Answers

Marks

1 OOO Lambert

(a) Profits tax liability for the year 2012

	RR	Marks
Domestic sales of animal health products (net of VAT) 618,750,000*100/110	562,500,000	½
Export sales (zero VAT)	9,451,000	½
Prepayments from domestic customers (non-taxable)	0	½
Total sales	571,951,000	
Direct expenses:		
Cost of goods sold (28,875,000 + 165,000,000)*100/110*90%	158,625,000	1
(½ for net of VAT, ½ for 90%)		
Transportation expenses (1,703,625 + 13,629,000)*100/118*90%	11,694,375	1½
(½ for correct formula, ½ for net of VAT, ½ for 90%)		
Total direct costs	(170,319,375)	
Indirect expenses		
Wages and salaries (250*90,000 + 107*65,000 + 5*330,000)*12	(373,260,000)	1
Social insurance contributions		
Since all categories of employees are paid more than 512,000 RR per annum,		
512,000*(250 + 107 + 5)*30%	(55,603,200)	1
(½ for correct base, ½ for 30%)		
Voluntary medical insurance for employees	(5,249,000)	1
Limit: 373,260,000*6% = 22,395,600		
362*14,500 = 5,249,000		
(½ for 6%, ½ for correct conclusion)		
Voluntary medical insurance for relatives (non-deductible)	0	½
Voluntary personal insurance against accidents at work		
Limit: 362*15,000 (per employee) = 5,430,000	(5,430,000)	1
(½ for correct limit per employee, ½ for correct calculation)		
Voluntary life insurance for June to December 2012 (Note 1)	(1,481,667)	N1
Reimbursement of mortgage loan to employees	(2,900,000)	1
Limit: 373,260,000*3% = 11,197,800		
(½ for correct tax base of wages, ½ for 3%)		
One-off 30% write-off for capital improvements 6,195,000*100/118*30%	(1,575,000)	1
(½ for net of VAT, ½ for 30%)		
Indirect depreciation (Note 2)	(29,549,482)	N2
Rent expenses 92,984*100/118*12	(945,600)	½
Total indirect expenses	(475,993,949)	
Non-sale income		
Forex gain on the loan 1,200,000*(43 – 41)	2,400,000	1
Bonus from supplier (non-vatable)	74,250,000	½
Non-sale expenses:		
Interest expense (Note 3)	(1,066,747)	N3
Total non-sale net income	75,583,253	
Total taxable base before loss offset	1,220,929	
Tax losses to be utilised:		
2010 tax loss	(700,000)	½
Tax base after loss utilisation	520,929	
Tax at 20%	104,186	½

Note 1: Voluntary life insurance

Limit for profits tax purposes: 373,260,000*12% = 44,791,200
12,700,000*7/60 = 1,481,667 RR within the deductible limit.
(½ for 12%, ½ for correct months, ½ for correct conclusion) 1½

	Marks
Note 2: Indirect depreciation	
Capital improvements 6,195,000*100/118*70%*6/(8*12) = 229,688 *(½ for 70%, ½ for correct monthly proration, ½ for net of VAT)*	1½
Cars were acquired in February 2011	
NBV at 31 December 2011 526,575*100/118*70%*(1 – 5.6%)^10 = 175,548 *(½ for net of VAT, ½ for 70%, ½ for correct formula)*	1½
NBV at 31 December 2012 526,575*100/118*70%*(1 – 5.6%)^22 = 87,914 *(½ for net of VAT, ½ for 70%, ½ for correct months)*	1½
Depreciation for 241 cars: (175,548 – 87,914)*241 = 21,119,794	½
Computers (items with a value less than 40,000 RR per item should be written off immediately) 38,704*100/118*250 = 8,200,000 *(½ for net of VAT, ½ for immediate write off)*	1
Total indirect depreciation: 21,119,794 + 229,688 + 8,200,000 = 29,549,482	
Note 3: Interest expense	
Interest should be accrued on a quarterly basis and is deductible within the 0.8% of CBR refinancing rate for the currency loans.	
15%*0.8 = 12%, i.e. interest of 9% is deductible in full in the third quarter.	½
10%*0.8 = 8%, i.e. interest of 9% is not deductible in full in the fourth quarter.	½
At 30 September 2012: 1,200,000*9%*6/366*43.7 = 77,370 *(½ for correct exchange rate, ½ for correct days)*	1
At 31 December 2012: 1,200,000*8%*(31 + 30 + 31)/366*41 = 989,377 *(½ for correct exchange rate, ½ for correct days)*	1
Total interest expense: 77,370 + 989,377 = 1,066,747	**24**

