Answers

Marks

1 ZAO Rasseykon

(a) Profits tax liability for the year 2013

	RR	Marks
Domestic sales of chocolates (net of VAT) 730,133,260*100/118	618,757,000	½
Confirmed export sales (zero VAT)	10,750,000	½
Prepayments from domestic customers (non-taxable)	0	½
Total sales	629,507,000	
Direct expenses		
Direct materials 53,418,600*100/118*90%	(40,743,000)	1
(½ for net of VAT, ½ for 90%)		
Direct wages 20,900*230*12*90%	(51,915,600)	½
Direct social insurance contributions on wages		
Since (20,900*12) <512,000 RR, 51,915,600*30%	(15,574,680)	½
Direct depreciation (Note 1)	(2,939,601)	2½
Total direct costs	111,172,881	
Indirect expenses		
30% one-off write-off for production line (Note 2)	(10,350,000)	1
Amortisation of trademark (10 years)		
Annual norm 1/10; 654,546*100/118*12/(12*10)	(55,470)	1
(½ for 100/118, ½ for 10 years)		
Indirect expenses: depreciation (Note 3)	(173,540)	2½
Obligatory property insurance	(4,500,000)	½
Salaries 570,000*12 + 77,000*45*12	(48,420,000)	1
(½ for including 570,000, ½ for including 77,000)		
Social insurance contributions (Note 4)	(9,552,400)	2
Voluntary medical insurance for employees (Note 5)	(5,700,000)	1
Voluntary medical insurance for relatives (non-deductible)	0	½
Voluntary personal insurance for permanent employees against accidents at work		
15,000*(1 + 45 + 230)	(4,140,000)	½
(½ for 15,000)		
Reimbursement of mortgage interest to 25 employees (Note 6)	(3,183,120)	1
Business entertainment expenses (Note 7)	(56,000)	4
Total indirect expenses	(86,130,530)	
Non-sale income		
Forex gain on loan 800,000*(41 – 39.5)	1,200,000	1
Non-sale expenses		
Interest expense (Note 8)	(325,490)	2
Total net non-sale income	874,510	
Total taxable income	433,078,099	
Total tax loss	(300,000)	½
Taxable income after loss utilisation	432,778,099	
Tax at 20%	86,555,620	½
		25

Note 1

Direct depreciation of the production line:

	Marks
NBV at the date of purchase 40,710,000*100/118 – 10,350,000 (Note 2) = 24,150,000	½
NBV at 31 December 2013 24,150,000*(1 – 1.8%)^8 = 20,883,777	*1*
(½ for correct formula and ½ for correct months)	
Depreciation: 24,150,000 – 20,883,777 = 3,266,223	½
Direct depreciation 3,266,223*90% = 2,939,601	½
	2½

Marks

Note 2

One-off write-off 40,710,000*100/118*30% = 10,350,000 can be treated as indirect expense. 1

(½ for 100/118, ½ for 30%)

Note 3

Indirect depreciation

NBV at 1 January 2013 37,170*100/118*70%*25*(1 – 5.6%)^8 = 347,636 *1½*
(½ for net of VAT, ½ for 30% write-off, ½ for correct months in formula)

NBV at 31 December 2013 347,636*(1 – 5.6%)^12 = 174,096 *1*

Depreciation: (347,636 – 174,096) = 173,540 RR *2½*

(Note: If candidate explains reason for 100% write-off for computers, please allocate the same total marks for this – 2½)

Note 4

Social insurance contributions

Middle management staff
Since 77,000*12 = 924,000 > 512,000, 512,000*30% + (924,000 – 512,000)*10% = 194,800 *1*
(½ for applying 30% to 512,000, ½ for correct application of 10% to the difference)

194,800*45 = 8,766,000

Salary of GM 570,000*12 = 6,840,000 exceeds 512,000 RR, thus 512,000*30% + (6,840,000 – 512,000)*10% = 786,400 *1*
(½ for applying 30% to 512,000, ½ for correct application of 10% to the difference)

