Fundamentals Level – Skills Module

Taxation (Russia)

Thursday 8 June 2017

Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX questions are compulsory and MUST be attempted

Tax rates and allowances are printed on pages 2–4.

Do NOT open this question paper until instructed by the supervisor.

Do NOT record any of your answers on the question paper.
This question paper must not be removed from the examination hall.

Paper F6 (RUS)

Think Ahead ACCA

The Association of Chartered Certified Accountants

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest RR
2. All apportionments should be made to the nearest month, unless the law requires otherwise
3. All workings should be shown in Section B

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.

Children allowances	
First and second child (up to 350,000 RR)	1,400 RR per child
Third child (up to 350,000 RR)	3,000 RR
General limitation on 'property' allowance	
Investments in residential property and land for tax purposes	2,000,000 RR (upper limit)
Interest on mortgage loan	3,000,000 RR (upper limit)
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, voluntary life 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)
Professional deduction	– general	20%
	– designer, photographer, architect	30%
	– musician, sculptor	40%
	– creator of literary works, including theatre, cinema, circus	20%
Charity deduction		up to 25% of income

Gains on property sales:	
– immovable residential property	1,000,000 RR (upper limit)
– immovable non-residential property	250,000 RR (upper limit)
– movable property	250,000 RR (upper limit)
Investment deduction	Ks*3,000,000 RR (upper limit)

$$\text{Ks} = \sum_{i=3}^{n} Vi \times i \div \sum_{i=3}^{n} Vi, \text{ where}$$

Vi – gain from sale (redemption) of all securities in the tax period with the ownership period of i years

n – quantity in full years of ownership periods for securities subject to sale/redemption in the tax period as a result of which the taxpayer becomes eligible for this deduction

Statutory *per diem* rate for personal income tax:	
– for domestic business trips	700 RR per day
– for foreign business trips	2,500 RR per day

Exempt employer contribution limits for personal income tax and social insurance contributions

Additional insurance contributions for the accumulated portion of the pension	12,000 RR
Birth of a child	50,000 RR for each birth

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 for controlled bank loans

Loan currency	Lower limit	Upper limit
RR	75% of CBR key rate*	125% of CBR key rate*
GBP	GBP LIBOR + 4%	GBP LIBOR + 7%
EUR	EURIBOR + 4%	EURIBOR + 7%
USD	USD LIBOR + 4%	USD LIBOR + 7%
CHF	CHF LIBOR + 2%	CHF LIBOR + 5%
Other currencies	USD LIBOR + 4%	USD LIBOR + 7%

***Note: CB refinancing rate is equal to CB key rate**

Thresholds for insurance contributions for the year 2017

	Remuneration per annum	Rate
Pension fund (PF):	Up to 876,000 RR	22%
	Over 876,000 RR	10%
Social insurance fund (SIF):	Up to 755,000 RR	2.9%
	Over 755,000 RR	0%
Federal fund of obligatory medical insurance (FFOMI):		5.1% (no upper threshold)

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 is 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.

Special depreciation ratios

Non-current assets received under financial leasing	3 (upper limit)
Historic costs of non-current assets	100,000 RR (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)

Standard rate	18%
Reduced rate	10%
Exports	0%

Limit for VAT – exempt promo prizes – 100 RR (upper limit)

General profits tax rate	20%
Tax on dividends for residents	13%
Tax on dividends for foreign companies	15%

Property tax rate

General rate	2.2%
Office premises and shopping centres	1.3%

Personal income tax rates

Basic rate	13%
Higher rate	35%
Tax on dividends for residents	13%

Central Bank refinancing and key rates (notional)

1 January to 30 April 2017	15%
1 May to 30 September 2017	7%
1 October to 31 December 2017	5%

Number of calendar days in calendar months (assumed for all years)

January	31
February	28
March	31
April	30
May	31
June	30
July	31
August	31
September	30
October	31
November	30
December	31

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

1 OOO Ostrog (Ostrog) needs financing for the modernisation of its production line and to enable it to manufacture new products. The loan amount required is 10,000,000 EUR, from 3 February 2017. The three potential lenders are as follows:

(1) Forest Ltd, a UK company, which owns 76% of Ostrog's share capital. Forest Ltd is 30% owned by another UK company, Green Ltd.