(b) Value added tax (VAT) liability for the year 2012

	RR	
Output VAT		
Sales 618,750,000*10/110	56,250,000	½
Export sales (zero VAT)	0	½
VAT on 2012 prepayments from domestic customers at 31 December 2012 6,637,500*10/110	603,409	½
Total output VAT	56,853,409	
Input VAT		
VAT on prepayments from domestic customers at 1 January 2012 13,275,000*10/110	(1,206,818)	½
VAT on inventory purchased 165,000,000*10/110*85%	(12,750,000)	1
VAT on transportation expenses 13,629,000*18/118*95% *(½ for correct rate, ½ for 95%)*	(1,975,050)	1
VAT on computers and capital improvements (38,704*250 + 6,195,000)*18/118	(2,421,000)	½
VAT on rent expenses 92,984*18/118*12	(170,208)	½
VAT on voluntary medical and other types of insurance (exempt from VAT)	0	½
Total input VAT	(18,523,076)	
VAT payable	38,330,333	½
		6
		30

		Marks

2 Denis and Tatiana

(a) (i) Personal income tax liability of Denis withheld at source by Servicetrans for the year 2012

	RR	
Income taxed at 13%		
Gross salary accrued 230,000*12	2,760,000	½
No standard personal allowance (income exceeds the 40,000 RR threshold in January)	N/A	½
Children allowance (income exceeds the 280,000 RR threshold in February) for two children (1,000*2)	(2,000)	1
Annual April bonus 480,240*100/87	552,000	1
Birthday gift from employer (bonus card)	15,000	½
Gift deduction	(4,000)	1
Incentive trip to Hong Kong	40,000	½
Medical voluntary insurance for himself (non-taxable item)	0	½
Medical voluntary insurance for his children (non-taxable item)	0	½
Total employment income	3,361,000	
Tax withheld at 13%	436,930	½
Income taxed at 35%		
Imputed interest income on employer's loan for the plot of land acquisition (Note 1) (interest payments in the year 2012 without entitlement for property deduction)	11,805	N1
Tax withheld at 35%	4,132	½

Note 1: Imputed interest

The first interest instalment was paid on 3 October 2012.
4,700,000*(2/3*10% – 3.5%)*(30 – 1)/366 = 11,805
(½ for 2/3, ½ for correct CBR rate, ½ for correct days) 1½

The second interest instalment will be paid on 3 January 2013, i.e. no imputed interest income at the year end 2012. ½

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(ii) Final settlement of Denis's personal income tax liability for the year 2012

	RR	
Taxable base including benefits from the employer (from (i))	3,361,000	
Inherited apartment (from close relative – grandfather)	0	½
Sale proceeds for the apartment	2,300,000	
Property deduction (ownership < 3 years)	(1,000,000)	1
Social deductions (Note 2)	(60,000)	N2
Educational deduction for the elder son (50,000 RR out of 60,000)	(50,000)	1
Educational deduction for the younger son is within 50,000 RR limit	(48,000)	½
Taxable base	4,503,000	
Tax due to the budget at 13%	585,390	½
Tax withheld by his employer at 13% (from (i))	(436,930)	½
Tax for refund under his personal tax return at 13% rate	(148,460)	

Tax due to the budget at 35% in the amount of 4,132 RR has been fully withheld by the employer. ½

Note 2: Social deductions

Purchase of medicines for his father	35,000	½
Educational expenses for his sister	25,000	½
Total	60,000	

Maximum – 120,000 RR ½

6

		Marks

(iii) Final settlement of Tatiana's personal income tax liability for the year 2012

	RR	
Gross remuneration 100,000 + 40,000 + 65,000 + 70,000 + 1,700,000	1,975,000	½
No standard personal allowance (income exceeds the 40,000 RR threshold in January)	N/A	½
Children allowance (income exceeds the 280,000 RR threshold in May 2012)		
(1,000*2*4)	(8,000)	1
(½ per correct months, ½ for correct number of children)		
Professional deduction for architect 1,975,000*30%	(592,500)	1
Educational deduction for elder son		
(60,000 > max 50,000 claimed by Denis, i.e. 10,000 could not be deductible)	0	½
Social deduction – voluntary medical insurance		
(30,500 is within maximum of 120,000 RR)	(30,500)	1
(½ for inclusion into social deduction, ½ for 120,000 RR)		
Taxable income:	1,344,000	
Tax at 13%	174,720	½
Income taxed at 35%		
Prize in the advertising campaign	900,000	½
Prize deduction	(4,000)	1
Value after deduction	896,000	
Tax at 35%	313,600	½
Total tax due to the budget at different rates	488,320	
		7

