

Fundamentals Level – Skills Module

Taxation (Russia)

Tuesday 3 December 2013



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–4.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F6 (RUS)

The ACCA logo, consisting of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

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

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.

Personal and children allowances

Standard personal allowance	None (from 1 January 2012)
Children allowance	1,400 RR per child for the 1st and 2nd child (up to 280,000 RR) 3,000 RR for the 3rd child (up to 280,000 RR)

General limitation on 'property' allowance

Investments in residential property and land for tax purposes	2,000,000 RR (upper limit)
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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, non-state pension insurance, voluntary pension insurance and additional insurance contributions for the accumulated part of the labour pension – subject to certain conditions set out in the law)

Educational deduction for children	50,000 RR (upper limit)
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Professional deduction – general	20%
– for architects	30%
– for music writers	40%
– for sculptors	40%
– for designers, film editors	40%

Charity deduction	Up to 25% of income
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Gains on property sales:	
– immovable property	1,000,000 RR (upper limit)
– movable property	250,000 RR (upper limit)

Housing allowance (deduction)	2,000,000 RR (upper limit)
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Statutory <i>per diem</i> rate for personal income tax:	
– for domestic business trips	700 RR per day
– for foreign business trips	2,500 RR per day

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

Foreign currency loans	15%
Rouble loans received	1.1 of the CBR refinancing rate

Single threshold for social insurance contributions for the year 2013 (several categories of insurance contributions subject to special incentives and reduced rates are not examined)

	Income amount	Rate
For employers (general) and individual entrepreneurs	up to 512,000 RR	30%
	excess over 512,000 RR	10%
For employers (licences, copyrights, civil contracts)	up to 512,000 RR	27.1%
	excess over 512,000 RR	10%

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 are 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 for the reporting period.

Special depreciation ratio:

Non-current assets received under financial leasing	3 (upper limit)
Historic costs of non-current assets	40,000 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) rates

Standard	18%
Reduced	10%
Exports	0%
Limit for VAT – exempt promo prizes	100 RR (upper limit)

General profits tax rate

General profits tax rate	20%
Tax on dividends for residents	9%
Tax on dividends for foreign companies	15%

Property tax rate

2.2%

Personal income tax rates

Basic rate	13%
Higher rate	35%
Tax on dividends for residents	9%

Central Bank refinancing rates (notional)

1 January to 30 April 2013	15%
1 May to 30 September 2013	8%
1 October to 31 December 2013	20%

Number of calendar days in calendar months for the year 2013

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

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Question 1 begins on page 6.**

ALL FIVE questions are compulsory and MUST be attempted

- 1 000 Apricon ('Apricon') is a company engaged in providing outsourcing and other consulting services both in Russia and in Eastern European countries. Apricon is 90% owned by a Russian company, ZAO Advise, and 10% by a Belgian company, Superior S.A.

Apricon always applies the accruals method for both value added tax (VAT) and corporate profits tax purposes and uses a quarterly profits tax reporting period.

Regarding social insurance contribution, Apricon uses the standard rates without any incentives.

In respect of non-current assets, Apricon applies the non-linear method of depreciation for profits tax purposes and its tax policy for the year 2013 stipulates its right to an immediate 30% write-off on non-current asset cost.

Regarding direct costs, Apricon's tax policy for the year 2013 is that direct costs should be allocated based on the services completion ratio. The completion date is the date when the act of acceptance is accepted and signed by the customer.

The following information is available for the year 2013. All amounts are inclusive of VAT unless stated otherwise. All domestic services provided to clients in Russia during the year 2013 were subject to VAT at the standard rate.

Sales, cash collections and prepayments for the year 2013 (in RR)

Domestic sales of consulting services		413,000,000
	1 January	31 December
Sales receivables	103,250,000	115,640,000
Prepayments from domestic clients	82,600,000	90,860,000

Inventory

Apricon uses the FIFO method. As at 31 December 2013, domestic services rendered with an invoice value of 49,560,000 RR were awaiting acceptance by the customers.

As at 31 December 2012, the amount of direct expenses in the inventory balance was equal to nil (0 RR).

Direct costs of services (in RR)

Materials included in cost of rendered services (all purchased in 2013) 23,128,000

As at 31 December 2013, VAT invoices had been received for the value of 85% of these purchases.

Direct remuneration

The table below sets out details of the remuneration paid by Apricon for the year 2013.

Job title	Annual gross salary per person accrued and paid in 2013 RR	Number of persons	Legal status	Direct or administrative cost
Head of project	2,952,000	3	Employee	Direct
Consultant	1,476,000	15	Employee	Direct
Assistant	492,000	3	Civil law contractor	Administrative

Direct IT equipment by category

Category of equipment	Quantity	Historic cost per unit in RR	Date put into use	Monthly non-linear tax depreciation rate
Notebooks	25	47,790	May 2011	5.6%

In addition, Apricon purchased three planchet computers for 31,860 RR each in July 2013.

