

Fundamentals Level – Skills Module

Taxation (Russia)

Tuesday 3 June 2014



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, consisting of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

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.

Children allowances

First and second child (up to 280,000 RR)	1,400 RR per child
Third child (up to 280,000 RR)	3,000 RR

General limitation on 'property' allowance

Investments in residential property and land for tax purposes	2,000,000 RR (upper limit)
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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)
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Professional deduction – general	20%
– for designers	30%

Gains on property sales:

– immovable property	1,000,000 RR (upper limit)
– movable property	250,000 RR (upper limit)

Housing allowance	2,000,000 RR (upper limit)
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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

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

Single threshold for social insurance contributions for the year 2014

(Note: several categories of insurance contributions subject to special incentives and reduced rates are not examined)

	Remuneration per annum	Rate
For employers (general) and individual entrepreneurs	up to 568,000 RR	30%
For employers (licences, copyrights, civil contracts)	up to 568,000 RR	27.1%
For all categories of payers	excess over 568,000 RR	10%

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 is 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 costs of non-current assets	40,000 RR (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)

Standard rate	18%
Veterinary products	10%
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 April 2014	15%
1 May to 30 September 2014	7%
1 October to 31 December 2014	5%

Number of calendar days in calendar months for the year 2014

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

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Question 1 begins on page 6.**

ALL FIVE questions are compulsory and MUST be attempted

1 OOO Majjorka ('Majjorka') is a trading company engaged in the trading of ceramic products in both Russia and other CIS countries. Majjorka is 82% owned by a Spanish company and 18% by a Russian company.

Majjorka always applies the accruals method for both value added tax (VAT) and corporate profits tax purposes and uses a quarterly profits tax reporting period.

In respect of non-current assets, Majjorka applies the non-linear method of depreciation for profits tax purposes and its tax policy for the year 2014 stipulates its right to an immediate 30% write-off on asset cost.

Majjorka uses the standard social insurance contribution rates without any incentives.

All purchases of inventory and products sold in Russia during the year 2014 were subject to VAT at the standard rate.

The following information is available for the year 2014. All amounts are inclusive of VAT unless stated otherwise.

Sales, cash collections and prepayments for the year 2014

Domestic sales of products		853,522,320 RR
Confirmed export sales to other countries		36,166,200 RR
	1 January	31 December
Prepayments from domestic clients	33,755,120 RR	13,502,048 RR
Trade receivables	16,877,560 RR	14,303,017 RR

In May 2014, Majjorka received a positive court decision for penalties and interest charges in respect of an outstanding debt of 4,376,723 RR (non-vatable item) from its customer Rossa.

The principal amount receivable of 2,574,543 RR had been paid by Rossa to Majjorka in June 2013.

Merchandise inventory

The balance on the inventory account as at 1 January 2014 had a historic purchase cost of 20,253,072 RR. During the year 2014, Majjorka purchased products for 168,775,600 RR from its main Russian supplier but only 75% of the opening inventory and purchases were sold in the year 2014. VAT invoices have been provided from suppliers for 77% of the inventory purchased.

In addition, Majjorka incurred transportation expenses of 6,751,024 RR. The balance of transportation expenses as at 1 January 2014 was 810,123 RR. VAT invoices have been submitted to Majjorka for 88% of the transportation expenses actually incurred.

Non-current assets as at 1 January 2014

Category of non-current asset	Quantity	Historic cost per unit	Date put into use	Monthly non-linear tax depreciation rate
Cars	252	790,600 RR	May 2012	5.6%

During the year 2014, the following transaction was booked regarding one car:

Item No.	Date of booked transaction	Proceeds received
12	31 May 2014	145,730 RR

Wages and salaries for the year 2014

Salaries paid to employees in 2014 were as follows:

- 7 employees in management with a monthly salary of 310,000 RR per person;
- 90 administrative employees with a monthly salary of 55,000 RR per person; and
- 200 employees in sales, marketing and promotional activities with a monthly salary of 87,000 RR per person.

In addition to the salary payments (as above), Majjorka provided the following types of insurance for all of its employees during the year 2014:

- annual voluntary medical insurance for employees for 8,910,000 RR;
- annual voluntary medical insurance for employees' relatives for 6,900,000 RR; and
- annual voluntary personal insurance against accidents at work with the total insurance premium of 5,000,000 RR.

