Answers

Marks

1 ZAO Excelsior CIS

(a) Profits tax liability for the year 2012

	RR	
Domestic sales of services (net of VAT) 174,345,000*100/118	147,750,000	½
Sales of services to diplomatic missions (zero VAT)	7,092,000	½
Prepayments from domestic customers (non-taxable)	0	½
Total sales	154,842,000	
Direct expenses:		
Direct materials 21,830,000*100/118	(18,500,000)	½
Direct salaries 4,771,200*2 + 2,003,904*20	(49,620,480)	1
Social insurance contributions on direct salaries 512,000*22*30%	(3,379,200)	1
(½ for correct base, ½ for correct rate)		
One-off 100% write-off (unit cost is less than 40,000 RR) 29,500*100/118*45	(1,125,000)	1
(½ for net of VAT, ½ for applying write-off)		
Total direct costs	(72,624,680)	
Indirect expenses		
Remuneration under civil law agreement 1,202,342*7	(8,416,394)	½
Social insurance contributions on civil law agreement 512,000*7*27.1%	(971,264)	1
(½ for correct base, ½ for 27.1%)		
Voluntary medical insurance for employees (Note 1)	(3,482,213)	1
Voluntary medical insurance for relatives (non-deductible)	0	½
Voluntary insurance against accidents (15,000*22) < 3,960,000	(330,000)	1
(½ for limit 15,000 RR, ½ for right number of employees)		
Software licences costs	(119,000)	½
Advertising expenses:		
Advertising in the press – not subject to limitation 9,153,260*100/118	(7,757,000)	½
Advertising prizes to clients – subject to limitation (Note 2)	(1,548,420)	1½
Total indirect expenses	(22,624,291)	
Non-sale expenses		
Forex loss on loan issue at 31 December 1,700,000*(49 – 46.5)	(4,250,000)	1
Bad debts expenses (Note 3)	(8,637,600)	3½
Interest expense (Note 4)	(1,354,194)	1½
Total non-sale expenses	(14,241,794)	
Total taxable base before loss offset	45,351,235	
Tax losses from previous years within time limit, utilised on a FIFO basis:		
2009 tax loss	(400,000)	½
2010 tax loss	(1,500,000)	½
Tax base after loss utilisation	43,451,235	
Tax at 20%	8,690,247	½
		19

Note 1

Deductible voluntary medical insurance for employees should be within 6% of labour costs including remuneration of contractors.

(49,620,480 + 8,416,394)*6% = 3,482,213 out of 5,940,000
(½ for 6%, ½ for correct base including contractors) *1*

Note 2

1% from revenue net of VAT = 1%*154,842,000 = 1,548,420 *1*
(½ for net of VAT revenue, ½ for application of 1%)

3,268,600*100/118 = 2,770,000 *½*

Result: only 1,548,420 will be deductible out of 2,770,000 *1½*

Marks

Note 3

Calculation of bad debt provision as at 31 December 2012

(1)	6,136,000*50% = 3,068,000 should be included into bad debt reserve as at 31 December 2012	*½*
(2)	5,133,000 overdue longer than 90 days should be included into bad debt reserve in full amount	*½*
	3,068,000 + 5,133,000 = 8,201,000 should not exceed 10% of revenue net of VAT 10%*154,842,000 = 15,484,200 > 8,201,000	*1*
(1)	700,000 – this debt cannot be written off since the general statute of limitation is three years	*1*
(2)	436,600 including VAT should be write off due to liquidation of the debtor	*½*
	Total expense: 8,201,000 + 436,600 = 8,637,600 RR for the year 2012	*3½*

Note 4

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

10%*0.8 = 8%, i.e. interest of 7% is deductible in full *½*

At 31 December 2012: 1,700,000*7%*(31 – 7 + 30 + 31)/366*49 = 1,354,194
(½ for correct exchange rate, ½ for correct days) *1*

1½

(b) If the direct expenses were allocated based on the signed acts of acceptance for services rendered the completeness ratio would be equal to:

(139,706,490*100/118)/((174,345,000*100/118) + 7,092,000) = 76.46% 1

So, direct expenses for the year 2012 would become:

76.46%*72,624,680 + 24,430,000 = 79,958,830 RR 1

The remaining (100% – 76.46%)*72,624,680 = 17,095,850 RR would be carried forward to the year 2013. 1