Indirect expenses

In addition to the payments set out above, Apricon provided both voluntary medical insurance for its permanent employees for 6,250,000 RR and voluntary medical insurance for their relatives for 3,110,000 RR respectively in the year 2013.

Voluntary personal insurance against accidents at work was also offered to all permanent employees. The total insurance premium paid by Apricon for this accidents at work insurance in the year 2013 was equal to 500,000 RR.

In both cases the term of the insurance agreement was one year.

Advertising expenses

Apricon spent 4,625,600 RR on the distribution of advertising promo prizes to clients during the year 2013. The cost of each unit of promo prizes distributed varied from 200 RR to 1,000 RR. These advertising prizes were all purchased in the year 2012.

Allowances for receivables

Apricon decided to post an allowance for receivables as at 31 December 2013. Apricon had not created any allowances for receivables before this. The receivables position at 31 December 2013 after the results of verification was as follows:

Outstanding receivables	RR
– for 40 days	37,170,000
– for 60 days	20,650,000
– for 127 days	41,300,000

In addition, another receivable of 2,761,200 RR was written off in October 2013. This receivable was confirmed by Apricon's lawyers as an uncollectable receivable due to the liquidation procedure undergone by the customer. All confirming documents were kept by the company.

Interest expense

On 9 December 2013, Apricon received a three-year loan for 1,300,000 EUR from Superior S.A., with interest at the rate of 3.5% per annum. Interest is payable on the last day of each quarter (i.e. the first interest instalment was payable on 31 December 2013).

Required:

- (a) Assuming that all the expenses referred to in the scenario are properly confirmed by the necessary documents, calculate the taxable profit and corporate profits tax liability of OOO Apricon for the year 2013. Show separately all elements of the taxable income and deductible expenses.

Notes:

1. For social insurance contribution purposes ignore all expenses other than salaries.
2. Ignore property tax.
3. The following notional EUR/RR exchange rates are to be used:

1 December 2013	42	
9 December 2013	43	
31 December 2013	45	
1 January 2013	44.5	(23 marks)

- (b) Calculate OOO Apricon's value added tax (VAT) liability for the year 2013. Show separately all elements of output/input VAT. (7 marks)

(30 marks)

2 Alexander works as the head of a medical department of the pharmaceutical company, Lilys. He is married to Natalia and they have two daughters and one son aged 12, seven and one year respectively.

Alexander's gross monthly salary is 310,000 RR.

During the year 2013, Lilys provided Alexander with the following benefits in addition to his salary:

- In February 2013, a birthday gift in the form of a football voucher for the European tournament with a market value of 15,000 RR.
- In April 2013, pension contributions of 17,000 RR were withheld from his salary and paid to the licensed non-state pension fund, Pion, under the private pension plan for Lilys' employees.
- Annual voluntary medical insurance for Alexander of 21,000 RR.
- Annual voluntary medical insurance for his two daughters of 10,500 RR each.
- Medical expenses for Alexander's mother prescribed by her doctor of 12,000 RR.
- In October 2013, an incentive trip to Portugal as a reward for his team's achievements during the year with the value of 21,000 RR.

In April 2013, Alexander and his sister Yulia decided to sell their plot of land in Moscow Region with the value of 10,000,000 RR. This plot of land was owned jointly by them and had been acquired in March 2010 for 7,000,000 RR.

In May 2013, Alexander sold his garage for 700,000 RR; he had acquired the garage in August 2011 for 500,000 RR.

Alexander has never used his housing allowance before. In June 2013, his neighbour Grigoriy decided to sell his one-room apartment and proposed the first offer to Alexander. The market value of this apartment was 8,000,000 RR. Alexander agreed with this price. On 7 July, in order to partially finance the purchase of the apartment, Alexander took a loan from a bank of 2,000,000 RR at the interest rate of 9% per annum for a seven-year period. The interest is payable on a monthly basis starting from 1 August 2013 (i.e. the first day after the end of the preceding month) up to 30 September 2013. Interest for the last quarter will be payable in January 2014. The loan principal amount is to be repaid at the end of the loan period, not by instalments.

Title of ownership of the apartment was received by Alexander effective from September 2013. Alexander provided the tax authorities with all ownership documents along with the documents confirming the relevant interest payments, including those for November. Alexander managed to submit the document from the tax authorities confirming his entitlement for the ownership of this apartment to his employer in December 2013.