(2) Mountain Ltd, a UK company, does not have any direct ownership in Ostrog, but is 20% owned by Green Ltd.

(3) AO Canions, a Russian bank, which is not affiliated to Ostrog or to any of the other group companies. AO Canions will have a guarantee from Forest Ltd with respect to the loan provided to Ostrog, but the loan agreement will not provide for the redemption of either the principal amount or the interest by either Forest Ltd or any its affiliated companies.

Whichever lender is chosen, the loan agreement will provide for the following:

(i) An annual interest rate of 7%.

(ii) The interest to accrue monthly and be paid on the seventh day following the end of the preceding quarter (i.e. interest for Quarter 1 (Q1) will be payable on 7 April).

(iii) Any interest accrued and outstanding to be added to the principal amount.

Ostrog's accounting balances as at 31 March 2017 will be:

	RR
Assets	
Non-current assets:	
Tangible fixed assets	646,800,000
Current assets:	
Inventory	129,360,000
Value added tax (VAT) receivable	75,460,000
Accounts receivable	140,140,000
Cash and cash equivalents	86,240,000
Total assets	1,078,000,000
Liabilities:	
Long-term liabilities (including loans)	705,600,000
Short-term liabilities:	
Accounts payable:	
– to suppliers	52,920,000
– to the tax authorities	26,460,000
– to other creditors	35,280,000
Provisions	61,740,000
Total liabilities	882,000,000

Required:

For each of the three financing options calculate the amount of deductible interest, the deemed dividend (if any) and the related withholding tax (if any) for Quarter 1 (Q1) 2017.

Notes:
1. Ignore the effect of the interest rate deduction limitation.
2. Relevant (notional) EUR/RR exchange rates are:

3 February 2017	70
28 February 2017	75
31 March 2017	77
7 April 2017	79

(10 marks)

2 (a) Vladimir works as a lawyer under a labour agreement for OOO Rassvet (Rassvet). In June 2017 Vladimir's permanent office was relocated to Sochi. Vladimir's monthly salary remained unchanged after this relocation.

The following information relates to Vladimir's salary and benefits from Rassvet for the year 2017:

	RR
Monthly gross salary	125,000
Annual voluntary medical insurance for himself	15,000
Annual voluntary medical insurance for his sister	21,000
Reimbursement of his relocation expenses to Sochi	35,000
Reimbursement for his unused vacation	105,000
Reimbursement of the cost of the airline tickets for a business trip to St Petersburg	18,000
Reimbursement of 50% of the cost of his motorbike driving course	17,000
Reimbursement of his professional training costs as a lawyers	35,000

Required:

Calculate the insurance contributions (IC) payable in respect of Vladimir for the year 2017.

Note: List all of the items referred to in the question, indicating by the use of zero (0) any on which IC is not payable. (7 marks)

(b) State the reporting deadlines for the insurance contributions made by employers for employed persons, clearly indicating the authority to which the reporting should be submitted, calculating period and reporting period. (3 marks)

(10 marks)

3 Anastasiya works for the sports gym Gala, as a junior manager. In the year 2017 she received a gross monthly salary of 65,000 RR, together with the following benefits:

– On 8 April a consumer loan from her employer of 1,500,000 RR. The annual interest rate on this loan is 5% and interest is accrued monthly and paid on the fifth day following the end of the preceding month (i.e. interest for April will be paid on 5 May).

– Annual membership of the gym where she works with a value of 20,000 RR.

– Annual voluntary medical insurance with a value of 23,000 RR.

Anastasiya collects coins. In 2017 she sold some platinum coins from her collection for 520,000 RR. She had owned these coins since the year 2015 and the actual documented expenses incurred on these coins were 200,000 RR.

Required:

(a) Calculate Anastasiya's personal income tax (PIT) liability for the year 2017.

Note: List all of the items referred to in the question, indicating by the use of zero (0) any which are not taxable. (6 marks)

(b) Dmitriy operates a café business. He is registered as an individual entrepreneur, uses the ordinary taxation system immediate 30% write off on tangible assets and keeps all the documents confirming his expenses incurred.

