Answers

Marks

1 OOO Majjorka

(a) Corporate profits tax liability for the year 2014

	RR	Marks
Domestic sales of ceramics products (net of VAT – 853,522,320*100/118)	723,324,000	½
Export sales (zero VAT)	36,166,200	½
Prepayments from domestic customers (non-taxable)	0	½
Revenue from car sale (145,730*100/118)	123,500	½
Total sales	759,613,700	
Direct expenses		
Cost of goods sold ((20,253,072 + 168,775,600)*100/118*75%)	120,145,342	1
(½ for net of VAT, ½ for 75%)		
Transportation expenses ((810,123 + 6,751,024)*100/118*75%)	4,805,814	1
(½ for net of VAT, ½ for 75%)		
Total direct costs	(124,951,156)	
Indirect expenses		
Depreciation (Notes 1 and 2)	(19,699,358)	4
Net book value of car subject to sale (Note 2)	(117,625)	1
Wages and salaries ((200*87,000 + 90*55,000 + 7*310,000)*12)	(294,240,000)	1
Social insurance contributions (Note 3)	(63,163,200)	3
Voluntary medical insurance for employees (6% of 294,240,000 = 17,654,400)	(8,910,000)	½
(½ for correct limit)		
Voluntary medical insurance for relatives (non-deductible)	0	½
Voluntary personal insurance against accident at work	(4,455,000)	½
Limit of 15,000 RR per employee: (297*15,000 = 4,455,000)		
(½ for correct limit per employee)		
Reimbursement of mortgage loan to employees	(8,900,000)	1
Limit: ((294,240,000 + 8,910,000 + 4,455,000)*3% = 9,228,150)		
(½ for correct tax base including insurance costs, ½ for 3%)		
Advertising expenses:		
TV placement (114,460,000*100/118)	(97,000,000)	½
Radio placement (17,169,000*100/118)	(14,550,000)	½
Specialised journals and internet (11,446,000*100/118)	(9,700,000)	½
Promotion gifts (8,968,000*100/118 = 7,600,000 but limited to 759,613,700 *1%)	(7,596,137)	1
(½ for net of VAT, ½ for 1%)		
Total indirect expenses	(528,331,320)	
Non-sale income		
Penalties and interest charges under court decision	4,376,723	1
Forex gain on the loan (750,000*(44 – 43.5))	375,000	1
	4,751,723	
Non-sale expense		
Interest expense (Note 4)	(188,507)	2
Total taxable base before loss offset	110,894,440	
Tax losses to be utilised:		
2012 tax loss	(430,000)	½
Tax base after loss utilisation	110,464,440	
Tax at 20%	22,092,888	½
		23

Notes:

1. **Depreciation for 251 cars**

   Net book value (NBV) at 31 December 2013:
   790,600*100/118*70%*(1 – 5.6%)^(7 + 12) = 156,906 *2*
   (½ for net of VAT, ½ for 70%, ½ for correct formula, ½ for correct months of depreciation)

	Marks
NBV at 31 December 2014: 790,600*100/118*70%*(1 – 5.6%)^(7 + 12 + 12) = 78,579 *(½ for correct formula, ½ for correct months)*	*1*
Depreciation for 251 cars: (156,906 – 78,579)*251 = 19,660,077 RR	*½*

2. **Depreciation for car sold**

NBV at 31 May 2014: 790,600*100/118*70%*(1 – 5.6%)^(7 + 12 + 5) = 117,625 *(½ for correct formula, ½ for correct months on the date of sale)*	*1*
NBV at 31 December 2013 as per Note 1	
Depreciation January to May 2014 = 156,906 – 117,625 = 39,281 RR	*½*
Total depreciation cost for all cars in 2014: 19,660,077 + 39,281 = 19,699,358 RR	5

3. **Social insurance contributions (SIC)**

For employees engaged in sales, marketing and promotion: 87,000*12 = 1,044,000	
(568,000*30% + (1,044,000 – 568,000)*10%)*200 = 43,600,000 *(½ for correct base, ½ for correct application of 10%)*	*1*
For administrative employees: 55,000*12 = 660,000	
(568,000*30% + (660,000 – 568,000)*10%)*90 = 16,164,000 *(½ for correct base, ½ for correct application of 10%)*	*1*
For management employees: 310,000*12 = 3,720,000	
(568,000*30% + (3,720,000 – 568,000)*10%)* 7 = 3,399,200 *(½ for correct base, ½ for correct application of 10%)*	*1*
Total SIC = 43,600,000 + 16,164,000 + 3,399,200 = 63,163,200 RR	3