In addition, in September 2013 Alexander paid 35,000 RR out of 52,000 RR to the specialised art school for his elder daughter and 15,000 RR in July 2013 to a skating school for his younger daughter. Both of these educational institutions have appropriate licences under the law of the Russian Federation.

Alexander also paid 10,000 RR for his wife, Natalia's, Italian lessons at a licensed provider and 12,000 RR for voluntary medical insurance for her.

Natalia works as a freelance architect. Her monthly remuneration for the year 2013 was as follows:

	RR
January	10,000
February	25,000
March	55,000
April	50,000
May	70,000
June	60,000
July	12,000
August to December	60,000 (entire period)
Total for year	<u>342,000</u>

Natalia's actual expenses for the year 2013 were 80,000 RR, all confirmed by the source documents.

During the year 2013, Natalia paid 17,000 RR (of the 52,000 RR) for her elder daughter's specialised art school.

In March 2013, Natalia received a gift of earrings with the value of 67,000 RR from her husband, Alexander.

In August 2013, after participating in a competition offered by the STL journal, Natalia won a prize as a result of an advertising campaign of a professional photcamera, with the value of 52,000 RR.

On 10 October 2013, Natalia took a loan of 700,000 RR for her personal education from the bank for a five-year period, at an interest rate of 3% per annum. Interest is payable on a monthly basis on the fifth day of the following month (i.e. interest for October is payable on 5 November). The loan principal amount is to be repaid at the end of the loan period, not by instalments.

In December 2013, Natalia inherited a plot of land from her grandmother with the value of 8,000,000 RR.

Required:

Assuming that all the expenses incurred by Alexander and Natalia in 2013 are confirmed with proper supporting documents:

- (a) Calculate the personal income tax of Alexander withheld at source by his employer for the year 2013, assuming that Alexander has asked Lilys for all possible deductions to be given. (9 marks)
- (b) Calculate the final settlement of Alexander's personal income tax liability (additional payment or refund) upon submission of his 2013 personal income tax return. (7 marks)
- (c) Calculate the final settlement of Natalia's personal income tax liability (additional payment or refund) upon submission of her 2013 personal income tax return. (9 marks)

Notes:

- 1. Where possible, use all the personal income tax deductions which are potentially available to Alexander and Natalia.
- 2. State separately the amounts of all personal income tax deductions claimed by Alexander and Natalia for the year 2013 and the deductions (if any) carried forward to future years.
- 3. Ignore social insurance contributions and value added tax (VAT).

(25 marks)

- 3 (a) OOO Kanelly ('Kanelly') decided to conclude an agency agreement with OOO Kalevagent ('Kalevagent') to sell its goods in the regions across the country. According to the agreement signed, Kalevagent is an agent selling goods on behalf of its own name but at the expense of the principal. It receives the full sales proceeds from the customers, transfers the funds to the principal and receives the relevant agent's fee from the principal based on the sales report provided to the principal.

All amounts are inclusive of value added tax (VAT) unless stated otherwise. All sales of goods by Kanelly are subject to VAT at the standard rate. Both companies account for VAT on an accruals basis. A 60 days credit period is applicable for all sales.

Under the above agreement, Kalevagent carried out the following sales (in RR) at the expense of Kanelly:

Date of shipment from Kanelly	Date of sale by Kalevagent	Payment received by Kanelly from Kalevagent	Payment as % of initial invoice issued to customers	Date of Kalevagent's fee invoice to Kanelly (note)
28 March 2013	2 April 2013	10,761,600	100%	30 June 2013
15 April 2013	5 May 2013	12,744,000	70%	30 June 2013

Note: The date of Kalevagent's fee invoice is the date when Kalevagent provided the agent's report together with the VAT invoice to Kanelly.

The fixed agent's fee in the agreement is 7% of the VAT inclusive sales value. In addition to this, if the agent manages to sell goods above the targeted volume, an additional agent's fee will be calculated as follows:

Period	Target sales (excluding VAT)	Above the target (%)	Additional agent fee (% of additional sales)
Quarter 2	20 million RR	5%	1.5%
		10%	3%
		20%	6%

The additional agent's fee is accrued in the quarter following the reporting quarter and is payable 15 days after the reporting quarter.

In addition to the agent's fees, in July 2013 Kanelly agreed to reimburse the warehousing expenses incurred by Kalevagent of 1,498,600 RR.

Required:

Calculate the value added tax (VAT) liability for both OOO Kanelly and OOO Kalevagent for each of the first, second and third quarters (Q1, Q2 and Q3) of the year 2013, based on the above transactions. Show separately the output VAT (including the dates of recognition), input VAT and VAT payable/recoverable in each quarter. (8 marks)

- (b) ZAO Chaika ('Chaika') engages in trading activities all of which are taxable at the standard rate of value added tax (VAT). In November 2013 Chaika decided to make a donation of special equipment with a market value of 3,032,600 RR to the hospital. Such a donation is treated as a VAT exempt sale.

