Answers

Section B *Marks*

1 OOO Ostrog

(1) Loan from Forest Ltd

The loan from Forest Ltd will be treated as a controlled loan since Forest Ltd's ownership of OOO Ostrog exceeds 25%. ½

Total assets: 1,078,000,000 RR ½

Total liabilities: (882,000,000 – 26,460,000) = 855,540,000 RR ½

Net assets: (1,078,000,000 – 855,540,000) = 222,460,000 RR

Net assets*3 = 667,380,000 RR ½

Loan at 31 March 2017: (10,000,000*77) = 770,000,000 RR ½

Interest calculations:

	RR	Marks
February: (10,000,000*7%*75*(28 – 3)/365) *(½ for correct days, ½ for correct exchange rate)*	3,595,890	1
March: (10,000,000*7%*77*31/365) *(½ for correct exchange rate)*	4,577,808	½
Total interest for Q1	8,173,698	

Loan plus + total interest for Q1: (770,000,000 + 8,173,698) = 778,173,698 RR

Net assets*3 < loan plus accrued interest, i.e. thin capitalisation rules apply. ½

Coefficient: 778,173,698/(667,380,000*76%) = 1,5342 RR 1

Deductible interest: 8,173,698/1,5342 = 5,327,661 RR ½

Deemed dividends: (8,173,698 – 5,327,661) = 2,846,037 RR ½

Withholding tax: (2,486,037*15%) = 426,906 RR ½

(2) Loan from Mountain Ltd

The loan from Mountain Ltd would be considered a loan from a sister company, since Mountain Ltd is 20% owned by Green Ltd. ½

However, since Green Ltd's indirect ownership in OOO Ostrog is less than 25%, Mountain Ltd will not be treated as a related party and the loan will not be treated as controlled. Therefore the thin capitalisation rules do not apply. 1
(½ for mentioning new 25% criterion; ½ for recognising the loan is not controlled)

Hence, all of the loan interest of 8,173,698 RR will be deductible. ½

(3) Loan from AO Canions bank

The loan from the Russian bank meets both criteria, because:

(1) the bank is not affiliated to Ostrog or to any of the other group companies.

(2) the loan agreement will not provide any provision for the redemption of either the principal amount or the interest by either Forest Ltd or any its affiliated companies.

Therefore, the loan will be treated as uncontrolled and all of the interest of 8,173,698 RR will be deductible for profits tax purposes. 1
(½ for reference to two criteria, ½ for 100% deductible interest)

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			Marks
2	**(a)**	**Vladimir – Insurance contributions for the year 2017**	

	RR	Marks
Total salary (125,000*12)	1,500,000	½
Annual voluntary medical insurance for himself (exempt)	0	½
Annual voluntary medical insurance for his sister	21,000	1
Reimbursement of his reallocation expenses to Sochi (exempt)	0	½
Reimbursement for his unused vacation	105,000	1
Reimbursement of his business trip to St Petersburg (non-taxable)	0	½
Reimbursement of 50% of his motorbike driving course	17,000	1
Reimbursement of his professional training for lawyers (non-taxable)	0	½
Total base for insurance contributions (IC)	1,643,000	

IC payable:

	RR	Marks
Pension fund (PF) (876,000*22% + (1,643,000 – 876,000)*10%)	269,420	½
Social insurance fund (SIF) (755,000*2.9%)	21,895	½
Federal medical insurance fund (FFOMI) (1,643,000*5.1%)	83,793	
	375,108	½
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Tutorial note: *The inclusion of the annual voluntary medical insurance for Vladimir's sister is the correct treatment in accordance with Tax Code – Article 422 p.5. However, if candidates excluded the insurance from their computation, the same credit should be awarded, provided a reason is given for the exclusion.*

(b)	Reporting deadline should be 30th of the month following the calculating (reporting) period.	1
	Insurance contributions should be submitted to the tax authority.	½
	Calculating period is a calendar year.	½
	Reporting period should be treated 1st quarter, first six months, nine months of the calendar year.	1
		3
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3 (a) Anastasiya – Personal income tax liability (PIT) for the year 2017