Total of social contributions in indirect costs 8,766,000 + 786,400 = 9,552,400 RR *2*

Note 5

Voluntary medical insurance – limit 6% of labour costs

(51,915,600*100/90 + 48,420,000)*6% = 6,366,240 > 5,700,000 hence the full 5,700,000 RR is deductible. *1*

(½ for 100/90, ½ for 6%)

Note 6

Reimbursement of mortgage interest is limited to 3% of labour costs, without insurance costs:

(51,915,600*100/90 + 48,420,000)*3% = 3,183,120 RR is deductible. *1*

(½ for correct tax base, ½ for 3%)

Note 7

Business entertainment expenses can include only the official reception (dinner), interpreter's services and transportation services for shareholders.

Business entertainment expenses are limited to 4% of labour costs, including insurance costs:

(51,915,600*100/90 + 48,420,000 + 5,700,000 + 4,140,000)*4% = 4,637,760 *2*
(½ for correct total salaries, ½ for including medical insurance costs, ½ for including insurance against accidents at work, ½ for 4%)

Official dinner in a restaurant 35,400*100/118	30,000	½
Interpreter's services rendered by a professional firm 28,320*100/118	24,000	½
Transportation in Moscow to the office and back 2,360*100/118	2,000	½
Total business entertainment expenses	56,000 RR	

Air tickets and hotel expenses are not part of deductible business entertainment expenses. *½*

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Note 8

7% is within the limit of 15% for foreign loans, so no restriction.

November 800,000*7%*39*(30 – 7)/365 = 137,622 *1*
December 800,000*7%*39.5*31/365 = 187,868 *1*

Total interest expense 325,490 RR *2*

		RR	Marks
(b)	**Value added tax (VAT) liability for the year 2013**		
	Output VAT		
	Sales of goods 730,133,260*18/118	111,376,260	½
	Export sales (confirmed export)	0	½
	VAT on 2013 prepayments from domestic customers at 31 December 2013 7,301,333*18/118	1,113,763	½
	Total output VAT	112,490,023	
	Input VAT		
	VAT on prepayments from domestic customers at 1 January 2013 21,903,998*18/118	(3,341,288)	½
	VAT on direct materials 53,418,600*18/118	(8,148,600)	½
	VAT on production equipment 40,710,000*18/118	(6,210,000)	½
	VAT on all types of insurance (exempt from VAT)	0	½
	VAT on interest and forex on loan (exempt from VAT)	0	½
	VAT on business entertainment expenses related to deductible part: 56,000*18% *(½ for 18%, ½ for deductible part only)*	(10,080)	1
	Total input VAT	(17,709,968)	
	VAT payable	94,780,055	
			5
			30

2 Alexey and Irina

		RR	
(a)	**Personal income tax liability of Alexey withheld at source by Charlotka for the year 2013**		
	Income taxed at 13%		
	Gross salary accrued 270,000*12	3,240,000	½
	Children allowance (as his income including the birthday present exceeds the 280,000 RR threshold in January)	(0)	1
	Birthday gift from employer (annual membership in sports club 50%*34,000)	17,000	½
	Gift deduction	(4,000)	½
	Annual bonus credited to account in February (bonus accrued in December 2012 would be included in the 2012 tax base)	0	1
	Social deduction for pension contributions to a non-state pension fund	(35,000)	1
	Medical voluntary insurance for himself (non-taxable item)	0	½
	Medical voluntary insurance for his children (non-taxable item)	0	½
	Medical expenses for his father's surgery in a licensed clinic *(exempt from taxation)*	0	1
	Incentive trip to Kuala-Lumpur	55,000	½
	Housing allowance for land acquisition (maximum limit – 2,000,000/2 since jointly owned with his wife) *(½ for mentioning 2,000,000, ½ for 50% share)*	(1,000,000)	1
	Housing allowance for interest		
	– bank loan interest (note)	(33,014)	1½
	– corporate loan interest (no actual interest expenditure in 2013)	0	½
	Total employment income	2,239,986	
	Tax withheld at 13%	291,198	½
	Income taxed at 35%		
	Imputed interest income on employer's loan for the plot of land acquisition (mortgage loan, entitlement to property allowance confirmed, dates of interest payments do not matter)	0	1
	Imputed interest income on bank loan for the plot of land acquisition (mortgage loan, entitlement to property allowance confirmed)	0	½
			12