The following data relates to Chaika's other transactions for the fourth quarter (Q4) of 2013. All amounts are inclusive of VAT (where relevant).

Total sales revenue (taxable and exempt) RR	Direct expenses relating to taxable sales RR	Direct expenses relating to exempt sales (no VAT) RR	Indirect expenses RR
31,985,659	18,347,230	1,819,560	2,335,102

Required:

- (i) Calculate the input value added tax (VAT) recoverable and the amount of VAT (if any) included in the cost related to the exempt sales. (5 marks)
- (ii) Explain how VAT invoices relating to each of the following should be reported in the purchase book under separate VAT accounting (a complete set of VAT invoices is in place):
- for goods purchased in respect of VAT taxable operations;
 - for goods purchased in respect of VAT exempt operations; and
 - for services rendered used in both taxable and exempt operations. (2 marks)

(15 marks)

4 Konstantin provides training to the senior management of several different companies on many subjects. All of his work as a trainer is done under a civil law agreement. His gross remuneration for the year 2013 is 2,360,000 RR. The expenses incurred during the preparation process for these training activities in 2013 was 800,000 RR, including business trips, fuel and other business related expenses. Konstantin has kept all the documents confirming the above expenses.

Konstantin opened a six-month bank deposit on 13 June 2013 in the amount of 300,000 RR with an interest rate of 30% per annum notional. Interest will be credited to this account at the end of the deposit period (i.e. on 13 December 2013).

In May 2013, Konstantin made donations as follows:

- 200,000 RR was given to the non-commercial charity fund 'Chance for life'; and
- 100,000 RR was spent by him to purchase sports equipment which was donated to an orphanage school

In June 2013, Konstantin was approached with the offer of a human resources (HR) director's position in the company, LUM. He agreed to sign the labour agreement and started working as an employee from 1 July 2013 with the gross monthly salary of 400,000 RR. LUM provided Konstantin with annual voluntary medical insurance of 15,000 RR.

In August 2013, Konstantin acquired a plot of land for 5,500,000 RR and asked his employer to help with the financing. On 7 October 2013, LUM provided Konstantin with a mortgage loan of 3,200,000 RR for a seven-year period with interest of 5% per annum. The interest is payable on a monthly basis on the fifth day of the following month (i.e. the first interest payment was on 5 November). Repayment of the principal of the loan is due at the end of the loan period, not by instalments.

Title of ownership for the plot of land was received by Konstantin in October 2013. He submitted all of the ownership documents to the tax authorities at the end of November 2013 and received notification from the tax authorities in December 2013.

Required:

(a) Calculate the social insurance contributions for Konstantin in his position under the civil law agreement and as an employee in LUM. (3 marks)

(b) Calculate the final personal income tax liability of Konstantin for the year 2013. (11 marks)

(c) State what Konstantin must do to receive his tax deduction for donations from the tax authorities. (1 mark)

(15 marks)

- 5 ZAO Bayka ('Bayka') is owned 70% by a German company, Verlag GmbH, 22% by a Belgian company, Kennie S.a.r.l, and 8% by a US company, Story Ltd.

On 7 July 2013, Bayka received a 350,000 EUR loan for a five-year period from Verlag GmbH to finance its new investment project in Russia. Interest on this loan of 7% per annum is accrued monthly and paid quarterly on the last day of each quarter. No payments of the loan principal will be made in 2013.

The following data is available in respect of Bayka's assets and liabilities (in RR):

	As at 30 September 2013	As at 31 December 2013
Assets	310,000,000	240,000,000
Liabilities	250,000,000	257,000,000
Including tax liabilities	56,000,000	20,000,000

Note: Relevant EUR/RR exchange rates are as follows (notional):

1 July	39.5
7 July	40
31 July	40.5
1 August	40.7
31 August	40
1 September	40.3
30 September	41
1 October	41.2
31 October	41.5
1 November	41.4
30 November	41.7
1 December	41.3
31 December	42

Required:

- (a) Calculate the interest expense deductible for profits tax by ZAO Bayka, the dividends (if any) deemed payable and the withholding tax applicable for each of Quarter 3 and Quarter 4 of 2013. (13 marks)

- (b) Calculate the interest expense deductible for profits tax by ZAO Bayka for Quarter 4 of 2013, if the same loan under the same conditions had been provided by Kennie S.a.r.l (instead of by Verlag GmbH).

Note: All the data is the same with the exception of the loan provider. (2 marks)

(15 marks)

End of Question Paper