	RR	Marks
Tax base at 13%		
Salary (65,000*12)	780,000	½
Annual medical insurance for herself (exempt)	0	½
Annual gym membership	20,000	½
Sale of coins (520,000 – 250,000)	270,000	½
200,000 < 250,000, so use of 250,000 RR more beneficial		½
Taxable base	1,070,000	
PIT at 13%	139,100	½
Tax base at 35%		
Employer loan imputed interest		
April (1,500,000*(2/3*15% – 5%)*(30 – 8))/365)	4,521	1½
(½ for 2/3, ½ for correct CBR rate, ½ for correct days)		
May to December (2/3 CBR rate < 5% effective rate)	0	1
Taxable base	4,521	
PIT at 35%	1,582	½
Total PIT (139,100 + 1,582)	140,682	
		6

Marks

(b) Dmitriy – Personal income tax (PIT) tax base liability for the year 2017

	RR	
Business income (29,500,000*100/118)	25,000,000	½
Employees' salaries (32,000*12*5)	(1,920,000)	½
Insurance contributions on employees' salaries (384,000*(22% + 2.9% + 5.1%)*5)	(576,000)	1
Coffee machine:		
One-off 30% deduction (1,239,000*100/118*30%)	(315,000)	1
(½ for net of VAT, ½ for 30%)		
Depreciation (1,239,000*100/118*70%*9/36)	(183,750)	1
(½ for 70%, ½ for correct months)		
Total taxable base	22,005,250	
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4 (a) OOO Lemongrass

(i) Value added tax (VAT) for Quarter 2 (Q2) 2017

	RR	
Output VAT		
Sales revenue (849,600,000*18/118)	129,600,000	½
Sales of Myata debt (43,054,660 – 40,238,000)*18/118)	429,660	1
Sales of Estragon debt at a loss (no VAT)	0	½
Part waiver of Polyn's debt (no VAT)	0	½
Claw-back of prepayments paid to suppliers in Q1 (169,920,000*18/118*90%)	23,328,000	1
Input VAT		
Goods purchased with the VAT invoices (as above)	(23,328,000)	½
VAT liability	130,029,660	
		4

(ii) The two main requirements for the recovery of VAT on prepayments made to suppliers are:

– The agreement with the supplier should contain an obligation on the buyer (customer) to make a prepayment. ½

– A VAT invoice for the prepayment should be issued in compliance with the Tax Code. ½

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(b) OOO Kaleva and OOO Marvell

(i) Value added tax (VAT) liability for Quarter 1 (Q1) 2017

OOO Kaleva

	RR	
Input VAT		
For the goods (40,356,000*18/118*90%)	5,540,400	1
For the fixed assets (29,618,000*18/118*70%)	3,162,600	1
For the reimbursement of transportation (2,824,920*18/118)	430,920	½
For the reimbursement of certification (1,614,240*18/118)	246,240	½
On commission fees (4,198,440*18/118)	640,440	½
Recoverable VAT	10,020,600	

OOO Marvel

	RR	
Output VAT		
On commission fees (4,198,440*18/118)	640,440	½
		4

Marks

(ii) The reporting deadline for the Q1 VAT return is 25 April 2017. Therefore, provided that Kaleva receives the VAT invoice for the commission fees on 26 April 2017 (i.e. after this deadline), it would not be able to include this invoice in its Q1 VAT tax return and so recover the VAT in Q1, i.e. the invoice will have to be included for recovery in its Q2 VAT tax return. 1

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5 Yana – Personal income tax (PIT) for the year 2017

(a) PIT to be withheld at source by AO Lotos

	RR	
Tax at 13%		
Gross salary ((150,000*2) + (10*172,000))	2,020,000	½
Children allowance (her income exceeds 350,000 RR in March):		
((2*1,400) + 3,000)*2	(11,600)	1½
(½ for 1,400, ½ for 3,000, ½ for correct months)		
Imputed interest income on mortgage loan (note)	0	1
Interest actually paid on mortgage loan during the year 2017		
(15,000,000*3%*(31 – 20 + 30 + 31 + 31 + 30)/365)	(163,973)	1½
(½ for 3%, 1 for correct days)		
Educational deduction for her son (maximum)	(50,000)	1
Taxable base before housing allowance	1,794,427	
Housing allowance (maximum 2,000,000 RR)	(1,794,427)	1
Taxable base at 13% rate	0	

Note: Explanation of tax treatment of mortgage loan interest

Since Yana has:

– never used a housing allowance 1

– managed to receive entitlement for her housing allowance from the tax authorities before the year end 1

– and provided it to her employer before the year end, ½

no imputed interest income should be accrued.