Marks

Note: Bank loan interest

500,000*10%*(30 – 3 + 31 + 30 + 31 + 31 + 30 + 31 + 30)/365 = 33,014	
(½ for correct rate, 1 for correct days excluding December)	*1½*

Tutorial note: *Interest actually paid starting from the day following the first day of providing the bank loan, i.e. 4 April to 31 December 2013 is deductible; but interest for December 2013 is paid on 1 January 2014, hence this is not included in the housing allowance for 2013.*

(b) Final settlement of Alexey's personal income tax liability for the year 2013

	RR	Marks
Taxable base including benefits from the employer (from (a))	2,239,986	
Sale proceeds for the apartment	850,000	
Property deduction (ownership >3 years)	(850,000)	1
Social deductions (note)	(21,000)	1½
Educational deduction for his son (35,000 RR out of 50,000 RR limit)	(35,000)	½
Educational deduction for his daughter within 50,000 RR limit	(15,000)	½
Taxable base	2,168,986	
Tax due to the budget at 13%	281,968	½
Tax withheld by his employer at 13% (from (a))	(291,198)	½
Tax for refund under his personal tax return at 13% rate	(9,230)	½
		5

Note: Social deductions

	RR	Marks
Voluntary medical insurance for his wife	11,000	½
Educational expenses for his brother	10,000	½
Total	21,000	
Maximum limit 120,000 – 35,000 = 85,000 RR (part of social deduction limit – 35,000 RR – was given by the employer)		½
		1½

(c) Final settlement of Irina's personal income tax liability for the year 2013

	RR	Marks
Gross remuneration (75,000 + 100,000 + 104,000 + 95,000 + 856,000)	1,230,000	½
Children allowance (income exceeds the 280,000 RR threshold in April 2012) (1,400*2*3)	(8,400)	1
(½ per correct months, ½ for correct number of children)		
Actual expenses confirmed by source documents	(500,000)	1
(actual expenses v professional deduction 1,230,000*40% = 492,000 < 500,000)		
Property deduction for the jointly owned plot of land (50%*2,000,000)	(1,000,000)	½
Educational deduction for her son (51,000 > max 50,000, part was claimed by Alexey, i.e. 50,000 – 35,000)	(15,000)	½
Educational deduction for her daughter (20,000 < max 50,000, hence all 5,000 RR are deductible)	(5,000)	½
(½ for 50,000 RR limit)		
Ring – gift from her husband (non-taxable between close relatives)	0	½
Free of charge ticket	3,000	½
Gift exemption	(3,000)	½
Donation should be included (25% of income) 15,000 in cash should not exceed 25%*1,230,000	(15,000)	½
(½ for mentioning 25%, ½ for correct amount)		
Social deduction for 20,000 (her part of voluntary insurance)	(20,000)	½
20,000 RR of educational films (gift in kind) cannot be included in donations	N/A	½
Taxable income	(313,400)	
Tax refund at 13%	(40,742)	½
Tax withheld at 13% (1,230,000 – 8,400)*13%	158,808	½
Tax due from the budget	(118,066)	
		8
		25

			Marks
3	**(a)**	ZAO Marialla	

(i) Since the deadline for providing the export package has been missed, the revenue should be recognised at the date of shipment, and an adjusted value added tax (VAT) return to be submitted for Quarter 1. Accordingly, VAT should be paid to the budget for Quarter 1, together with the late charges.

