

Fundamentals Level – Skills Module

# Taxation (Russia)

Thursday 8 December 2016



**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.**

Think Ahead

**ACCA**

The Association of  
Chartered Certified  
Accountants

# Paper F6 (RUS)

## 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 280,000 RR)	1,400 RR per child
Third child (up to 280,000 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)

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

$V_i$  – 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%

### Thresholds for social insurance contributions for the year 2016

(Note: several categories of insurance contributions subject to special incentives and reduced rates are not examined)

	Remuneration per annum	Rate
Pension fund (PF):	Up to 711,000 RR	22%
	Over 711,000 RR	10%
Social insurance fund (SIF):	Up to 670,000 RR	2.9%
	Over 670,000 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	1.5%

**Personal income tax rates**

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

**Central Bank refinancing rates (notional)**

1 January to 30 April 2016	15%
1 May to 30 September 2016	7%
1 October to 31 December 2016	5%

CBR key rate: (notional) 20%

**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 (a)** AO Fervest (Fervest) requires additional financing of 500,000,000 RR to fund its export operations. Three alternative funding options are available.

Option 1: Veter GmbH, a German company which owns 55 % of Fervest's share capital, could provide a free contribution to the company's property of 500,000,000 RR in cash.

Option 2: AO Orange Bank, a Russian bank which does not own directly or indirectly any of the share capital of Fervest, but has received a guarantee from Veter GmbH, could provide a loan of 500,000,000 RR at an interest rate of 10% per annum.

Option 3: Friendly Ltd, a UK company which owns 45% of Fervest's share capital, could provide a loan of 500,000,000 RR at an interest rate of 8% per annum.

**Additional information:**

(1) In the case of all three options, either the free contribution or the loan will be provided on 15 September 2016.

(2) In the case of the loan from AO Orange Bank (Option 2):

- interest will be accrued monthly and paid on the seventh day following the end of the preceding quarter (i.e. the first interest for September 2016 will be paid on 7 October); and
- any interest accrued and outstanding will be added to the principal amount.

Fervest had the following balances as at 30 September 2016:

Assets (free contribution not included)	806,000,000 RR
Liabilities (including the loan in options 2 or 3)	730,000,000 RR
Including tax liabilities	77,000,000 RR

**Required:**

**(i) In the case of Option 1, state, giving reasons, whether the contribution made by Veter GmbH will be taxable or exempt for profits tax purposes.** (1 mark)

**(ii) In the case of Option 2, explain the status of the loan (controlled or uncontrolled) for the purposes of the thin capitalisation rules, and calculate the deductible interest, the deemed dividend (if any), and the withholding tax (if any) for Quarter 3 (Q3) 2016.** (7 marks)

**(iii) In the case of Option 3, explain the status of the loan (controlled or uncontrolled) for the purposes of the thin capitalisation rules, and state the withholding tax rate applicable to any deemed dividends.**

Note: No calculations are required for part (iii). (1 mark)

**(b) State the criteria to be satisfied for a 0% dividend withholding tax rate to apply to dividends paid to a Russian resident shareholder.** (1 mark)

**(10 marks)**

- 2 Victoria works under a labour agreement for OOO Raduga (Raduga). The following information relates to her salary and benefits from Raduga for the year 2016:

	RR
Monthly gross salary	97,000
Semi-annual voluntary medical insurance for herself (one-off benefit during the year)	10,000
Annual voluntary medical insurance for her son	20,000
Reimbursement of her business trip expenses	25,000
Additional contributions for the accumulated pension co-funding programme paid by Raduga	45,000
Material aid (booked as a non-deductible expense by Raduga)	30,000

Victoria is married to Dmitriy. Dmitriy is a musician and has concluded a licence agreement with OOO Helicon (Helicon) for the rights transfer for the reproduction of his music. The remuneration he received from Helicon in 2016 was 660,000 RR. Dmitriy has submitted a written request to Helicon to provide a deduction for expenses in respect of his remuneration.

**Required:**

- (a) Calculate the annual amount of social insurance contributions (SIC) to be paid in respect of Victoria for the year 2016. Clearly identify any items referred to in the question on which SIC is not payable. (6 marks)
- (b) Calculate the annual amount of SIC to be paid in respect of Dmitriy's remuneration for the year 2016, if Dmitriy:
- (i) keeps all the documents confirming his actual expenses in the amount of 350,000 RR; and
  - (ii) has lost all of the documents confirming his actual expenses. (4 marks)

**(10 marks)**

- 3 (a)** Natalia needs 1,300,000 RR to finance her personal projects. The following options are available to her:
- Option 1: A bank loan with annual interest at the rate of 16%, accrued monthly and paid on the third day following the end of the preceding month (i.e. interest for March will be paid on 3 April).
  - Option 2: To sell a garage acquired in February 2012.
  - Option 3: A corporate loan with annual interest at the rate of 6%, accrued monthly and paid on the fifth day following the end of the preceding month (i.e. interest for March will be paid on 5 April).