Details of the café business's revenue and expenses for the year 2017 is as follows:

– Gross sales revenue received is 29,500,000 RR.

– Gross monthly salaries paid to his five employees are 32,000 RR per person.

– Purchase of a coffee machine in March 2017 for 1,239,000 RR (including value added tax (VAT)). The coffee machine was put into use in March 2017 and has a useful life of three years.

Required:

Calculate Dmitriy's total taxable base for personal income tax (PIT) for the year 2017, taking into account all possible deductions. (4 marks)

(10 marks)

4 **(a)** Based on a reassessment of its customers' profiles, OOO Lemongrass (Lemongrass) made the following restructuring of its debts receivables in Quarter 2 (Q2) 2017:

Customer	Initial amount of the debt RR	Sales proceeds received on the sale of the debt RR	Debt waiver given RR
Myata	40,238,000	43,054,660	–
Estragon	8,850,000	7,670,000	–
Polyn	4,012,000	–	3,209,600

Lemongrass's gross sales revenue in Q2 was 849,600,000 RR.

Prepayments paid to suppliers by Lemongrass in Q1 quarter were 169,920,000 RR. Value added tax (VAT) was recovered on all of these prepayments in Q1.

Lemongrass received 90% of the purchases relating to these prepayments together with the related VAT invoices in Q2.

All of the above amounts include VAT at the standard rate.

Required:

(i) Calculate the value added tax (VAT) liability of OOO Lemongrass for Quarter 2 (Q2) 2017 based on the above transactions. (4 marks)

(ii) State the requirements for the recovery of VAT on prepayments paid to the suppliers. (1 mark)

(b) OOO Marvell (Marvell) acting in its own name as a commissioner renders services to the principal OOO Kaleva (Kaleva), including the acquisition of various types of goods and fixed assets, as well as related services. All of the business conducted by Kaleva is subject to the standard rate of value added tax (VAT).

During Quarter 1 (Q1) 2017, Kaleva transferred the following amounts (all inclusive of VAT at the standard rate) to Marvel's bank account:

– 40,356,000 RR as reimbursement for the acquisition of goods;
– 29,618,000 RR as reimbursement for the acquisition of fixed assets;
– 2,824,920 RR as reimbursement for transportation expenses; and
– 1,614,240 RR as reimbursement of certification expenses for the goods subject to special certification.

During Q1 2017 Marvel carried out the commissioned purchases, but only received input VAT invoices for the following:

– 90% of the goods acquired;
– 70% of the fixed assets acquired; and
– 100% of the both transportation and certification expenses

On 30 March 2017, Marvel issued an invoice to Kaleva for commission fees of 4,198,440 RR (inclusive of VAT). This invoice was received by Kaleva on 2 April 2017.

Required:

(i) Calculate the value added tax (VAT) liability of OOO Kaleva (as principal) and OOO Marvell (as commissioner) for Quarter 1 (Q1) 2017, clearly indicating whether the amounts calculated relate to input VAT or output VAT. (4 marks)

(ii) State, with reasons, the impact (if any) on OOO Kaleva's VAT liability, if OOO Kaleva receives the VAT invoice for commission fees from OOO Marvell on 26 April 2017.

Note: Calculations are not required in this part. (1 mark)

(10 marks)

5 Yana works as a client manager for the bank AO Lotus. She is married to Andrey and they have three children: an 18-year-old son and two daughters, aged ten and eight years respectively.

Yana received a monthly gross salary of 150,000 RR in January and February 2017 and of 172,000 RR in each month from March to December 2017.

In May on the occasion of her birthday, she received a gift from her husband with a value of 100,000 RR.

In June 2017, Yana and Andrey purchased a new apartment for the whole family for 34,000,000 RR with joint ownership. In order to finance this acquisition in May 2017, Yana sold an apartment inherited from her grandmother in August 2014 for 15,000,000 RR.

In addition, Yana asked her employer to provide her with a mortgage loan. She received the loan principal amount of 15,000,000 RR on 20 May 2017. The interest rate on this loan is 3% per annum and interest is payable quarterly on the third day of the month following the preceding quarter (i.e. interest for Quarter 2 is payable on 3 July). The loan agreement contains a provision for a possible change in the interest rate. The principal amount is to be repaid effective from January 2018.