3

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

	RR	
Output VAT		
Sales of services to domestic customers 174,345,000*18/118	26,595,000	½
Sales of services to diplomatic missions (zero VAT)	0	½
VAT on 2012 prepayments from domestic customers at 31 December 2012 9,090,720*18/118	1,386,720	½
Promo presents subject to free of charge distribution 3,268,600*18/118	498,600	1
No additional VAT on debt written off of 436,600 RR	0	½
Total output VAT	28,480,320	
Input VAT		
VAT on prepayments from domestic customers at 1 January 2012 8,496,000*18/118	(1,296,000)	½
VAT on direct materials purchased 21,830,000*18/118*70% *(½ for net of VAT, ½ for 70%)*	(2,331,000)	1
VAT on fixed assets purchased 29,500*18/118*45	(202,500)	½
VAT on voluntary medical insurance, licences (exempt from VAT)	0	½
VAT on advertising expenses 9,153,260 *18/118* 65% *(½ for net of VAT, ½ for 65%)*	(907,569)	1
1,548,420*18%*75% *(1 for 18%, ½ for 75%)*	(209,037)	1½
Total input VAT	(4,946,106)	
VAT payable	23,534,214	
		8
		30

Marks

2 Vladislav and Alina

(a) Personal income tax liability of Vladislav withheld at source by Agrimon for the year 2012

	RR	
Income taxed at 13%		
Gross salary accrued 97,000*12	1,164,000	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 March) for three children (1,000*2*3) *(½ for two months, ½ for three children)*	(6,000)	1
Medical voluntary insurance for himself paid by Agrimon (non-taxable item)	0	½
Medical insurance for his three children paid by Agrimon (non-taxable item)	0	½
Property insurance premium paid by Agrimon (taxable in full)	21,000	½
Insurance income as a result of fire damage: 220,000 – 21,000 – 175,000 *(½ for deducting insurance premium, ½ for actual expenses)*	24,000	1
Sales accelerator training (non-taxable item, related to work)	0	½
Professional photocamera	27,000	½
Gift deduction	(4,000)	½
Material aid for medical products	7,000	½
Material aid deduction	(4,000)	½
Property allowance 700,000 + 1,150,000 = 1,850,000 < 2,000,000 1,850,000*50% *(½ for the application at source; ½ for the right actual costs; ½ for 50%)*	(925,000)	1½

Note to markers: *if the student calculated Vladislav's allowance as 100% (i.e. 1,850,000 RR) and clearly stated an assumption that Vladislav has asked in writing to change the allowance proportion in his favour (which is possible if joint property rights are being registered by husband and wife) full marks should be given for this assumption.*

	RR	
Total employment income	304,000	
Tax withheld at 13%	39,520	½
Income taxed at 35%		
Imputed interest income on corporate loan for construction of the new house (interest payments deferred to the year 2012)	0	1
		10

(b) Final settlement of Vladislav's personal income tax liability for the year 2012

	RR	
Taxable base including benefits from employer (from (a))	304,000	
Gift of car with a market value of 420,000 RR (from close relative – mother – non-taxable)	0	½
Social deductions (Note 1)	(27,000)	1½
Educational deduction for elder daughter (37,000 RR is within 50,000 RR)	(37,000)	½
Educational deduction for the son is within 50,000 RR	(14,000)	½
Taxable base	226,000	
Tax due to the budget at 13%	29,380	½
Tax withheld by her employer (from (a))	(39,520)	½
Tax for refund under personal tax return at 13% rate	(10,140)	½
Taxable base at 35%		
Trip to Croatia	50,000	½
Prize deduction	(4,000)	½
Taxable amount	46,000	
Tax due to budget at 35%	16,100	½
		6

		Marks
Note 1: social deduction		
Non-state pension fund contribution for himself	5,000	½
Medical treatment for his mother	22,000	½
Total	27,000	
Maximum – 120,000 RR		½
		1½

(c) Final settlement of Alina's personal income tax liability for the year 2012

	RR	
Income taxed at 13%		
Gross salary accrued 80,000*11 + 35,000	915,000	½
Standard personal allowance (gross income exceeds the 40,000 RR threshold in February)	(400)	½
Children allowance (income exceeds the 280,000 RR threshold in April since free of charge vouchers for the canteen and gift certificate for Women's Day should be also included) 1,000*3*3	(9,000)	1
(½ for correct months, ½ for correct number of children)		
Bonus for the year 2011 350,000*100/87	402,299	1
Free of charge vouchers for canteen	12,000	½
Gift certificate for 8 March	7,000	½
Gift allowance	(4,000)	½
Free of charge visits to the swimming pool	15,000	½
Inherited plot of land (from close relative – father – non-taxable)	0	½
Educational deduction for her son (42,000 – 14,000 = 28,000 within max of 50,000)	(28,000)	½
No housing allowance since she has already used it	N/A	½
Taxable income:	1,309,899	
Tax at 13%	170,287	½
Income taxed at 35%		
Imputed interest on educational bank loan (Note 2)	3,142	1½
Tax at 35%	1,100	½
Total tax due to the budget at different rates	171,387	**9**