In addition to the above benefits, Majjorka reimbursed the interest on the mortgage loans of 25 employees for the year 2014 at a total amount of 8,900,000 RR.

Advertising expenses

In 2014, Majjorka spent the following amounts on advertising campaigns:

- 114,460,000 RR for TV placements on different channels;
- 17,169,000 RR for radio placements;
- 11,446,000 RR for adverts in specialised journals and on the internet; and
- 8,968,000 RR for the free of charge distribution of promotional gifts based on their market values. All these gifts were purchased in the year 2013, and none had cost less than 500 RR each.

Interest expense

On 9 November 2014, Majjorka received a three-year loan for 750,000 EUR from its Spanish shareholder with an interest rate of 16% per annum. Interest is payable monthly on the last day of each month, i.e. the first interest payment was due on 30 November 2014.

Tax losses brought forward

At 1 January 2014, Majjorka had unused tax losses from the year 2012 of 430,000 RR.

Required:

- (a) **Assuming that all the expenses referred to in the scenario are properly confirmed by the necessary documents, calculate the taxable profit and corporate profits tax liability of OOO Majjorka for the year 2014. Show separately all elements of the taxable income and deductible expenses and identify (but do not calculate) any non-deductible expenses.**

Notes:

1. For social insurance contributions purposes, ignore all expenses other than salaries.
2. Ignore property tax.
3. For interest calculations, ignore the thin capitalisation Rules.
4. Ignore forex on interest.
5. Relevant (notional) EUR/RR exchange rates are as follows:

1 October 2014	43.0
31 October 2014	44.5
1 November 2014	44.7
9 November 2014	44.0
30 November 2014	45.0
1 December 2014	44.9
31 December 2014	43.5

(23 marks)

- (b) **Calculate OOO Majjorka's value added tax (VAT) liability for the year 2014. Show separately all elements of output/input VAT.**

(7 marks)

(30 marks)

2 Nikolay works as the head of the supply and logistics department of the company OOO Fruit ('Fruit'). He is married to Valeria and they have one son and one daughter aged 16 and 12 years respectively. Nikolay's gross monthly salary is 325,000 RR.

During the year 2014, Fruit provided Nikolay with the following benefits in addition to his salary:

- Annual voluntary medical insurance for Nikolay of 18,000 RR.
- Annual voluntary medical insurance for his wife, Valeria, of 15,000 RR, and for his daughter and son of 13,000 RR each.
- In April 2014, stock options with the current market value of 20,000 RR and the vesting date of 30 April 2016. The market value was calculated in accordance with the securities market price calculation rules.
- In February 2014, pension contributions of 12,500 RR were withheld from Nikolay's salary and paid to the licensed non-state pension fund Well under the private pension plan for Fruit's employees.
- In January 2014, a birthday gift in the form of a sports gym membership with a market value of 25,000 RR.
- Medical expenses for Nikolay's grandfather prescribed by his doctor of 17,000 RR.
- In June 2014, an incentive trip worth 31,000 RR to Baikal lake as a reward for his team's achievements during the year.
- Leadership training with a licensed training company costing 75,000 RR.
- An annual bonus accrued for the year 2013 of 500,000 RR was paid to Nikolay on 1 April 2014.

On 17 August 2014, Nikolay paid 57,000 RR out of a total 64,000 RR, for one-year's study for his son at the special school at the Moscow Medical Academy. The remainder was paid by his wife, Valeria.

In May 2014, Nikolay paid 45,000 RR educational expenses for his brother Vlad, age 22, for his daily study at the licensed Moscow Sports Academy.

On 7 July 2014, Nikolay acquired an extended apartment for his family with the value of 15,000,000 RR. The purchase of the apartment was financed as follows:

- The sale of an apartment for 10,000,000 RR in May 2014. This apartment had been inherited from his grandmother in January 2010.
- A five-year mortgage loan of 3,000,000 RR from his employer, Fruit, with an interest rate of 3.5% per annum and interest payable on the second day following the end of the relevant quarter. The loan was received on 10 June 2014 and the first interest payment was payable on 2 October 2014 for the period from June 2014. Nikolay and his wife pay the interest on this loan together. The loan principal amount is to be repaid at the end of loan period.
- 2,000,000 RR paid from the family's personal savings.

