Answers

Marks

1 OOO Apricon

(a) Profits tax liability for the year 2013

		RR	
Domestic sales of services (net of VAT) 413,000,000*100/118		350,000,000	½
Prepayments from domestic customers (non-taxable)		0	½
Total sales		350,000,000	
Direct expenses:			
Direct materials 23,128,000*100/118		(19,600,000)	½
Direct salaries 2,952,000*3 + 1,476,000*15		(30,996,000)	1
Social insurance contributions on direct salaries			
(512,000*30% + (2,952,000 – 512,000)*10%)*3	(1,192,800)		
(512,000*30% + (1,476,000 – 512,000)*10%)*15	(3,750,000)		
Total direct social insurance contributions		(4,942,800)	1½
(½ for correct base of 512,000, ½ for deducting threshold, ½ for correct rate)			
Direct depreciation expenses (Note 1)		(118,375)	3½
One-off 100% planchet write-off (unit cost is less than 40,000 RR) 31,860*100/118*3		(81,000)	1
(½ for net of VAT, ½ for applying write-off)			
Total direct costs for the period		(55,738,175)	½
Work in progress adjustment (Note 2)		5,971,788	2
Total direct cost of services rendered		(49,766,387)	
Indirect expenses			
Remuneration under civil law agreement 492,000*3		(1,476,000)	½
Social insurance contributions on civil law agreement 492,000*3*27.1%		(399,996)	1
(½ for correct base, ½ for 27.1%)			
Voluntary medical insurance for employees (Note 3)		(1,948,320)	1
Voluntary medical insurance for relatives (non-deductible)		0	½
Voluntary insurance against accidents (15,000*(3 + 15)) < 500,000		(270,000)	1
(½ for limit 15,000 RR, ½ for right number of insured permanent employees)			
Advertising expenses:			
Advertising prizes to clients – subject to limitation (Note 4)		(3,500,000)	1½
Total indirect expenses		(7,594,316)	
Non-sale expenses			
Bad debts expenses (Note 5)		(37,761,200)	3½
Forex loss on loan issue at 31 December 1,300,000*(43 – 45)		(2,600,000)	1
Interest expense (Note 6)		(123,411)	1½
Total non-sale expenses		(40,484,611)	
Total taxable base		252,154,686	
Tax at 20%		50,430,937	½
			23

Note 1: Depreciation expense

NBV at 31 December 2012: 47,790*100/118*70%*(1 – 5.6%)^(7 + 12)	(9,485)	*2*
(½ for 100/118, ½ for 70%, ½ for correct formula, ½ for correct months)		
NBV at 31 December 2013: 9,485*(1 – 5.6%)^12	(4,750)	*1*
(½ for correct formula, ½ for correct months)		
Depreciation for the year 2013: (9,485 – 4,750)*25 = 118,375		*½*
		3½

Note 2: Work in progress adjustment

As the balance on the WIP account was 0 at the beginning of the year 2013, the completeness ratio will be calculated as follows:

(49,560,000*100/118)/(350,000,000 + 49,560,000*100/118) = 10.714% – unaccepted by customers *1½*
(½ for adjustment for VAT, 1 for correct ratio)

Marks

Adjustment for services not yet accepted by customers:
55,738,175*10.714% = 5,971,788 — ½

2

Note 3: Voluntary medical insurance

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

(30,996,000 + 1,476,000)*6% = 1,948,320 < 6,250,000 RR — 1

(½ for 6%, ½ for correct base including contractors)

Note 4: Advertising expense

1% from revenue net of VAT = 1%*350,000,000 = 3,500,000 — 1
(½ for net of VAT revenue, ½ for application of 1%)

4,625,600*100/118 = 3,920,000 — ½

Result: only 3,500,000 RR will be deductible. — 1½

Note 5: Bad debt expense

Outstanding receivables for 40 days should not be included in the bad debt reserve. — ½

Outstanding receivables for 60 days should be included in the amount of 50% 20,650,000*50% = 10,325,000 — ½

Outstanding receivables for 127 days should be included in the full amount. — ½

10,325,000 + 41,300,000 = 51,625,000 RR

The total reserve should not exceed 10% of the revenue net of VAT:
10%* 350,000,000 = 35,000,000 — ½

Therefore only 35,000,000 RR is deductible in the year 2013 for profits tax purposes. — ½

Additional debt of 2,761,200 RR should be written off due to debtor liquidation. — 1

Total expense: 35,000,000 + 2,761,200 = 37,761,200 RR — 3½

Note 6: Interest expense

The interest rate is less than the 15% limit for currency loans, so is deductible in full. — ½