Housing allowance unused at source:
(2,000,000 – 1,794,427) = 205,573 RR ½

No income taxable at 35% tax rate. ½

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Tutorial note: *Interest on the mortgage loan should be deducted as a part of the housing allowance based on the amount actually paid in 2017 (i.e. interest for the fourth quarter which is unpaid as at 31 December 2017 is not deductible).*

(b) Final settlement of PIT

	RR	
Tax at 13%		
Taxable base (from part (a))	0	½
Sale of inherited apartment (ownership period < 3 years)	15,000,000	½
Property deduction	(1,000,000)	½
Birthday gift received from a close relative (exempt)	0	1
(½ for exemption, ½ for the reason)		
Utilisation of housing allowance unused at source	(101,874)	1
Taxable base	13,898,126	
Tax at 13%	1,806,756	½
Withheld at source	0	
	1,806,756	
		4

		Marks
(c) The deadline for Yana to submit her annual PIT return for 2017 is 30 April 2018.		½
The deadline for her to pay the PIT due to the budget is 15 July 2018.		½
Note for markers: *Since 15 July 2018 is a Sunday, this deadline will be transferred to the next working day, i.e. 16 July; if candidate mentions this fact, the same mark should be given.*		1
		15

6 (a) OOO Shokon – Corporate profits tax taxable base for the year 2017

	RR	
Revenue:		
Sales to Russian customers (296,180,000*100/118)	251,000,000	½
Confirmed exports	25,100,000	½
Dividends received from Russian subsidiary company (excluded)	0	½
Total revenue	276,100,000	
Direct expenses:		
Completion ratio: (20,732,600*100/118)/276,100,000 = 6.364%		1
Tutorial note: *Alternatively, the completion ratio could have been calculated in the following way: (20,732,600*100/118)(276,100,000 + 20,732,600*100/118) = 5.983%. Equal credit was given if candidates calculated the ratio this way.*		
Direct purchased materials ((27,730,000*100/118)*(100 – 6.364%)) *(½ for net of VAT, ½ for correct adjustment)*	22,004,460	1
Direct salaries (250*28,000*12*(100 – 6.364%)) *(½ for total gross salaries, ½ for correct adjustment)*	78,654,240	1
Direct depreciation (Note 1)	13,018,775	3
Total direct expenses	113,677,475	
Indirect expenses:		
Indirect salaries (20*12,000*12)	2,880,000	½
Indirect annual medical insurance (maximum deductible out of 6,000,000) (6%*(78,654,240 + 2,880,000) *(½ for 6%, ½ for adjusted direct salary, ½ for indirect salary)*	4,892,054	1½
Business entertainment expenses (Note 2)	720,000	3
Total indirect expenses	8,492,054	
Non-sale expenses:		
Penalties paid to the tax authorities (non-deductible)	0	½
Taxable base	153,930,471	
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Note 1: Depreciation

NBV at 1 January 2017 (885,000*100/118*70%*(1 – 5.6%)^11 = 278,517 RR *(½ for net of VAT, ½ for 70%, ½ for correct months in the formula)*	*1½*
NBV at 31 December 2017 (278,517*(1 – 5.6%)^12) = 139,481 RR	½
Depreciation: (278,517 – 139,481)*100 = 13,903,600 RR	½
(13,903,600*(100% – 6.364%)) = 13,018,775 RR	½
	3

Note 2: Business entertainment expenses

	RR	
Limited to (78,654,240 + 2,880,000 + 4,892,054)*4% = 3,457,052 RR		1
Official lunch (354,000*100/118)	300,000	½
Cost of external translators	400,000	½
Taxi from the hotel to the meeting venue and back (23,600*100/118)	20,000	½
Accommodation in the hotel (non-deductible)	0	½
Deductible subtotal (within 4% limit)	720,000	3

		Marks
(b)	The following cross-border transactions should be treated as controlled under the transfer pricing tax law provisions:	
	– Related party transactions, no minimum threshold. *(½ for related party, ½ for no minimum threshold)*	1
	– Third party transactions involving the sale of certain mineral commodities.	½
	– Transactions with any parties in 'blacklisted' offshore tax jurisdictions.	½
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