Both loans and the net sale proceeds from the sale of the garage will amount to 1,300,000 RR, and be received on 28 February 2016.

**Required:**

**Calculate the relevant income/expenses incurred (if any) in the months of February and March 2016 for the purposes of personal income tax, and the personal income tax due (if any), for each of the three options. Provide relevant explanations to support your calculations.**

**Note:** Ignore minimisation of interest expenses. (5 marks)

- (b)** In January 2016, Maxim took out annual voluntary property insurance for his apartment and paid the premium of 70,000 RR. Maxim's apartment was flooded by his neighbours in May 2016. The insurance company accepted the claim for this incident and paid the insurance value of 1,500,000 RR in June 2016. Maxim's bank account was credited with this amount on 15 June 2016. The expenses for the required repair works were confirmed by the insurance assessor at 1,000,000 RR.

Maxim also incurred expenses related to the investigation of the circumstances of the insurance case of 15,000 RR (all these expenses are supported with documents).

**Required:**

- (i) Calculate Maxim's personal income tax (PIT) liability (if any) in respect of the insurance claim.** (3 marks)
- (ii) With respect to any PIT due in part (i), explain who is liable to make the payment, and state the deadline for it to be paid to the budget.** (2 marks)

**(10 marks)**

- 4 (a) In January 2016, OOO Ambassador decided to build a warehouse for the packaging of its products, using its own work force. In November 2016 the documents confirming the title of ownership were received. In December 2016, the warehouse was put into use for operations chargeable to value added tax (VAT) at the standard rate, and profits tax deductible depreciation of the warehouse commenced.

The following expenses were incurred during the construction in Quarter 4 (Q4) 2016:

Materials written off (including VAT)	1,457,300 RR
Wages and salaries of workers and engineers	1,700,000 RR
Social insurance contributions	510,000 RR
Depreciation of non-current assets used in the construction	45,000 RR

**Required:**

- (i) **State the recognition date for the value added tax (VAT) taxable base for the construction works, and calculate OOO Ambassador's VAT liability for Quarter 4 (Q4) 2016. Clearly identify all elements of the input VAT and output VAT.** (5 marks)
- (ii) **State how your answer in part (i) would change if the materials had been transferred to a third party provider of construction services under a tolling agreement. All other data is the same.**

Note: No calculations are required in part (ii). (1 mark)

- (b) On 9 October 2016, OOO Kamchatka (Kamchatka) purchased ten coffee machines for their market value of 21,240 RR (including value added tax (VAT)) each, for future free of charge transfer to its employees. A VAT invoice was received by Kamchatka from the supplier on 16 October 2016. On 25 November 2016, the coffee machines were given to the employees as gifts in kind.

**Required:**

**In respect of value added tax (VAT) and the above transactions:**

- state the rules for defining the VAT tax base and the date on which the tax base should be defined;
- determine the amount of the tax base and OOO Kamchatka's VAT liability for Quarter 4 (Q4) 2016; and
- state whether or not it is necessary for OOO Kamchatka to issue a VAT invoice. (4 marks)

**(10 marks)**



5 Valeriya works as a trainer in the sports club OOO Drive (Drive). She is married to Ilya and they have three children: twins (a son and a daughter) aged five years, and a daughter aged 19 years. Valeriya's monthly gross salary is 70,000 RR. She also received the following benefits from her employer in the year 2016:

- Attendance at a professional seminar in Sochi for 45,000 RR paid in March 2016.
- Semi-annual voluntary medical insurance for herself of 12,000 RR.
- Annual voluntary medical insurance for her children of 34,000 RR.
- A gift certificate for a trip for 35,000 RR on the occasion of her birthday.

In October 2016, Ilya and Valeriya purchased a new apartment for their family, which cost 21,000,000 RR. The purchase of this new apartment was funded by:

- The sale of their current apartment for 15,000,000 RR in September 2016. This current apartment, which was jointly owned, had been acquired in May 2011.
- The sale of a plot of residential land for 5,000,000 RR in October 2016. Valeriya had inherited this plot of land from her aunt in 2014.
- A mortgage loan of 1,000,000 RR, from Drive, Valeriya's employer. The principal amount was received by Valeriya on 7 September 2016. Interest is at the rate of 6% per annum and is payable quarterly on the third day following the end of the quarter (i.e. interest for Quarter 3 (Q3) is payable on 3 October). The loan agreement contains a provision for a possible change in the interest rate. The principal amount is to be repaid effective from the year 2017.