The residual amount of 4,000,000 RR was paid from the spouses' own savings.

Yana has never used the housing allowance before. She received confirmation of her entitlement to the housing allowance from the tax authorities in November 2017 and she submitted all the relevant documents to AO Lotus by 30 November 2017.

In August 2017, Yana paid 60,000 RR out of total fees of 100,000 RR for the one-year daily study of her son in the licensed Russian medical university. The remaining 40,000 RR was paid by her husband, Andrey. Yana submitted confirmation from the tax authorities with respect to her entitlement for the education deduction to the employer in October 2017.

Required:

(a) Calculate the personal income tax (PIT) of Yana withheld at source by AO Lotus for the year 2017, assuming that she asked for all possible maximum deductions to be given at source and state the amount of housing allowance to be carried forward to future years (if any). Explain the tax treatment of the imputed interest income arising on the loan received by Yana (if any).

Note: List all of the items referred to in the question, indicating by the use of zero (0) any which are not taxable or tax exempt. (10 marks)

(b) Calculate the final settlement of Yana's PIT liability (additional payment or refund) on submission of her PIT return for the year 2017. (4 marks)

(c) State the deadlines for Yana to submit her annual PIT return for the year 2017 and to pay any PIT due to the budget. (1 mark)

(15 marks)

6 OOO Shokon (Shokon) is engaged in rendering different kinds of services, including transportation in both Russia and other CIS countries. Shokon is 100% owned by Russian shareholders.

Shokon applies the accruals method for corporate profits tax purposes. In compliance with Shokon's tax policy for the year 2017, direct costs should be allocated based on the service completion ratio. The completion date is the date when the act of acceptance for the service is accepted and signed by the customer.

Shokon uses the non-linear method for depreciation for profits tax purposes. The company's tax policy for the year 2017 stipulates the right to an immediate 30% write-off on tangible non-current asset costs.

All the services provided to Russian customers during the year 2017 were subject to Russian value added tax (VAT) at the standard rate. All amounts are VAT inclusive (where relevant) unless stated otherwise.

The following data relates to Shokon for the year 2017:

Revenue:

Revenue from sales to Russian customers	296,180,000 RR
Revenue from sales to CIS customers (confirmed exports)	25,100,000 RR
Dividends received from Russian subsidiary company	5,100,000 RR

Inventory:
Shokon applies the FIFO method for valuation of its inventory.

At 31 December 2016, the inventory balance was 0 RR. At 31 December 2017, invoices for 20,732,600 RR had been issued for services rendered but not accepted by the customers.

Purchased direct materials put into production in 2017 were valued at 27,730,000 RR.

Direct labour costs:
Shokon has 250 employees who each receive a monthly gross salary of 28,000 RR.

Direct equipment:

Non-current asset type	Initial value	Quantity	Date of put in use	Monthly non-linear depreciation tax rate
Cars	885,000 RR	100	31 January 2016	5.6%

Indirect expenses:
Shokon has 20 administrative employees who each receive a monthly gross salary of 12,000 RR.

Shokon provides its administrative employees with an annual voluntary medical insurance. The total insurance premium paid in 2017 was 6,000,000 RR

Business entertainment expenses incurred during the year 2017 as a result of a visit by some of Shokon's foreign partners were:

	RR
Official lunch	354,000
Cost of external translators (VAT not applicable)	400,000
Taxi from the hotel to the meeting venue and back	23,600
Accommodation in the hotel	2,124,000
	2,901,600

As a result its last tax audit, penalties were accrued and paid to the budget in 2017 of 750,000 RR.

Required:

(a) Calculate the taxable base for corporate profits tax of OOO Shokon for the year 2017, assuming that all the expenses referred to in the question were properly confirmed by the necessary documents.

Notes:

1. List all of the items referred to in the question, indicating by the use of zero (0) any which are non-taxable and/or non-deductible.
2. Ignore insurance contributions for the employees and property tax. (13 marks)

(b) List the cross-border transactions which are treated as controlled transactions in compliance with the transfer pricing tax law provisions. (2 marks)

(15 marks)

End of Question Paper