Title of joint ownership of the new apartment has been split in equal shares between each member of the family and was received in August 2014. Nikolay and Valeria agreed that Nikolay would claim his portion of housing allowance together with the children's portions for all relevant expenses and interest.

Nikolay provided the tax authorities with all ownership documents and the documents confirming the relevant interest payments in October 2014. Nikolay managed to submit the document from the tax authorities confirming his entitlement to the ownership of the apartment to his employer in November 2014. Nikolay and Valeria have never used their housing allowance before.

Valeria works as a freelance designer. Her remuneration for the year 2014, split by months, was as follows:

	RR
January	100,000
February	150,000
March to December	900,000
Total for the year	<u>1,150,000</u>

During the year 2014, Valeria paid 27,000 RR for her upgrade training in the licensed Academy of Design. In addition, her other actual expenses for the year 2014 were 350,000 RR, which are all confirmed by the source documents.

In October 2014, Valeria received as a gift from her husband, Nikolay, a pendant with the value of 35,000 RR. Valeria paid 21,000 RR for her daughter's horse-riding lessons to the licensed school 'Hippodrom'.

Required:

Assuming that all the expenses incurred by Nikolay and Valeria in 2014 are confirmed with proper supporting documents:

- (a) Calculate the personal income tax of Nikolay withheld at source by his employer for the year 2014, assuming that he asked OOO Fruit for all possible deductions to be given at source. (12 marks)
- (b) Calculate the final settlement of Nikolay's personal income tax liability (additional payment or refund) upon submission of his 2014 personal income tax return. (4 marks)
- (c) State how the answer to part (a) will change if instead of an employer loan, Nikolay had taken a bank loan under the same conditions and OOO Fruit had reimbursed him the interest paid before the end of the year 2014.

Note: No calculations are required for this part. (1 mark)

- (d) Calculate the final settlement of Valeria's personal income tax liability (additional payment or refund) upon submission of her 2014 personal income tax return. (8 marks)

Notes:

1. Where possible, use all the personal income tax deductions which are potentially available to Nikolay and Valeria.
2. State separately the amounts of all personal income tax deductions claimed by Nikolay and Valeria for the year 2014 and the deductions (if any) carried forward to future years.
3. Ignore social insurance contributions and value added tax (VAT).

(25 marks)

3 OOO Ronker ('Ronker'), a company trading in veterinary products, engaged in the following export transactions during the year 2014:

On 14 April 2014 shipped veterinary vaccines to the Ukraine with the value of 160,000 EUR. These products were customs cleared and the export regime was confirmed on the same date.

On 7 July 2014, the Ukraine customer paid for the goods in the full amount.

Promotional and other costs incurred for services related to this export of 3,835,000 RR inclusive of VAT were recovered in Quarter 2 of 2014.

Ronker's accounting department submitted the documents confirming the export on 27 June 2014. Veterinary vaccines are subject to VAT at a reduced rate.

Required:

(a) Calculate OOO Ronker's value added tax (VAT) liability for Quarter 2 of 2014. (2 marks)

(b) The tax authorities did not approve the supporting documents attached to OOO Ronker's Quarter 2 VAT return, and the company's accounting department was only able to submit the correct documents confirming the export on 23 October 2014.

Required:

(i) Calculate OOO Ronker's VAT liability for Quarter 2 and Quarter 4 of 2014 in this case, clearly stating the recognition dates for the VAT tax base. (4 marks)

(ii) Calculate the late interest charges payable by OOO Ronker if the VAT liability (as in (i) above) was not paid to the budget until 1 November 2014. (5 marks)

(c) State the general rules for the registration of VAT invoices in the sales book, including the tax period and the conditions for the registration of each of confirmed and unconfirmed exports. (4 marks)

Note: Relevant (notional) EUR/RR exchange rates are as follows:

14 April	44.5
30 April	45.0
1 June	45.5
30 June	47.0
1 July	46.3
7 July	46.2
31 July	45.7
1 September	46.3
27 September	46.5
30 September	46.9
1 October	46.7
23 October	47.5
31 October	48.0
1 December	48.3
31 December	48.5

(15 marks)

- 4 (a) Victoria is employed by the Russian company PUZZL as a commercial director. In recognition of her contribution to the company's sales results, PUZZL has rewarded her with 1,000 of the company's shares with the special price of 125 RR per share. PUZZL's shares are not circulated on any stock exchange.