4. **Interest expense**

Interest is deductible within the 0.8*CBR rate = 0.8*5% = 4% limit for currency loans.	*½*
At 30 November 2014: 750,000*4%*(30 – 9)/365*45 = 77,671 *(½ for correct exchange rate, ½ for correct days)*	*1*
At 31 December 2014: 750,000*4%*31/365*43.5 = 110,836 *(½ for correct exchange rate)*	*½*
Total interest expense: 188,507 RR	2

Marks

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

	RR	
Output VAT		
Sales (853,522,320*18/118)	130,198,320	½
Export sales (zero VAT)	0	½
VAT on prepayments from domestic customers at 31 December 2014 (13,502,048*18/118)	2,059,634	½
VAT on free promo distribution (7,600,000*18%)	1,368,000	1
VAT from sale of car (123,500*18%)	22,230	½
Total output VAT	133,648,184	
Input VAT		
VAT on prepayments from domestic customers at 1 January 2014 (33,755,120*18/118)	(5,149,086)	½
VAT on inventory purchased (168,775,600*18/118*77%)	(19,823,981)	1
VAT on transportation expenses (6,751,024*18/118*88%)	(906,239)	1
VAT on voluntary medical and other types of insurance (exempt from VAT)	0	½
VAT on advertising expenses (97,000,000 + 14,550,000 + 9,700,000 + 7,596,137)*18%	(23,192,305)	1
Total input VAT	(49,071,611)	
VAT payable	84,576,573	
		7
		30

2 Nikolay and Valeria

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

	RR	
Income taxed at 13%		
Gross salary accrued (325,000*12)	3,900,000	½
Children allowance (income exceeds the 280,000 RR threshold in January)	0	½
Medical voluntary insurance for himself (non-taxable item)	0	½
Medical voluntary insurance for his wife (non-taxable item)	0	½
Medical voluntary insurance for his children (non-taxable item)	0	½
Stock options	20,000	1
Social deduction at source re pension contributions to non-state pension fund	(12,500)	1
Birthday gift from employer (sports club membership)	25,000	½
Gift deduction	(4,000)	1
Medical expenses prescribed for his grandfather (non-taxable)	0	½
Incentive trip to Baikal	31,000	½
Leadership training (non-taxable)	0	½
Annual bonus of 500,000 RR (taxed as part of salary for 2013)	0	½
Housing allowance (Note 1)	(1,500,000)	1½
Housing allowance – corporate loan interest (Note 2)	(24,164)	1½
Total employment income	2,435,336	
Tax withheld at 13%	316,594	½
Income taxed at 35%		
No imputed interest income on corporate loan eligible for housing allowance	N/A	½
		12

Notes:

1. **Housing allowance**

Maximum allowance 2,000,000 RR	*½*
Agreed and claimed for Nikolay and the children: ¾*2,000,000 = 1,500,000 RR	*1*
	1½

Marks

2. **Housing interest accrued**

Interest accrued starting from the day following the date the corporate loan was provided, i.e. from 11 June to 30 September.

3,000,000*3.5%*(30 – 10 + 31 + 31 + 30)/365 = 32,219 — *1*
(½ for the rate, ½ for correct number of days)

32,219*3/4 = 24,164 RR — ½

Since the tax authorities confirmed Nikolay's three-quarter share in the housing allowance, he will be able to claim the same proportion in respect of the interest.

1½

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

	RR	Marks
Taxable base including benefits from employer (from (a))	2,435,336	
Sale proceeds of inherited apartment	10,000,000	
Property deduction (ownership > 3 years)	(10,000,000)	1
Educational deduction for his son (50,000 RR out of 57,000 RR)	(50,000)	1
Educational deduction for his brother (within 50,000 RR):		
Educational expenses of brother	(45,000)	1
Taxable base	2,340,336	
Tax due to the budget at 13%	304,244	½
Tax withheld by his employer (from (a))	(316,594)	½
Tax for refund under personal tax return at 13% rate	(12,350)	
		4

(c) If Nikolay had taken out a bank loan under the same conditions as the employer loan and OOO Fruit had reimbursed him the interest paid before the end of the year 2014, the housing deduction of interest paid would be disallowed. — 1

(d) Final settlement of Valeria's personal income tax liability for the year 2014

