result for recovery as input VAT on non-current assets, full marks should be given.

(c) **(i)** If the constructed warehouse premises is used for VAT non-taxable transactions only:

– VAT on the investment in non-current assets will not be recoverable; 1

– However, the VAT on materials purchased and services from subcontractors will still be recoverable (i.e. irrespective of the purpose of the construction usage). 1
(½ for recoverability of materials, ½ for recoverability of services from subcontractors)

2

		Marks
(ii) If the constructed warehouse premises is used for both VAT taxable and VAT non-taxable transactions:		
– VAT on the investment in non-current assets will still be recoverable (as in (b));		1
– However, when the constructed warehouse is put into use and in the case of further usage, the part of the recoverable VAT relating to the non-taxable usage will be subject to claw-back over the following ten years. *(½ for explaining claw-back, ½ for mentioning 10 years)*		1
		2
		15

4 (a) Maxim

(i) Social insurance contributions (SIC) for the year 2014 under an author's agreement

Option 1 – SIC taking into account actual expenses

	RR	
Author's remuneration	510,000	
Actual expenses	(102,000)	½
Taxable base	408,000	
SIC at 27.1%	110,568	½

Option 2 – SIC taking into account professional deduction for designers

	RR	
Author's remuneration	510,000	
Designer's professional deduction at 30%	(153,000)	1
Taxable base	357,000	
SIC at 27.1%	96,747	½

Option 2 can only apply if Maxim has submitted an application for this professional deduction to Pelikan. 1

Saving in SIC: 110,568 – 96,747 = 13,821 RR

In this case it is more beneficial to apply the designer's professional deduction rather than use actual expenses. ½

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(ii) SIC for a civil law agreement

	RR	
Remuneration	510,000	
Actual expenses reimbursed are exempt items by law	0	½
	510,000	
SIC at 27.1%	138,210	½
		1

Marks

(b) Anastasia

(i) Social insurance contributions (SIC) for the year 2014

	RR	Marks
Salary 120,000*12	1,440,000	½
Net bonus for the year 2014 700,000*100/87	804,598	1
Relocation expenses within the state limits – exempt	0	½
Reimbursement of business trip expenses confirmed – exempt	0	½
Reimbursement of interest paid on a mortgage loan	0	½
Training seminar for professional education – exempt	0	½
Canteen tickets	7,500	½
Voluntary medical insurance for herself – exempt	0	½
Voluntary medical insurance for her husband	15,000	½
Non-state pension insurance contributions which are unrelated to additional insurance contributions for the accumulated portion of pension – exempt*	0	½
Compensation for unused vacation	107,500	1
Material aid	16,200	½
Material aid deduction	(4,000)	1
Total taxable base	2,386,798	

SIC payable: 568,000*30% + (2,386,798 – 568,000)*10% = 352,280 RR 1
(½ for deduction of 568,000, ½ for 10% application)

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Markers note*: If the candidate applies a 12,000 RR deduction and explains that this contribution relates to additional insurance contributions for the accumulated portion of pension, an additional ½ mark should be given.

(ii) Personal income tax – reimbursement of mortgage interest

The reimbursement by an employer of interest paid on a mortgage loan by an employee will be exempt from personal income tax provided that the above interest is deductible for profits tax purposes by the employer (i.e. it is within the 3% of labour costs limit). 1
(½ for mentioning deductibility for profits tax, ½ for 3%)

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5 OOO Elka

(a) Loan from Zitrone

Zitrone owns 25% (> 20%) of Elka, so this loan would also be a controlled debt. ½

Net assets as at 31 December 2014:
320,000,000 – 170,000,000 + 73,000,000 = 223,000,000 RR 1

Net assets*3 = 223,000,000*3 = 669,000,000 RR ½

Loan as of 31 December 2014: 15,627,907*43 = 672,000,001 RR ½

672,000,001 > 669,000,000, hence, thin capitalisation rules should be applied. ½

Capitalisation ratio: 672,000,001/(669,000,000*25%) = 4.0179 1
(½ for correct formula, ½ for 25%)

Interest as of 31 December 2014 (Note 1): 6,004,542 RR 4½

Interest deductible for profits tax purposes: 6,004,542/4.0179 = 1,494,448 RR 1

Deemed dividend: 6,004,542*(6%/4%) – 1,494,448 = 7,512,365 RR 1

Withholding tax on dividends to non-resident: 7,512,365*15% = 1,126,855 RR ½

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	Marks
Note:	
1. Deductible interest	
6% is not within the limit of 0.8* CBR rate, so only 0.8*5% = 4% is deductible.	*1*
31 October: 15,627,907*4%*(31 – 9)/365*41.5 = 1,563,647 RR *(½ for 4%, ½ for correct days, ½ for correct exchange rate)*	*1½*
30 November: 15,627,907*4%*30/365*42 = 2,157,936 RR *(½ for 4%, ½ for correct exchange rate)*	*1*
31 December: 15,627,907*4%*31/365*43 = 2,282,959 RR *(½ for 4%, ½ for correct exchange rate)*	*1*
Total deductible interest: 6,004,542 RR	*4½*

(b) Loan from Oak

Russian company Oak owns 65% (> 20%) of Elka and is 100% owned by a foreign legal entity, Mahogany GmbH, so the loan is also a controlled debt.	½
The capitalisation ratio would change to 672,000,001/(669,000,000*65%) = 1.5454	1
Interest deductible for profits tax purposes becomes: 6,004,542/1.5454 = 3,885,429 RR	1
Deemed dividend becomes: 6,004,542*(6%/4%) – 3,885,429 = 5,121,383 RR	1
Withholding tax on dividends: 5,121,383*15% = 768,208 RR	½
	4
	15

Tutorial note: *The dividend participation exemption does not apply to Russian affiliates of foreign shareholders.*