Victoria paid PUZZL 125,000 RR for the shares received at the time they were awarded. The reference price at the transaction date was 200 RR per share.

Victoria does not receive any other benefits from her employer.

Required:

- (i) Assuming the transaction date is 7 March 2014, calculate the personal income tax which PUZZL should have withheld at source from Victoria's salary in the year 2014 as a result of the share acquisition.

(2 marks)

- (ii) Assuming the transaction date was 7 March 2010 and Victoria sells the shares in the year 2014 at their market price of 300 RR per share, calculate Victoria's personal income tax liability in the year 2014 as a result of the sale of the shares.

(3 marks)

- (iii) State, giving reasons, how the answer in part (ii) will change if Victoria does not sell the shares acquired in 2010 until the year 2016.

(2 marks)

- (b) Denis works for the Russian company NBL, as an IT director. His monthly gross salary is 300,000 RR. Denis has three children.

To reward Denis for his good work, NBL's management board has decided to convert 50% of his gross salary into dividends starting from 1 July 2014. No other benefits were provided to Denis during the year 2014.

Required:

- (i) Calculate Denis's personal income tax and social insurance contributions for the six-month period from 1 January to 30 June 2014.

(2 marks)

- (ii) Calculate Denis's personal income tax and social insurance contributions for the six-month period from 1 July to 31 December 2014.

(4 marks)

- (iii) Calculate the monthly saving of personal income tax and social insurance contributions made by NBL, as employer, and Denis, as employee, as a result of the salary conversion.

Note: Ignore any profits tax effect.

(1 mark)

- (c) State the deadline dates for an individual (1) to submit their personal income tax return and (2) to pay any additional tax due to the budget for the year 2014.

(1 mark)

(15 marks)

5 (a) OOO Melange ('Melange'), a Russian company, is owned as follows:

- 5% by a non-resident, physical person, Mr Balkini;
- 7% by a foreign legal entity, Berka;
- 18% by a Russian company, OOO Angle; and
- 70% by a Russian company, OOO Melan.

OOO Melan acquired their shareholding in Melange in January 2010.

Melange has decided to pay a dividend to its shareholders, in accordance with their share participation, with the total value of 20,000,000 RR in 2014. During the year 2014, Melange has received dividends from other Russian companies of 1,500,000 RR.

Required:

Calculate the tax amounts to be withheld from the dividend paid to each of its shareholders in 2014 by OOO Melange. (6 marks)

(b) OOO Fergus ('Fergus'), a Russian company, is owned as follows:

- 10% by a Russian company, OOO Alex;
- 18% by a Russian company, OOO Bjorn; and
- 72% by a foreign legal entity, Scott.

Fergus received a 1 billion RR loan from Scott on 5 April 2014 with interest at the rate of 5% per annum. Interest is accrued on a monthly basis and paid on the second day following the end of the relevant quarter, i.e. the first interest payment was due on 2 July 2014. No repayments of the principal amount will be made during the year 2014.

The following information relates to Fergus for Quarter 2 of 2014

Assets	270,000,000 RR
Liabilities, including	150,000,000 RR
Tax liabilities	69,000,000 RR

Required:

(i) **Calculate the interest expense which is and is not deductible for corporate profits tax by OOO Fergus in Quarter 2 of 2014, together with the amount of tax to be withheld from the payment made to Scott.**

(7 marks)

(ii) In addition to the loan from Scott, OOO Fergus received a further loan of 10 million RR from OOO Bjorn on 5 April 2014 with interest at the rate of 10% per annum. Interest on this loan is also accrued on a monthly basis and paid on the second day following the end of the relevant quarter, i.e. the first interest payment was due on 2 July 2014.

Required:

State, with reasons, whether the interest on the loan from OOO Bjorn will be deductible for corporate income tax by OOO Fergus in Quarter 2 of 2014, and if so, to what extent.

Note: Calculation of the interest is not required.

(2 marks)

(15 marks)

End of Question Paper