Note 2 re imputed interest

23 October to 31 December: 1,000,000*(2/3*10% – 5%)*(31 – 23 + 30 + 31)/366 = 3,142
(½ for 2/3, ½ for correct CBR rate, ½ for correct days) 1½

25

3 (a) ZAO Bars

(i) Value added tax (VAT) for Quarter 1 of 2012

Date of recognition for VAT taxable base is the shipment date, i.e. 5 February 2012

Output VAT for Quarter 1

3,835*18/118*29 = 16,965 RR 1½
(½ for 18/118, 1 for correct exchange rate on 5 February)

When the invoice was paid on 3 March 2012 at an exchange rate of 31, there will be a positive summing difference of 3,835*(31 – 29) = 7,670 RR (non-sale income) 1
(½ for correct amount, ½ for mentioning non-sale income)

The above non-sale gain will not increase the accrued output VAT ½

3

(ii) VAT for Quarter 2 of 2012

ZAO Bars
Input VAT for Q2 will be increased
354*18/118*29 = 1,566 RR 1½
(½ for 18/118, 1 for exchange rate 29)

Marks

OOO Georgin
Input VAT for Q2 will be decreased
VAT claw-back will be equal to 354*18/118*29 = 1,566 RR ½

2

(iii) The general rule says that the VAT claw-back should be executed by the customer at the earliest of two dates:

(1) the date of receiving the source documents for the change in the case of a decrease in the cost of goods, services, property rights (agreement, etc) 1
(2) the date of receiving the amended VAT invoice. 1

If Bars notified Georgin regarding the discount on 30 March instead of 3 April, Georgin will have a right to claw-back VAT on 30 March since this is the earliest of the two dates. 1

(½ for mentioning 30 March as a date for claw-back, ½ for mentioning earliest one) 3

(iv) The amended VAT invoice should be issued within five days from the date the source documents are provided to the customer with the notification of change, i.e. in the scenario within five days after 3 April 2012. 1

(b) **OOO Antic**

Output VAT for Quarter 2 of 2012

	RR	Marks
Sale of Gera debt with a gain: (9,410,500 – 8,555,000)*18/118	130,500	1
(½ for difference, ½ for 18/118)		
Sale of Dionissiy debt with a loss: no output VAT since VAT has already been accrued and paid to the budget by Antic	0	½
VAT on sale to Heracle 3,068,000*18/118	468,000	½
VAT on interest in excess of the CBR rate (3,068,000*30%*45/366 – 3,068,000*15%*45/366)*18/118	8,631	1
(½ for correct CBR rate, ½ for applying 18/118)		
Total output VAT	607,131	3

(c) **OOO Chevalier**

(i) **VAT return for Quarter 2 of 2012**

Output VAT for an unconfirmed export should be accrued and paid to the budget due to the failure to submit the confirmation package by 2 October. An amended VAT tax return should be resubmitted for Quarter 2.

	RR	Marks
Output VAT (1,200,000 EUR*40.5*18/118)	7,413,559	½
Input VAT can be recoverable in full as unconfirmed export 17,936,000*18/118	(2,736,000)	½
VAT payable to the budget	4,677,559	1

(ii) **Late interest penalties**

Period from 21 July to 30 September 2012

	RR	Marks
1/300*15%*4,677,559*(1/3)*(31 – 20 + 31 + 30)	56,131	
1/300*15%*4,677,559*(1/3)*(31– 20 + 30)	31,963	
1/300*15%*4,677,559*(1/3)*(30 – 20)	7,796	
Total late payment interest:	95,890	2

(½ for 15%, 1 for correct days, ½ for 1/300)

15

Marks

4 (a) Stas Solnechnyi

(i) Personal income tax liability for 2012 using actual expenses

	RR	Marks
Income:		
Revenue 1,416,000*100/118	1,200,000	½
Credit on bank account 14,986*100/118	12,700	1
(½ for including in revenue in 2012, ½ for 100/118)		
Gain from sale of computer (Note 1)	875	2
Total revenue	1,213,575	
Expenses:		
Employees salaries: 30,000*12 + 2*13,000*12 + 5,000*12	(732,000)	1
Social insurance contributions on salaries		
(less than 512,000 RR per annum per head) 732,000*30%	(219,600)	½
Social insurance contributions for Stas	(12,003)	½
Depreciation for January to May (53,100*100/118*70%*5/36)	(4,375)	1
Total expenses	(967,978)	
Taxable income	245,597	
Personal income tax at 13%	31,928	½
		7