The document confirming the couple's title of ownership for the new apartment was received in November 2016. When Valeriya and Ilya applied to the tax authorities for the housing allowance, they split their shares in the apartment in the ratio 60:40, respectively. Valeriya did not manage to provide the notification from the tax authorities confirming her ownership rights and percentage payment to her employer before the end of the year 2016.

Valeriya made a payment of 12,000 RR to a licensed swimming school for each of her twins. In addition, she paid 55,000 RR out of 64,000 RR for her elder daughter's daytime education in design. In October 2016, Valeriya received confirmation of her entitlement to the above deductions from the tax authorities, and she provided this confirmation to her employer in November 2016.

**Required:**

- (a) **Calculate the personal income tax (PIT) for Valeriya withheld at source by OOO Drive for the year 2016, assuming that she asked for all possible deductions to be given at source except as specified otherwise.** (8 marks)
- (b) **Calculate the final settlement of Valeriya's PIT liability (additional payment or refund) upon submission of her PIT return for the year 2016.** (6 marks)
- (c) **State the general criteria for applying a charity social deduction for PIT purposes.** (1 mark)

**(15 marks)**

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Question 6 begins on page 16.**

- 6 000 Bird (Bird) is a trading company engaged in the sale of sports products on the Russian market and abroad. Bird always applies the accruals method for both profits tax and value added tax (VAT) and uses a quarterly profits tax reporting period.

For profits tax purposes Bird applies the non-linear method for depreciation to its tangible non-current assets, and linear amortisation to its intangible assets. The company's tax policy for the year 2016 requires an immediate 30% write off on the cost of its tangible non-current assets.

The following data is available for the year 2016. All amounts include VAT unless stated otherwise. All products sold by Bird are subject to VAT at the standard rate.

#### Sales, cash collections and prepayments for the year 2016

Domestic sales of products	634,840,000 RR	
Confirmed export sales of products	59,000,000 RR	
	<b>1 January</b>	<b>31 December</b>
Prepayments balances from domestic customers	42,786,800 RR	44,926,140 RR

#### Merchandise inventory

The balance of inventory as at 1 January 2016 was 61,950,000 RR. During the year 2016, Bird purchased 185,850,000 RR of inventory, however, only 25% of purchased inventory was still in the warehouse at the year end.

Expenses related to the transportation of inventory for sale incurred during 2016 were 12,095,000 RR. The balance of transportation expenses brought forward as at 1 January 2016 was 4,012,000 RR.

#### Wages and salaries for the year 2016

Salaries were paid to 400 employees directly engaged in Bird's trading activities with an annual salary of 630,000 RR per person, and to 200 administrative employees with an annual salary of 350,000 RR per person.

In addition, annual voluntary personal insurance against accidents at work was accrued and paid by Bird for all employees. The total insurance premium for 2016 was 9,630,000 RR.

#### Other expenses

##### Non-current assets as at 1 January 2016:

	Quantity	Historic cost per unit	Monthly depreciation tax rate	Date put into use
Sports equipment	20	590,000 RR	5.6%	April 2015

In August 2016, Bird acquired the exclusive rights for a promotional film for 531,000 RR. The company's marketing department is going to use this film in its advertising campaigns during the three years starting on 1 September 2016.

In 2016, the marketing department also paid 12,036,000 RR for the placement of advertising boards in recently opened sports clubs.

Software licences for 25 work places were acquired for 16,000 RR each (VAT exempt).

In September 2016, Bird accrued volume bonuses to its customers of 34,000,000 RR in compliance with its commercial policy, based on the volume of goods purchased. The above bonuses do not relate to any change of product price and this provision is stipulated in the supply agreements with the customers.

In November 2016, Bird decided to reimburse its employees interest paid on their mortgage loans totalling 9,700,000 RR.

#### Losses

The balance of unutilised losses brought forward as at 1 January 2016 were:

Year	2013	2014	2015
Tax losses	(48,000,000) RR	(37,000,000) RR	(5,000,000) RR
Accounting (losses)/profits	(14,000,000) RR	(7,000,000) RR	2,000,000 RR

**Required:**

Assuming that all expenses referred to in the scenario are properly confirmed by the necessary documents, calculate for OOO Bird:

- the taxable base for the year 2016 before any loss deduction;
- the loss deduction available, stating the year(s) to which the losses relate; and
- the total of the unutilised losses carried forward to 2017.

Show separately all elements of taxable income and deductible expenses, identifying any limitations to deductible expenses for profits tax purposes.

Notes:

1. Ignore social insurance contributions
2. Ignore property tax

**(15 marks)**

**End of Question Paper**