

Fundamentals Level – Skills Module

# Taxation (Russia)

Tuesday 4 December 2012



**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. The apportionment of interest should be made in calendar days
3. All other apportionments should be made to the nearest month, unless the law requires otherwise
4. 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.

### Personal and children allowances

Standard personal allowance	400 RR (up to 40,000 RR)
Children allowance	1,000 RR per child (up to 280,000 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 architects	30%
– for music writer	40%
– for sculptor	40%

Charity deduction	up to 25% of income
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Gains on property sales:	
– immovable property	1,000,000 RR (upper limit)
– moveable property	250,000 RR (upper limit)

Housing allowance (deduction)	2,000,000 RR (upper limit)
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Statutory <i>per diem</i> 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 of the CBR refinancing rate  
Rouble loans received – 1.8 of the CBR refinancing rate

Single threshold for social insurance contributions for the year 2012 (several categories of insurance contributions subject to special incentives and reduced rates are not examined)

	Income amount	Rate
For employers (general) and individual entrepreneurs	up to 512,000 RR	30%
	excess over 512,000 RR	0%
For employers (licences, copyrights, civil contracts)	up to 512,000 RR	27.1%
	excess over 512,000 RR	0%

#### 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 are 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

Non-current assets received under financial leasing	3 (upper limit)
Historic costs of non-current assets	40,000 RR per unit (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) rates

Standard	18%
Exports and sales to diplomatic missions	0%
Limit for VAT – exempt promo presents	100 RR (upper limit)

#### General profits tax rate

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 2012	25%
1 May to 30 September 2012	15%
1 October to 31 December 2012	10%

**Number of calendar days in calendar months for the year 2012**

January	31
February	29
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**

1 000 Lambert ('Lambert') is a trading company engaged in trading animal health products both in Russia and other countries. Lambert is 52% owned by a Belgian company and 48% by a Russian company.

Lambert 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 its non-current assets, Lambert applies the non-linear method of depreciation for profits tax purposes (except for capital improvements of leased non-current assets) and its tax policy for the year 2012 stipulates its right to an immediate 30% write-off on asset cost.

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

The following information is available for the year 2012. All amounts are inclusive of VAT unless stated otherwise. All animal health products purchased and sold in Russia during the year 2012 were subject to the reduced rate of VAT of 10%.

**Sales, cash collections and prepayments for the year 2012 (in RR)**

Domestic sales of products			618,750,000
Confirmed export sales to other countries			9,451,000
	<b>1 January</b>	<b>31 December</b>	
Prepayments from domestic clients	13,275,000	6,637,500	

**Merchandise inventory**

The balance on the inventory account as at 1 January 2012 was 28,875,000 RR. During the year, Lambert purchased animal health products to the value of 165,000,000 RR from its main Russian supplier, Belan. Only 90% of the opening inventory and purchases were sold during the year 2012. VAT invoices have been provided from suppliers for 85% of the inventory purchased.

In addition, in 2012 Lambert incurred transportation expenses in the amount of 13,629,000 RR. The balance of transportation expenses as at 1 January 2012 was 1,703,625 RR. VAT invoices have been submitted to Lambert for 95% of the transportation expenses actually incurred.

On 12 December 2012, as a result of Lambert's annual purchases achievements, Belan provided an incentive volume bonus to Lambert, based on the conditions stipulated in their supply agreement. The amount of this bonus, which is non-vatable, is 74,250,000 RR.

Lambert's assets by category are:

<b>Category of asset</b>	<b>Quantity</b>	<b>Historic cost per unit in RR (VAT inclusive)</b>	<b>Date put into use</b>
Cars	241	526,575	February 2011
Computers	250	38,704	January 2012

The depreciation rate for the company's own non-current assets is 5.6% per month.

**Capital improvements**

Lambert had to complete additional capital improvements to the premises which it rents in compliance with its quality standards to the value of 6,195,000 RR in 2012. These improvements were put into use on 16 June 2012. The landlord approved but did not reimburse the above improvements to Lambert. The tax useful life of these improvements is eight years; the useful life of the rented premises is 30 years. Lambert applies the linear method of depreciation to its capital improvements for profits tax purposes.

The monthly rent payments made to the landlord are 92,984 RR. The rental period is eight and a half years, commencing in December 2011.