Interest accrued at 31 December 2013: 1,300,000*3.5%*(31 – 9)/365*45 = 123,411 — 1
(½ for correct exchange rate, ½ for correct days)

1½

Marks

(b) Value added tax (VAT) liability for the year 2013

	RR	
Output VAT		
Sales of services to domestic customers 413,000,000*18/118	63,000,000	½
VAT on 2013 prepayments from domestic customers at 31 December 2013 90,860,000*18/118	13,860,000	½
Promo prizes subject to free of charge distribution 4,625,600*18/118	705,600	1
No additional VAT on debt written off of 2,761,200 RR	0	1
Total output VAT	77,565,600	
Input VAT		
VAT on prepayments from domestic customers at 1 January 2013 82,600,000*18/118	(12,600,000)	1
VAT on direct materials purchased 23,128,000*18/118*85% *(½ for net of VAT, ½ for 85%)*	(2,998,800)	1
VAT on planchet computers purchased 31,860*18/118*3	(14,580)	½
VAT on voluntary medical insurance (exempt from VAT)	0	½
VAT on personal insurance against accident (exempt from VAT)	0	½
Total input VAT	(15,613,380)	
VAT payable	61,952,220	½
		7
		30

2 Alexander and Natalia

(a) Personal income tax liability of Alexander, withheld at source by Lilys for the year 2013

	RR	
Income taxed at 13%		
Gross salary accrued 310,000*12	3,720,000	½
No children allowance (income exceeds the 280,000 RR threshold in January)	N/A	½
Birthday gift from employer (football voucher)	15,000	½
Gift deduction	(4,000)	1
Social deduction re pension contributions to non-state pension fund	(17,000)	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 Alexander's mother based on prescription (exempt item)	0	½
Incentive trip to Portugal	21,000	½
Property allowance for acquisition of apartment (maximum limit)	(2,000,000)	½
Property allowance – bank loan interest (Note)	(41,918)	1½
Total employment income	1,693,082	
Tax withheld at 13%	220,101	½
Income taxed at 35%		
Imputed interest income on bank loan for apartment acquisition (interest rate is higher than 2/3 of the CBR rate up to 30 September, interest is less than 2/3 of the CBR rate in the period of no payments, mortgage loan, entitlement for the property allowance confirmed)	0	1
		9

Note: Accrued interest

Interest accrued starting from the day following the date the bank loan was provided, 8 July to 30 September.

2,000,000*9%*(31 – 7 + 31 + 30)/365 = 41,918 *1½*

(½ for the rate, ½ for the day following, ½ for correct number of days)

Interest for Q4 2013 will only be paid in January 2014.

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

	RR	Marks
Taxable base including benefits from the employer (from (a))	1,693,082	
Sale proceeds for the plot of land	5,000,000	½
(½ for 50% ownership)		
Property deduction (ownership >3 years)	(5,000,000)	1
(½ for more than three years, ½ for 50% share)		
Tutorial note: *If candidate is saying that this amount is exempted, the same total 1 mark should be allocated.*		
Sale proceeds from garage	700,000	
Actual expenses	(500,000)	½
(Property allowance of 250,000 is not beneficial to use in this case)		½
Educational deduction for his elder daughter (within 50,000 RR per child)	(35,000)	½
Educational deduction for his younger daughter (within 50,000 RR)	(15,000)	½
Social deduction (Note)	(12,000)	1½
Taxable base	1,831,082	½
Tax due to the budget at 13%	238,041	½
Tax withheld by employer at 13% (from (a))	(220,101)	½
Tax for refund under his personal tax return at 13% rate	17,940	½
		7

Note: Social deductions

Voluntary medical insurance for his wife	12,000	½
Italian lessons for his wife – not a social deduction (only children and own education)	N/A	½
Total	12,000	
Maximum – 120,000 RR (part of social deduction was given by employer)		½
		1½

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

	RR	
Income taxable at 13%		
Gross remuneration	342,000	½
Children allowance (income exceeds the 280,000 RR threshold in July 2013) ((1,400*2 + 3,000)*6)	(34,800)	1
(½ for correct months, ½ for correct number of children)		
Professional deduction 342,000*30% (more beneficial than actual expenses)	(102,600)	1
Educational deduction for her elder daughter (52,000 > max 50,000, part was claimed by Alexander, i.e. 50,000 – 35,000)	(15,000)	1
(½ for inclusion as a social deduction, ½ for 50,000)		
Earrings – gift from her husband (non-taxable between close relatives)	0	1
Inherited land from her grandmother	0	½
Taxable income	189,600	
Tax at 13%	24,648	½
Income taxable at 35%		
Advertising prize	52,000	
Less: Prize deduction	(4,000)	1
Imputed income (Note)	10,107	2
Taxable income	58,107	
Tax at 35%	20,337	½
Total tax due to the budget	44,985	
		9
		25

		Marks
Note: Imputed interest		
10 October to 30 November: 700,000*(2/3*20% – 3%)*(31 – 10 + 30)/365 = 10,107		2

(½ for 2/3, ½ for correct CBR rate, ½ for correct days, ½ for calculation of imputed interest)

Interest for December will be paid only in January 2014.