(b) Personal income tax liability of Denis withheld at source by Servicetrans for the year 2012 if he received an entitlement to the property allowance for the land acquisition

	RR	
Total employment income (from (a)(i))	3,361,000	
Property allowance for plot of land acquisition 2,000,000/2	(1,000,000)	1
(½ for maximum limit of 2,000,000, ½ for his share)		
Interest included into property allowance:		
First interest instalment was paid on 3 October 2012 4,700,000*3.5%*(30 – 1)/366	(13,034)	1
(½ for correct days, ½ for inclusion into property allowance)		
Total income	2,347,966	
Tax withheld at 13%	305,236	½
Income taxed at 35%	0	½
(no imputed interest income since entitlement for property allowance has been confirmed)		**3**
		25

3 OOO Contrans

(a) Value added tax (VAT) liabilities on self-constructed warehouse

Quarter 3 of 2012	RR	
Output VAT on constructed premises:		
(280,840*100/118 + 420,000 + 420,000*30%)*18%	141,120	2
(½ for 100/118, ½ for 420,000, ½ for 30%, ½ for 18%)		
Input VAT:		
VAT on prepayments made and confirmed by invoices 177,000*18/118	(27,000)	½
VAT on materials (280,840*18/118)	(42,840)	½
VAT accrued on the cost of premises	(141,120)	1
VAT liability	(69,840)	

Quarter 4 of 2012	RR	Marks
Output VAT on constructed premises:		
((278,480 + 361,080)*100/118 + (380,000 + 450,000) + (380,000 + 450,000)*30%)*18%	291,780	2
(½ for 100/118, ½ for (380,000 + 450,000), ½ for 30%, ½ for 18%)		
Input VAT		
Claw back of VAT recovered in Q3	27,000	1
VAT on prepayments in October is not deductible because October prepayments are offset against the completed works in November 2012 (same tax period)		½
VAT on services from subcontractors:		
(208,860*70% + 436,600*90%)*18/118	(82,242)	1½
(½ for 70%, ½ for 90%, ½ for 18/118)		
VAT on materials (278,480 + 361,080)*18/118	(97,560)	½
VAT accrued on the cost of premises	(291,780)	½
VAT liability	(152,802)	
		10

(b) Input VAT on subcontractor invoice

The total value of the invoice in RR at 8 October 2012 (the date of the invoice) was 10,915*40 = 436,600 RR	½
Input VAT is equal to 436,600*18/118 = 66,600 RR	½
At the date of payment (25 October 2012) the amount paid was 10,915*42 = 458,430 RR	½
The summing difference (negative) 436,600 – 458,430 = 21,830 RR	½
should be booked as a non-sales expenses by Contrans	½
without changing the input VAT for recovery for October.	½
	3

(c) A quarterly VAT return can be reviewed by the tax authorities during the period of three months starting from the date of submitting the return. 1

If no mistakes are found in the audited VAT return, the tax authorities are obliged to make their decision on the VAT recovery within seven days after the end of the desk tax audit. 1

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4 Svetlana Sharikova

(a) Final settlement of personal income tax liability for the year 2012

	RR	
Gross salary (Note 1)	2,888,471	N1
No personal allowance (salary exceeds 40,000 RR threshold in January)	N/A	½
Children allowance for one daughter (salary exceeds 280,000 RR threshold in February)	(1,000)	½
Contributions to the non-state pension fund 5,000*10, within the limit for social deductions of 120,000 RR	(50,000)	1
Income as a result of short-term life insurance (700,000 – 300,000 – 300,000*7%)	379,000	1
(½ for deducting 300,000, ½ for 7%)		
Income as a result of property insurance 800,000 – 120,000 – 400,000	280,000	1
(½ for deducting 120,000, ½ for deducting actual expenses of 400,000)		
Voluntary medical insurance for herself – non-taxable	0	½
Voluntary medical insurance for her husband and daughter – non-taxable	0	½
Sports club annual membership – gift received	37,000	½
Gift allowance	(4,000)	½
One-off material aid	17,000	½
Support payment allowance	(4,000)	½
Reimbursement for unused vacation (excluded from exemptions)	170,000	½
Total employment income	3,712,471	
Tax withheld at 13%	482,621	½