	RR	Marks
Gross salary	1,150,000	
Children allowance (income exceeds the 280,000 RR threshold from March) (1,400*2*2)	(5,600)	1
(½ per correct months, ½ for correct number of children)		
Professional deduction for the designers 1,150,000*30% = 345,000 but actual expenses exceed 350,000 RR, so more tax efficient to apply actual expenses incurred	(350,000)	1
Pendant from husband (35,000 RR) – non-taxable between husband and wife	0	1
Housing allowance (¼*2,000,000)	(500,000)	1
Interest to be included in addition to housing allowance (32,219*¼)	(8,055)	1
Residual amount of educational deduction for the son cannot be used by Valeria since 50,000 RR has been utilised by Nikolay	0	½
Educational deduction for the daughter (within 50,000 RR)	(21,000)	1
Own education (upgrade training) should be included in social deductions (27,000 RR is within 120,000 RR)	(27,000)	1
(½ for inclusion into social deduction, ½ for 120,000 RR)		
Taxable income:	238,345	
Tax at 13%	30,985	½
		8
		25

Marks

3 OOO Ronker

(a) Documents confirming export submitted on 27 June 2014

The recognition date is the last date of the relevant quarter in which the package of documents confirming the export was collected and submitted to the tax authorities, i.e. 30 June 2014. ½

Quarter 2 (Q2) Value added tax (VAT) return

	RR	Marks
Output VAT on export		
160,000* 47*0%	0	1
(½ for 47, ½ for 0%)		
Input VAT on services		
3,835,000*18/118	(585,000)	½
VAT liability	(585,000)	
		2

(b) Documents confirming export only submitted on 23 October 2014

(i) Q2 adjusted VAT return

The recognition date is the date of shipment, i.e. 14 April 2014. ½

	RR	Marks
Output VAT on export		
160,000*44.5*10%	712,000	1
(½ for 44.5, ½ for 10%)		
Input VAT on services (as in (a))	(585,000)	½
VAT liability	127,000	

Q4 VAT return

The recognition date is the last date of the quarter, i.e. 31 December 2014. ½

	RR	Marks
Output VAT on confirmed export		
160,000*48.5*0%	0	1
(½ for 48.5, ½ for 0%)		
Claw-back of output VAT on unconfirmed export	(712,000)	½
VAT refund	712,000	
		4

(ii) Late interest charges on Q2 liability

Interest is due from 21 July to 31 October 2014.

First portion

From 21 July to 30 September
127,000/3*1/300*7%*(31 – 20 + 31 + 30) = 711 — 2
(½ for 1/3, ½ for 1/300, ½ for correct CBR rate, ½ for correct days)

From 1 October to 31 October
127,000/3*1/300*5%*31 = 219 — ½
(½ for correct CBR rate)

Second portion

From 21 August to 31 October
127,000/3*1/300*7%*(31 – 20 + 30) = 405 — 1
127,000/3*1/300*5%*31 = 219 — ½

Third portion

From 21 September to 31 October
127,000/3*1/300*7%*(30 – 20) = 99 — ½
127,000/3*1/300*5%*31 = 219 — ½

Total late interest charges due: 1,872 RR

5

Marks

(c) General rules for the registration of VAT invoices

VAT invoices should be registered in the sales book in chronological order in the period in which the tax liability arises.	½
VAT invoices should be registered in the sales book in all cases when the liability to VAT calculation arises.	½
VAT invoices should be registered in the sales book irrespective of the date of their receipt by customers.	½
Therefore, in the case of confirmed exports VAT invoices should be registered in the sales book on the last date of the quarter when the full set of documents has been collected, provided this is before the expiry of 180 days from the customs regime placement. *(½ for 180 days, ½ for last date of quarter)*	1
In the case of unconfirmed exports (i.e. there is a failure to submit a full set of documents in due time), VAT invoices should be registered in the sales book in the period when the shipment occurred.	1
This means that the taxpayer will need to complete an additional sheet in the sales book.	½
	4
	15

4 (a) Victoria

(i) Personal income tax withheld at source on the share benefit in the year 2014

Imputed income for the employee is the market price, which for unquoted shares is the reference price discounted by 20%.

Taxable income = market price – actual acquisition price ((200 – (200*20%) – 125)*1,000)	35,000 RR	1½
(½ for correct reference price, ½ for deduction of 20%, ½ for deduction of actual expenses)		
Personal income tax for 2014 at 13%	4,550 RR	½
		2

(ii) Personal income tax on shares acquired in 2010, sold in the year 2014

	RR	
Sale proceeds from shares (1,000*300)	300,000	½
Deductible expenses:		
Market value in 2010 (as in (a)) (1,000*(200 – (200*20%))	(160,000)	1
Personal income tax withheld on acquisition in 2010 (as in (a))	(4,550)	1
Taxable base	135,450	
Personal income tax for 2014 at 13%	17,609	½
		3

Tutorial note: *Where shares have been acquired at a price below the market price and personal income tax has been paid on the price differential, the deductible expenses for capital gains purposes include both the market value at the acquisition date and the personal income tax withheld at the time of the share acquisition.*