3 (a) OOO Kalevagent and OOO Kanelly

Value added tax (VAT)

Q1 For Kanelly and Kalevagent

No output or input VAT since no shipment/sale is made until April 2013.		½

Q2 VAT liability of Kanelly

Output VAT

2 April 2013: 10,761,600*18/118 = 1,641,600 RR *(½ for the correct date, ½ for correct VAT amount)*		1
5 May 2013: 12,744,000*18/118*100/70 = 2,777,143 *(½ for the correct date, ½ for correct VAT amount, ½ for 100/70)*		1½
Input VAT		
30 June 2013: 1,641,600 *7% = 114,912 RR		½
30 June 2013: 2,777,143 *7% = 194,400 RR		½
Total VAT liability of Kanelly:	4,109,431 RR	

Q2 VAT liability for Kalevagent

Output VAT

30 June 2013 (as for input VAT for Kanelly above): 114,912 + 194,400 = 309,312 RR		½

Q3 VAT liability for both Kanelly and Kalevagent

Target – 20 million RR excluding VAT

(10,761,600 + 12,744,000*100/70)*100/118 = 24,548,571 *(½ for 100/70, ½ for 100/118)*		1
24,548,571/20,000,000 = 1.23, i.e. > 20% additional sales		½
6%*(24,548,571 – 20,000,000) = 272,914 RR		½

VAT liability of Kalevagent:

Output VAT

July 2013: 272,914*18% = 49,125 RR		½

VAT liability of Kanelly:

Input VAT

July 2013 (as output VAT of Kalevagent above)	49,125 RR	½
Warehousing expenses 1,498,600*18/118	228,600 RR	½
VAT recoverable by Kanelly:	277,725 RR	
		8

(b) ZAO Chaika

(i) Q4 Input VAT

Exempted revenue/Total revenue excluding VAT: 3,032,600/((31,985,659 – 3,032,600)*100/118 + 3,032,600) = 11%	1
Direct expenses (exempt) + General expenses excluding VAT to be apportioned to exempt sales: (1,819,560 + 2,335,102*100/118*11%) = 2,037,239 *(½ for net of VAT, ½ for 11%)*	1
Total expenses: exempt + vatable: (18,347,230 + 2,335,102)*100/118 + 1,819,560 = 19,346,960	½

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5% rule test for expenses incurred:	
2,037,239/19,346,960 = 11% > 5% test	½
So the input VAT should be split between recoverable and non-recoverable.	
Non-recoverable VAT to be included into indirect costs: 2,335,102*18/118*11% = 39,182 RR	1
VAT recoverable: (18,347,230 + 2,335,102*(100% – 11%))*18/118 = 3,115,750 RR	1
	5

(ii) The purchase book should be completed as follows:

VAT invoices for goods purchased in respect of VAT taxable operations should be registered in the purchase book at the date of receiving the VAT invoice for the total VAT amount.	½
VAT invoices for goods purchased for VAT exempt operations should not be registered in the purchase book at all but included in the journal register of received VAT invoices.	½
VAT invoices for services rendered which are used for both taxable and exempt operations are registered in the purchase book only for the amount of VAT which is recoverable based on the relevant calculation of the VAT proportion at the end of relevant quarter.	1
	2
	15

4 Konstantin

(a) Social insurance contributions for the year 2013

Under civil law agreement:		
(2,360,000 – 800,000) = 1,560,000 RR		½
512,000*27.1% + (1,560,000 – 512,000)*10% *(½ for 512,000, ½ for 10% of the correct difference)*	243,552	1
Under labour agreement:		
Voluntary medical insurance for himself (excluded by law)		½
512,000*30% + (2,400,000 – 512,000)*10% *(½ for 512,000, ½ for 10% of the correct difference)*	342,400	1
		3