## Wages and salaries for the year 2012

In 2012 Lambert had the following staff:

- 250 employees involved in trading, marketing and promotional activities with a gross monthly salary of 90,000 RR per person;
- 107 administrative employees with a gross monthly salary of 65,000 RR per person; and
- five senior managers with a gross monthly salary of 330,000 RR per person.

In addition to the payments for salary (as set out above), Lambert provided the following types of insurance during the year 2012:

- annual voluntary medical insurance for employees to a total of 5,249,000 RR;
- annual voluntary medical insurance for the relatives of employees to a total of 3,120,000 RR;
- annual voluntary personal insurance for permanent employees against accidents at work, with a total insurance premium paid by Lambert in 2012 equal to 5,700,000 RR; and
- long-term life insurance under a five-year agreement without any payments in favour of employees during this period. For this insurance, Lambert paid a one-off premium of 12,700,000 RR on 12 May 2012 for the whole of the insured period under the agreement, effective from 1 June 2012.

In addition to the above benefits, Lambert made the decision to reimburse 15 employees interest on their mortgage loans for the year 2012, in the total amount of 2,900,000 RR.

## Interest expense

On 24 September 2012, Lambert received a three-year loan for 1,200,000 EUR from its Belgian shareholder with interest at the rate of 9% per annum. Interest is payable on the last date of each quarter (i.e. the first interest instalment was payable on 30 September 2012).

## Tax losses brought forward

At 1 January 2012 Lambert had the following unused tax losses brought forward:

2010 year – 700,000 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 Lambert for the year 2012. Show separately all elements of the taxable income and deductible expenses, and identify any non-deductible expenses by including them in the calculation with a zero (0).

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 accrued.
5. The following notional EUR/RR exchange rates are to be used:

24 September 2012	43.0
30 September 2012	43.7
1 October 2012	44.0
7 October 2012	43.5
31 October 2012	43.0
1 November 2012	42.5
30 November 2012	42.0
1 December 2012	41.5
31 December 2012	41.0

(24 marks)

- (b) Calculate OOO Lambert's value added tax (VAT) liability for the year 2012. Show separately all elements of output/input VAT.

(6 marks)

**(30 marks)**

2 Denis works as a head of logistics for the transportation company Servicetrans. He is married to Tatiana and they have two sons, aged eight and 18 years respectively. Denis's gross monthly salary is 230,000 RR.

In addition to his salary, Servicetrans provided Denis with the following benefits during the year 2012:

- In April 2012, an annual net bonus for the year 2011 of 480,240 RR
- In May 2012, a birthday gift in the form of a bonus card for sportswear with the nominal value of 15,000 RR
- In November 2012, an incentive trip to Hong Kong as a reward for his work during the year with the value of 40,000 RR
- Annual voluntary medical insurance for Denis with the value of 20,000 RR
- Annual voluntary medical insurance for Denis's children with the value of 15,000 RR per each child

In March 2012, Denis inherited a one-room apartment from his grandfather. In June 2012, Denis made a decision to sell this apartment for its market value of 2,300,000 RR since he and his wife wanted to acquire a plot of land for further construction in the Moscow region.

In order to finance the acquisition of the desired plot of land which has a value of 9,000,000 RR, Denis had to request a corporate loan from his employer. Servicetrans agreed to provide him with the loan for the amount of 4,700,000 RR on 1 September 2012, for a period of seven years at the fixed interest rate of 3.5% per annum. Interest is payable on this loan for each quarter on the third day following the end of the quarter (i.e. interest for the third quarter of the year 2012 was payable on 3 October 2012). The residual amount of 2,000,000 RR was invested by Denis and Tatiana from their personal savings in September 2012.

The title of ownership for the above plot of land was received jointly by Denis and Tatiana in January 2013. They have never used the property allowance before.

During the year 2012, Denis paid 60,000 RR to the Moscow State University for a one-year exchange programme in Ireland for his elder son and 48,000 RR for the sport school of his younger son, respectively. Both educational institutions have appropriate licences under the law of the Russian Federation.

Denis also paid 25,000 RR for his sister's French lessons at the licensed provider CIFFR and 35,000 RR for the purchase of medicines on medical prescriptions for his father.