(iii) Effect of postponing the sale to 2016

The shares are Russian shares which Victoria acquired in the year 2010. If they are not sold until 2016, then Victoria will have had five years of continuous ownership of these Russian shares, and so will be eligible for a special tax exemption on the disposal of the shares, equal to 100% of the tax base. 2

(1 for five years of continuous ownership, ½ for Russian shares, ½ for fully exempt)

Marks

(b) Denis

(i) **Personal income tax and social insurance contributions – period from January to June 2014**

Personal income tax (PIT)

	RR	Marks
Gross salary (300,000*6)	1,800,000	
Children allowance (salary exceeds 280,000 RR)	0	½
	1,800,000	
PIT at 13%	234,000	½
Social insurance contributions (SIC) (568,000*30% + (1,800,000 – 568,000)*10%) *(½ for correct limit application, ½ for correct rates)*	293,600	1
		2

(ii) **PIT and SIC for the period from 1 July to 31 December 2014**

	RR	Marks
Gross salary (300,000*50%*6)	900,000	½
Children allowance (salary exceeded 280,000 in January)	0	½
	900,000	
PIT at 13%	117,000	½
SIC (900,000 *10%) (the limit of 568,000 RR was exceeded in the first half of 2014)	90,000	1
Dividend income For 6 months: (300,000*50%*6)	900,000	½
PIT on dividend income at 9%	81,000	½
Dividends are not subject to SIC.		½
		4

(iii) **Monthly PIT and SIC savings in the period 1 July to 31 December 2014**
(**Note:** *In answering this question, candidates were told to ignore any profits tax effect*)

For the employer (NBL):

SIC saving on reduced monthly salary of 150,000 RR at 10% is 90,000 RR. ½

For the employee (Denis):

PIT on dividend versus salary of 150,000 RR is 36,000 RR (150,000*(13% – 9%))*6 ½

1

(c) **Deadlines for submission of tax return and payment of tax**

The deadline for submitting the 2014 personal income tax return is 30 April 2015. ½

The deadline for paying any tax due to the budget is 15 July 2015. ½

1

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5 **(a)** OOO Melange

Withholding tax on 2014 dividend of 20,000,000 RR

Total amount of dividends due to be allocated in favour of Russian shareholders:
20,000,000 – (7% + 5%)*20,000,000 = 17,600,000 RR ½

Difference between dividends accrued to Russian shareholders and dividends received:
17,600,000 – 1,500,000 = 16,100,000 RR 1

OOO Melan:

Dividend tax: 70%*16,100,000*0% = 0 ½

Marks

A 0% dividend tax rate is applicable as the following two conditions are both met:

– ownership exceeds one year, i.e. since 2010 ½
– share of ownership should be not less than 50%, i.e. 70%. ½

OOO Angle:

Dividend tax is payable at 9%: 18%*16,100,000*9% = 260,820 RR 1
(½ for correct ownership, ½ for 9%)

Berka (foreign entity):

Withholding tax at 15%: 7%*20,000,000*15% = 210,000 RR 1

Mr Balkini (non-resident):

Withholding tax at 15%: 5%*20,000,000*15% = 150,000 RR 1

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(b) OOO Fergus

(i) Loan from Scott

Net assets: 270,000,000 – 150,000,000 + 69,000,000 = 189,000,000 RR 1

Net assets*3 = 189,000,000*3 = 567,000,000 RR ½

Loan – 1,000,000,000 RR

5% interest rate is less than 1.8 of the CBR refinancing rate (15%*1.8 = 27% or 7%*1.8 = 12.6% > 5%). 1

Interest at 5%: 1,000,000,000*5%*(30 – 5 + 31 + 30)/365 = 11,780,822 RR 1

The loan is a controlled debt (72% > 20% ownership). ½

Controlled debt/(Net assets*3*72%):
1,000,000,000/(567,000,000*72%) = 2.449533 1

Interest deductible for Quarter 2 of 2014:

11,780,822/2.44953 = 4,809,421 RR 1

Non-deductible interest, treated as a dividend is:
(11,780,822 – 4,809,421) = 6,971,401) RR ½

Tax to be withheld at 15%: 1,045,710 RR ½

7

(ii) Loan from OOO Bjorn

The thin capitalisation rules do not apply to this loan because:

Bjorn has 18% ownership, i.e treated as non-controlled debt. 1

The interest rate of 10% is within the limit of 1.8 of the CBR refinancing rate, i.e. 27% at the end of April or 7%*1.8 = 12.6% at the end of May and June. ½

So, the interest for Quarter 2 of 2014 will be deductible in full. ½

2

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