Marks

Note 1: Gross salary for January

X – (X – 1,000)*0.13 = 225,000
(½ for 1,000, 1 for correct formula) 1½

0.87 X = 225,000 – 1,000*0.13
X = 258,471 gross salary for January

258,471 + 263,000*10 = 2,888,471 RR ½

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(b) Social insurance contributions (SIC) in respect of the non-salary benefits received for the year 2012

Items subject to SIC:

Contribution to the non-state pension fund 50,000 RR – 12,000 RR = 38,000 RR 1
(½ for 50,000, ½ for 12,000)

Annual voluntary insurance for her husband and daughter 12,000*2 = 24,000 RR ½

One-off material aid (net of allowance) 13,000 RR (17,000 – 4,000) 1
(½ for 17,000, ½ for 4,000)

Reimbursement for unused vacation 170,000 RR 1

Items excluded from the SIC base:

Sports club annual membership (excluded since a gift). ½

(**Note to markers:** *Due to the vagueness of the new social security law, full marks should be given to candidates who list the gift as taxable and argue that it is an in-kind form of material aid*)

Voluntary medical insurance for herself (excluded by law). ½

Svetlana's annual salary (2,888,471) exceeds 520,000 RR, therefore, SIC = 512,000*30% = 153,600 ½

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5 (a) ZAO Voron – Most efficient form of debt financing

Test for thin capitalisation rules:

First criterion: the loan will be treated as a controlled loan if the percentage shareholding is greater than 20%.

Galka: 70%*75% = 52.5% loan would be controlled. ½

Pigeon: 70%*25% = 17.5% loan would not be controlled. ½

Second criterion: whether the controlled loan exceeds own capital by more than three times at 31 December 2012.

700,000*42*3.5%*(31 – 21 + 30 + 31)/366 = 199,615 RR 1
(½ for correct exchange rate, ½ for correct days)

Total controlled debt as at 31 December 2012:
700,000*42 + 199,615 = 29,599,615 RR ½

Own capital*3 = (167,000,000 – 165,000,000 + 7,000,000)*3 = 27,000,000 RR 1
(½ for correct formula, ½ for deducting tax liabilities)

Thin capitalisation test: 29,599,615 > 27,000,000 – YES

Option 1: Loan from Galka

Thin capitalisation ratio = 29,599,615/(27,000,000*52.5%) = 2.0882 1

Maximum limit of deduction: 199,615/2.0882 = 95,592 RR ½

3.5% interest rate is lower than the limit of CBR rate 10%*0.8 = 8% per annum. ½

Therefore, 199,615 – 95,592 = 104,023 RR will be treated as a dividend and taxed at 15%. ½

104,023*15% = 15,603 RR ½

Option 2: Loan from Pigeon

The interest of 199,615 RR will be fully deductible without limit and there would be no tax on deemed dividends. 1

	Marks
Option 3: Free financing from Chaika	
As of 31 December 2012, the total amount of the financing is 700,000*42 = 29,400,000 RR	½
This free financing will not be subject to corporate profits tax since Chaika owns more than 50% of shares in ZAO Voron.	½
Therefore, the most tax effective option is to raise the debt financing by means of a loan from Pigeon.	½
	9

(b) OOO Alphavit – Tax on dividends to be withheld as a tax agent

	RR	
Profits before tax:	225,000,000	
Tax rate at 20%	(45,000,000)	½
Profits after tax	180,000,000	
Dividends subject to distribution (5%)	9,000,000	½
To Doggis LLC:		
Dividend paid: 9,000,000*20% = 1,800,000 RR		½
Tax to be withheld: 1,800,000*15% = 270,000 RR		½
To OOO Taxa: 9,000,000*50% = 4,500,000 RR		½
The dividends to OOO Taxa should be taxed at the 0% rate since both criteria are met:		½
– the period of ownership exceeds one year and		½
– OOO Taxa's shareholding in Alphavit is 50%.		½
To OOO Libra:		
Tax base for 9% dividends paid to Russian shareholder: 9,000,000 – 4,500,000 – 1,800,000 – 1,116,000 = 1,584,000 RR *(½ for deducting 4,500,000, ½ for deducting 1,800,000, ½ for deducting interim dividends)*		1½
Tax to be withheld: 1,584,000*9% = 142,560 RR		½
		6
		15

Tutorial note: *The tax base for dividends paid to a Russian shareholder which are taxed at 9% is calculated as the total dividends payable less dividends subject to the special tax exemption (i.e. paid to OOO Taxa) less dividends subject to the 15% tax rate (i.e. paid to Doggis LLC) less dividends received from subsidiary company (i.e. OAO Vita).*