Tatiana works as a freelance architect. Her monthly remuneration for the year 2012 was as follows:

January	100,000 RR
February	40,000 RR
March	65,000 RR
April	70,000 RR
May to December	1,700,000 RR

Tatiana lost all the documents confirming her expenses for the year 2012.

In February 2012, Tatiana acquired an annual voluntary medical insurance policy in a licensed hospital for the value of 30,500 RR.

On 12 July 2012, Tatiana won a car in the advertising campaign of the company LGG with the market value of 900,000 RR



**Required:**

**(a) Assuming that all the expenses incurred by Denis in 2012 are confirmed with proper supporting documents:**

- (i) Calculate the personal income tax of Denis withheld at source by his employer for the year 2012, assuming that Denis has asked Servicetrans for all possible deductions to be given; (9 marks)**
- (ii) Calculate the final settlement of Denis's personal income tax liability (additional payment or refund) upon submission of his 2012 personal income tax return; (6 marks)**
- (iii) Calculate the final settlement of Tatiana's personal income tax liability (additional payment or refund) upon submission of her 2012 personal income tax return. (7 marks)**

**Notes:**

1. Where possible, use all the personal income tax deductions that are potentially available to Denis and Tatiana.
2. State separately the amounts of all personal income tax deductions claimed by Denis and Tatiana for the year 2012 and the deductions (if any) carried forward to future years.
3. Ignore social insurance contributions and value added tax (VAT).

**(b) Calculate the personal income tax of Denis withheld at source by his employer for the year 2012, if all the data in the scenario is the same except for the following:**

- Denis and Tatiana received joint ownership rights for the plot of land in October 2012; and
- Denis managed to submit to his employer the document from the tax authorities confirming his ownership of the plot of land in November 2012. (3 marks)

**(25 marks)**

- 3 (a) In August 2012, OOO Contrans ('Contrans') made a decision to construct a new warehouse premises using its own workforce and materials. As a result of this activity, it incurred the following expenses (in RR) on a monthly basis during the year 2012:

	September	October	November
Materials invoiced <sup>1</sup> (including value added tax (VAT))	280,840	278,480	361,080
Labour expenses (net of social insurance contributions)	420,000	380,000	450,000
Prepayments made to subcontractors (including VAT)	177,000	200,600	
Services provided by subcontractors (including VAT)	–	208,860	436,600

With respect to the above prepayments, advance VAT invoices were presented to Contrans in all the relevant months. Regarding the services provided by the subcontractors, Contrans received 70% of the final VAT invoices in September and 90% in October respectively.

The monthly wages of the employees involved in the construction do not exceed 40,000 RR per person.

The construction was completed and the new warehouse premises were put into use in standard rated VAT taxable operations on 17 November 2012. The premises qualified for depreciation for profits tax purposes.

**Required:**

**Calculate the value added tax (VAT) liabilities of OOO Contrans for the third quarter and the fourth quarter of the year 2012. Show separately all elements of output/input VAT.** (10 marks)

- (b) A subcontractor of Contrans issued it with a VAT invoice in nominal units for the value of 10,915 EUR on 8 October 2012. Contrans received this VAT invoice on the same date. Contrans paid this invoice in roubles on 25 October 2012 at the exchange rate at the date of payment.

**Required:**

**Determine the correct amount of input VAT which can be recovered and state how the rouble difference due to the exchange rate changes should be booked.**

Note: The relevant exchange rates for nominal units are as follows (notional):

8 October	40	
25 October	42	
31 December	41	(3 marks)

- (c) **State the desk audit period for a VAT recoverable position for the reporting quarter and the deadline for the tax authorities to make a decision on the VAT recovery, if no mistakes are found during the desk tax audit.** (2 marks)

**(15 marks)**

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<sup>1</sup>Invoiced means that VAT invoice received from supplier.

- 4 Svetlana Sharikova is married and has one daughter, aged 12 years. Until 30 November 2012, she worked as the head of a customer service department for the company ZAO Lutserna. Her net monthly salary was 225,000 RR in January 2012 and from February to November she received the gross amount of 263,000 RR .

Starting from 1 February 2012, Lutserna had an agreement with the licensed non-state pension fund XLL and from that date withheld from Svetlana's salary every month 5,000 RR for her future pension.