(b) Personal income tax liability for the year 2013

	RR	
Income taxable at 13%		
Remuneration under civil law agreement	2,360,000	½
Expenses incurred (greater than 20% professional deduction)	(800,000)	1
Deduction of social contributions paid under civil law agreement (as in (a))	(243,552)	1
Salary from July to December (LUM) 6*400,000	2,400,000	½
Voluntary insurance from LUM (exempt)	N/A	½
Property deduction in respect of the plot of land	(2,000,000)	½
Tutorial note: *If the candidate is saying that property deduction is not possible without the title of ownership for further house construction, the same marks should be given.*		
Interest paid on mortgage loan (Note 1)	(23,671)	1½
Social deduction for donations (Note 2)	(200,000)	1½
Taxable base at 13% rate	1,492,777	
Tax at 13% rate	194,061	½
Income taxable at 35%		
Imputed interest on mortgage loan	N/A	½
Imputed interest on bank deposit (Note 3)	18,271	2½
Tax at 35%	6,395	½
		11

		Marks
Note 1: Interest on mortgage loan from 7 October		
3,200,000*(31 – 7 + 30)/365*5% *(½ correct days)*	(23,671)	*1*
December: no interest since paid on 5 January 2014	N/A	*½*
		1½

Note 2: Social deduction

Social deduction for donations should not exceed 25% of his annual income.	*½*
200,000 RR will be qualified.	*½*
100,000 RR will not be qualified since contributions in kind.	*½*
	1½

Note 3: Interest on bank deposit

For the period from 13 June up to 30 September the interest rate (30%) is more than the CBR rate + 5%, (8 + 5 = 13%) – so the interest in this period will be subject to PIT.	
300,000*(30% – 13%)*(30 – 13 + 31 + 31 + 30)/365 = 15,230 RR *(½ for 13%, ½ for correct days)*	*1*
Period 1 October to 31 December: CBR rate + 5% = 20% + 5% = 25%	*½*
300,000*(30 % – 25%)/365*(31 + 30 + 13) = 3,041 RR *(½ for 25%, ½ for correct days)*	*1*
Total amount – 18,271 RR	
	2½

(c)	To receive his social deduction for the donations, Konstantin must submit his personal income tax return for the year 2013 to the tax authorities by 30 April 2014.	1
		15

5 ZAO Bayka

(a) **Loan from Verlag GmbH**

Deductible interest for Q3 2013:	
Verlag GmbH owns 70% of Bayka (>20%), so the loan is a controlled debt.	½
7% is less than the currency loans limitation rate of 15%.	½
Net assets as of 30 September 2013:	
310,000,000 – 250,000,000 + 56,000,000 = 116,000,000 RR	1
Net assets*3 = 348,000,000 RR	½
Loan as of 30 September 2013: 350,000*41 = 14,350,000 RR	½
14,350,000 < 348,000,000, so the thin capitalisation rules need not be applied.	½
Interest deductible for profits tax as at 30 September 2013 (Note 1): 231,039 RR	2
Deductible interest for Q4 2013:	
Net assets as of 31 December 2013:	
240,000,000 – 257,000,000 + 20,000,000 = 3,000,000 RR	1
Net assets*3 = 9,000,000 RR	½
Loan as of 31 December 2013: 350,000*42 = 14,700,000 RR	½
14,700,000 > 9,000,000, therefore, thin capitalisation should be applied.	½
Capital ratio: 14,700,000/(9,000,000*70%) = 2.33333	1
Interest as of 31 December 2013 (Note 2): 257,720 RR	1½
Interest deductible for profits tax purposes: 257,720/2.33333 = 110,452 RR	1

		Marks
	Dividends: 257,720 – 110,452 = 147,268 RR	½
	Withholding tax on dividends to non-resident: 147,268*15% = 22,090 RR	1
		13
	Note 1: Q3 interest	
	350,000*7%*(31 – 7)/365*40.5 = 65,244 *(½ for correct number of days, ½ for exchange rate)*	*1*
	350,000*7%*31/365*40 = 83,233 *(½ for correct exchange rate)*	*½*
	350,000*7%*30/365*41 = 82,562	*½*
	Total: 231,039 RR	*2*
	Note 2: Q4 interest	
	350,000*7%*31/365*41.5 = 86,354	*½*
	350,000*7%*30/365*41.7 = 83,971	*½*
	350,000*7%*31/365*42 = 87,395	*½*
	Total: 257,720 RR	*1½*
(b)	**Loan from Kennie S.a.r.l**	
	Kennie S.a.r.l owns 22% of Bayka so the loan is still a controlled debt.	½
	Capital ratio: 14,700,000/(9,000,000*22%) = 7.42424	1
	Interest deductible for profits tax purposes for Q4 of 2013 is: 257,720/7.42424 = 34,713 RR	½
		2
		15