Adjusted VAT return for Quarter 1

Revenue 120,000*38.5 = 4,620,000 RR		½
Output VAT from revenue 4,620,000*18% = 831,600 RR		½
Input VAT on equipment 2,633,760*18/118 = (401,760) RR		½
Claw back of VAT previously recovered on acquired equipment	401,760 RR	1
Total VAT liability for the Quarter 1 of 2013	831,600 RR	

Late interest charges:
831,600/3*1/300*15%*10 = 1,386 RR (from 21 April to 30 April)
831,600/3*1/300*8%*20 = 1,478 RR (from 1 May to 20 May)
831,600/3*2*1/300*8%*31 = 4,583 RR (from 21 May to 20 June)
831,600*1/300*8%*102 = 22,620 RR (from 21 June to 30 September)
831,600*1/300*20%*20 = 11,088 RR (from 1 October to 20 October)
(1 for the instalment dates, ½ for 1/300 of CBR rate, 1 for the CBR rate changes, 1 for correct days)

Total charges: 41,155 RR — 3½

VAT return for Quarter 4

The package confirming the 0% rate was submitted by the last day of the quarter, i.e. 31 December, but the revenue is recognised based on the shipment date.

	RR	
Output VAT (120,000*38.5 = 4,620,000)*0%	0	½
Output VAT paid for Quarter 1 is refundable from the budget	(831,600)	½
VAT recovery for Quarter 4 of 2013	(831,600)	
		7

(ii) If the documents confirming the export were submitted to the tax authorities on 16 June 2013, the recognition date for the zero rate VAT base will be the last day of the quarter where all documents have been collected, i.e. 30 June 2013 and Quarter 2. — 1

VAT return for Quarter 2

VAT base 120,000*37.2 = 4,464,000 RR — ½

	RR	
Output VAT at 0%	0	½
Claw back of VAT recovered in Quarter 1	401,760	½
Input VAT (claw back in Quarter 1) recoverable	(401,760)	½
		3

(iii) The following documents should be provided to the tax authorities to confirm the 0% VAT rate for the export:

(1) Contract (copy) — ½

(2) Customs return with special customs stamps — ½

(3) Copies of transportation and other documents with customs stamps confirming the export of the goods out of Russian Federation. — ½

The above documents should be provided, along with the VAT return, no later than 180 days starting from placing the goods under the export customs regime. — ½

2

(b) **OOO Lentiva**

The Parus debt has been sold at a loss: 9,255,330 – 10,283,700 = (1,028,370)
Output VAT = 0 — ½

Output VAT should not be accrued in a loss situation since the VAT has already been accrued and paid to the budget by Lentiva at the point of sale. — ½

	Marks
The Priboy debt has been sold at a gain:	
Output VAT is (4,094,600 – 4,381,222)*18/118 = 43,722	1
(½ for gain, ½ for 18/118)	
The write-off of Galogen's debt does not give rise to VAT since the VAT has already been accrued in 2010 when the sale was made.	½
Output VAT = 0	½
	3
	15

4 (a) Alena

(i) Personal income tax liability for the year 2013

	RR	
Income:		
Salary from Pantera 85,000*8	680,000	½
Voluntary medical insurance (non-taxable item)	0	½
Material aid	40,000	½
Support payment allowance	(4,000)	1
Compensation for unused vacation	55,000	½
Subtotal	771,000	
Remuneration from Pantera under author's agreement	400,000	½
Professional deduction 400,000*40%	(160,000)	1
(It is more tax efficient to apply the professional deduction v using the actual expenses incurred of 150,000 RR)		
Subtotal	240,000	
Total employment income	1,011,000	
Tax withheld at 13%	131,430	½
		5

(ii) Social insurance contributions (SIC) for the year 2013

Non-salary benefits subject/not subject to SIC

Subject to SIC:

	Marks
One-off material aid (net of allowance) 36,000 RR (40,000 – 4,000)	1
Reimbursement for unused vacation 55,000 RR	1

Excluded from the SIC base:

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

SIC on income from Pantera:

Annual salary of 771,000 RR exceeds 512,000 RR

SIC:	RR	
512,000*30%	153,600	
(771,000 – 512,000)*10%	25,900	
	179,500	1

SIC on income under the author's agreement

	Marks
Tax base for SIC = (400,000 – 160,000) = 240,000 RR	1
SIC: 240,000*27.1% = 65,040 RR	½
	5

		Marks

(b) OOO Drema

Personal income tax to be withheld from the dividend paid to Dmitriy

	RR	
Profit before tax	250,000,000	
Profits tax at 20%	(50,000,000)	½
Profit after tax	200,000,000	
25% for distribution	50,000,000	½
Less dividends received from Guliver	(35,000,000)	1
Dividends paid to non-residents – non-deductible	0	½
Taxable dividends	15,000,000	

Taxable dividends per share 15,000,000/170,000 = 88.24 RR

Dmitriy's taxable income = 5,000*88.24 = 441,200 RR — 1

Tax to be withheld by Drema at 9%: 441,200*9% = 39,708 RR — ½

Net amount received by Dmitriy:
50,000,000*5,000/170,000 – 39,708 = 1,430,880 RR — 1

5

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Tutorial note: *Dmitriy's share is calculated based on the total number of shares held by all shareholders (resident and non-resident).*

5 (a) ZAO Kosmos

Advance property tax for Quarter 2 of 2013

Average property value for Quarter 2 (in 000 RR)
((1,080 – 430) + (700 – 370) + (950 – 400) + (1,200 – 410) + (840 – 390) + (520 – 280) + (610 – 300))/7 = 3,320/7 = 474 — 2½
(1 for using accounting NBVs, 1 for averaging over 7 months, ½ for computation)

Advance property tax payable: 474,000/4*2.2% = 2,607 — 1½
(1 for dividing by 4, ½ for 2.2%)

4

(b) ZAO Viktor

If there is a separate subdivision with a separate balance sheet with movable and immovable property in St Petersburg, then the St Petersburg subdivision will be subject to property tax in the St Petersburg region at the local rate effective in that region. — 1½

The building located in the Samara region without employees will be subject to property tax at the local rate effective in the Samara region, even if there is no separate subdivision with a separate balance sheet in Samara. — 1½

3

		Marks
(c)	**OOO Orial – deductible interest for the nine months to 30 September 2013**	
	Arl S.A. owns 30% of OOO Orial; as this is more than 20%, the debt should be treated as a controlled debt.	½
	5% is within the 15% rate for currency loans limitation.	½
	Net assets as of 30 September 2013: 212,800,000 – 194,600,000 + 77,000,000 = 95,200,000 RR	1
	Loan as of 30 September 2013: 700,000*37 = 25,900,000 RR	½
	Interest as of 30 September 2013 (Note 1): 285,273 RR	3
	Total controlled debt: 25,900,000 + 285,273 = 26,185,273 RR	½
	Net assets*3 = 95,200,000*3 = 285,600,000 RR	½
	The controlled debt of 26,185,274 is < 285,600,000, so the thin capitalisation rules should not be applied.	1
	Total interest deductible for the first nine months of 2013: 285,273 RR	½
		8
		15

Note 1

Interest should be calculated at the end of each month in the quarter:

	RR	
31 July 700,000*5%*(31 – 14)/365*39.5 *(½ for correct day, ½ for correct exchange rate)*	64,390	*1*
31 August 700,000*5%*31/365*38.5 *(½ for correct day, ½ for correct exchange rate)*	114,445	*1*
30 September 700,000*5%*30/365*37 *(½ for correct day, ½ for correct exchange rate)*	106,438	*1*
Total:	285,273	3