Svetlana also received the following benefits from her employer, Lutserna, in the year 2012:

- One-off material aid of 17,000 RR to help with the medical treatment of her sister
- Annual membership in the new sports club, Fox, as a gift from her employer. The market value of this gift was 37,000 RR
- Annual voluntary medical insurance for herself of 21,000 RR, and for her husband and daughter of 12,000 RR per each relative

On 30 November 2012, Svetlana resigned from ZAO Lutserna and received compensation for her unused vacation equal to 170,000 RR gross.

Svetlana likes parachuting. On 1 January 2012, she concluded a short-term life insurance agreement with the company ALL for one year and paid an insurance premium of 300,000 RR. On 31 December 2012, she received an insurance payment of 700,000 RR.

In addition, Svetlana has insured her apartment against flood for the value of 800,000 RR. She paid an insurance premium of 120,000 RR for the annual insurance for the year 2012. After celebrating the May holidays in the Moscow region, her flatmates flooded her apartment. The actual amount of damage for repair works confirmed by the expert was 400,000 RR, but Svetlana received an insurance payment for the maximum amount of 800,000 RR.

Svetlana did not have any income in the month of December 2012.

**Required:**

- (a) Calculate the final settlement of Svetlana's personal income tax liability (additional payment or refund) upon submission of her 2012 personal income tax return, assuming that the average CBR refinancing rate is 7% per annum; (10 marks)
- (b) List all of the non-salary benefits received by Svetlana from ZAO Lutserna for the year 2012, clearly identifying which are (1) subject to social insurance contributions (SIC) and (2) exempt from SIC, and calculate the total SIC payable in respect of Svetlana's income for the year 2012. (5 marks)

**(15 marks)**

- 5 (a) ZAO Voron ('Voron') is 70% owned by ZAO Chaika ('Chaika'). Chaika is jointly owned by two foreign companies: Galka (75%) and Pigeon (25%).

Voron got into financial difficulties during the year 2012 and, based on financial department data, Voron requires additional financing of 700,000 EUR. The debt financing could be provided by either Galka or Pigeon. In either case:

- the loan will be received by Voron on 21 October 2012;
- the interest rate will be 3.5% per annum and interest will be calculated and payable on a quarterly basis on the first day of the following quarter; and
- interest will not be compound.

The amount of the required financing (including the accrued interest forecast) has been taken into account in the following forecast of Voron's assets and liabilities forecast as at 31 December 2012:

Assets	167,000,000 RR
Liabilities	165,000,000 RR
Including tax liabilities	7,000,000 RR

Alternatively, the above 700,000 EUR could be received from Chaika under a free financing agreement on 21 October 2012.

**Required:**

**Prepare calculations of the profits tax consequences of providing the financing under each of the three options: a loan from Galka, a loan from Pigeon, and free financing from Chaika; and state which option is the most tax efficient for ZAO Voron for profits tax purposes.**

**Notes:**

1. The relevant EUR/RR exchange rates are as follows (notional):

1 October 2012	40.5
21 October 2012	40.2
31 October 2012	40.9
1 November 2012	41.0
30 November 2012	41.5
1 December 2012	41.7
31 December 2012	42.0
1 January 2013	41.7

2. Ignore any Forex impact. (9 marks)

- (b) OOO Alphavit ('Alphavit') is owned by three different legal entities: 30% by the Russian company OOO Libra, 20% by a foreign company Doggis LLC and 50% by another Russian company OOO Taxa. OOO Taxa only acquired its interest in Alphavit in October 2010 for the value of 7,000,000 RR.

In its turn, starting from the year 2011 Alphavit has a 100% interest in the Russian company OAO Vita. In May 2012, Alphavit received an interim dividend from OAO Vita in the gross amount of 1,116,000 RR.

In June 2012, Alphavit decided to pay a dividend of 5% of its 2011 financial year's after-tax profits. Alphavit's profits tax base for the year 2011, which is equal to its pre-tax accounting profit, was 225,000,000 RR.

**Required:**

**Calculate the relevant taxes to be withheld on the dividend payments made by OOO Alphavit.** (6 marks)

**(15 marks)**

**End of Question Paper**