Note 1

Since in 2010 Stas has should have used the 30% one-off write-off	
Residual value: 53,100*100/118*70%*7/36 = 6,125 RR	*1½*
(½ for net of VAT, ½ for 70%, ½ for correct months)	
Gain on sale: 8,260*100/118 – 6,125 = 875 RR	*½*
	2

(ii) Personal income tax liability for 2012 using the business deduction

	RR	Marks
Income:		
Revenue and credit on bank account (as in (i))	1,212,700	
Gross revenue from sale of computer 8,260*100/118	7,000	½
Business deduction (20%)	(243,940)	½
Taxable income	975,760	**1**

(b) Victor Ozerov

(i) Options available in respect of the imputed interest on loan for personal consumption needs

(1) Imputed income in the case of the interest-free rouble loan

100,000 RR* (2/3*25% – 0%)*(1 + 31 + 30)/366 = 2,824 RR

(½ for 2/3, ½ for 25%, ½ for days) 1½

Tax to be withheld at 35% 988 RR ½

(2) Imputed income in the case of the interest-bearing rouble loan

On 30 June 2012

100,000 RR* (2/3*15% – 3%)*(1 + 31 + 30 + 31 + 30)/366 = 2,352 RR

(½ for 2/3, ½ for correct CBR rate, ½ for days) 1½

Tax to be withheld at 35% 823 RR ½

From 1 July 2012 to 31 December 2012

100,000 RR* (2/3*10% – 3%)*(31 + 31 + 30 + 31 + 30 + 31)/366 = 1,843 RR

(½ for 2/3, ½ for correct CBR rate, ½ for days) 1½

Tax to be withheld at 35% 645 RR ½

6

Marks

(ii) If Victor is going to spend the loan of 100,000 RR to invest in his residential apartment, the imputed interest will be specifically exempted from personal income tax based on the tax law provisions, provided that Victor is entitled to the housing allowance in respect of this apartment.
(½ for PIT exemption, ½ for mentioning housing allowance entitlement) — 1

15

5 (a) OOO Rakurs

Average value for property tax for Quarter 1 of 2012

((870,000 – 420,000) + (920,000 – 490,000) + (1,530,000 – 610,000) + (1,710,000 – 680,000))/4 = 707,500 RR — 2
(1 for deducting depreciation from booking value, 1 for applying 4)

Advance payment for property tax for Quarter 1 2012:

707,500/4*2.2% = 3,891 RR — 1

(½ for dividing by 4 in the formula, ½ for 2.2%) — **3**

(b) Vasiliy Razumov

(i) Social insurance contributions (SIC) under an author's agreement

	RR	Marks
Option 1: deduction of actual costs.		
Remuneration received	1,250,000	
Actual expenses incurred	(770,000)	1
SIC tax base	480,000	
SIC payable 480,000*27.1%	130,080	½
Option 2: application of 40% professional deduction.		
Remuneration received	1,250,000	
Professional deduction for sculptor 1,250,000*40%	(500,000)	1
SIC tax base	750,000	
SIC payable 512,000*27.1%	138,752	1½
(1 for tax base limit 512,000 RR, ½ for correct rate)		**4**

(ii) Application of deduction at source

Vasiliy should submit a written application to Stroymost (acting as a tax agent) before the year end in order to receive deduction at source (either for actual expenses or the professional deduction). In the case of actual expenses, supporting documents must be enclosed. — 1

(c) OOO Fialka

Test for thin capitalisation rules:

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

Begonia: 45%*60% = 27% loan would be controlled — ½

Barvinok: 45%*40% = 18% loan would not be controlled — ½

Second criterion: whether the controlled loan exceeds own capital by more than three times at 30 June 2012

2,700,000*43*3%*(31 – 15 + 30)/366 = 437,754 RR — 1
(½ for correct exchange rate, ½ for correct days)

Total control debt as at 30 June 2012: 2,700,000*43 + 437,754 = 116,537,754 RR — ½

Own capital*3 = (117,000,000 – 87,000,000 + 7,520,700)*3 = 112,562,100 RR — 1
(½ for correct formula, ½ for deducting tax liabilities)

Thin capitalisation test: 116,537,754 RR > 112,562,100 RR YES

For loan from Begonia:

Thin capitalisation ratio = 116,537,754/(112,562,100*27%) = 3.8345 — 1

Maximum limit of deduction: 437,754/3.8345 = 114,162 RR — ½

	Marks
Therefore, 437,754 – 114,162 = 323,592 RR will be treated as a dividend and taxed at 15%	½
323,592*15% = 48,539 RR	½
For loan from Barvinok:	
Interest of 437,754 RR will be deductible without limit and there will be no tax on deemed dividends.	½
As a result, the most tax effective option would be to provide the debt financing from company Barvinok.	½
	7
	15