Fundamentals Level – Skills Module

Taxation (Russia)

Tuesday 4 June 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)

ACCA

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 per child from 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)

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 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)
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

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)

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

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 from 1 January 2013

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 presents	100 RR (upper limit)

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 ZAO Rasseykon ('Rasseykon') is a production company engaged in the manufacturing of chocolate and other confectionary both in Russia and other countries. Rasseykon is 72% owned by a Swiss company and 28% by a Russian company.

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

Rasseykon applies the non-linear method of depreciation for tangible non-current assets and linear amortisation to intangible assets for profits tax purposes. The company's tax policy for the year 2013 stipulates its right to an immediate 30% write-off on tangible non-current asset cost.

Rasseykon applies the standard social insurance contribution rates without any incentives.

The following information is available for the year 2013. All amounts are inclusive of VAT unless stated otherwise. All chocolate products purchased and sold in Russia during the year 2013 were subject to the standard rate of VAT.

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

Domestic sales of products		730,133,260
Confirmed export sales to other countries		10,750,000
	1 January	**31 December**
Prepayments balances from domestic clients	21,903,998	7,301,333

During the year 2013 only 90% of the chocolates produced were sold; the remaining 10% were kept in the year-end inventory.

Direct expenses incurred in the production process in 2013 (in RR)

Raw materials (annual expense)	53,418,600

Monthly wages of the 230 employees directly involved in the production of chocolate were 20,900 RR (gross) per capita per month.

Depreciation of non-current assets:

Category of non-current asset	Quantity	Historic cost per unit in RR	Monthly tax depreciation rate	Date put into use
Production line	1	40,710,000	1.8%	April 2013

Indirect expenses incurred for the year 2013 (in RR)

Intangible assets:

Rasseykon acquired the following trademark for a ten year period.

Name	Quantity	Historic cost per unit in RR	Patent term	Date put into use
Romantic	1	654,546	10 years	November 2012

Depreciable assets:

Category of non-current asset	Quantity	Historic cost per unit in RR	Monthly tax depreciation rate	Date of put into use
Computers	25	37,170	5.6%	April 2012

Rasseykon paid an insurance premium of 4,500,000 RR in respect of the annual obligatory property insurance for its production equipment.

For the year 2013 Rasseykon incurred the following gross monthly salaries for administrative personnel:

General director – 570,000 RR
Middle management – 77,000 RR each for 45 employees.

In addition to their salary (as set out above), Rasseykon provided all of its employees (production and management) with the following types of insurance during the year 2013:

– annual voluntary one-year medical insurance for the employees for a total of 5,700,000 RR;
– annual voluntary medical insurance for the relatives of employees for a total of 2,500,000 RR;
– annual voluntary personal insurance for permanent employees against accidents at work, with a total insurance premium paid by Rasseykon in 2013 equal to 6,770,000 RR.

For the year 2013, Rasseykon also made the decision to reimburse 25 employees the interest on their mortgage loans, in the total amount of 3,750,000 RR.

During the year 2013, the following business entertainment expenses were incurred in respect of a visit of three Swiss engineers from its Swiss shareholder. The amounts listed include VAT, where applicable.

	RR
Official dinner in a restaurant 'Seventh Heaven'	35,400
Interpreter's services rendered by a professional firm	28,320
Air tickets Geneva–Moscow–Geneva	83,100
Hotel expenses in Moscow	48,000
Transportation in Moscow (hotel–office–hotel) as invoiced by the taxi company	2,360

Interest expense

On 7 November 2013, Rasseykon received a three-year loan of 800,000 EUR from its Swiss shareholder with interest at the rate of 7% per annum. Interest is payable on the first day of the month following the month of interest accrual (i.e. the first interest instalment was payable on 1 December 2013). No repayments of the loan principal were made in 2013.

Tax losses brought forward

At 1 January 2013 Rasseykon had the following unused tax losses brought forward:

2011 year – 300,000 RR

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 ZAO Rasseykon for the year 2013. Show separately all elements of the taxable income and deductible expenses, and identify any non-deductible expenses by including them in the calculation with a zero (0).

Notes:
1. For social insurance contribution purposes ignore all expenses other than salaries.
2. Ignore property tax.
3. For interest calculations ignore the thin capitalisation and transfer pricing rules.
4. Ignore forex on interest accrued.
5. The following notional EUR/RR exchange rates are to be used:

1 November 2013	41.5
7 November 2013	41
30 November 2013	39.0
1 December 2013	40.0
31 December 2013	39.5

(25 marks)

(b) Calculate ZAO Rasseykon's value added tax (VAT) liability for the year 2013. Show separately all elements of output/input VAT. (5 marks)

(30 marks)

2 Alexey works as a head of purchasing for the trading company Charlotka. He is married to Irina and they have one daughter and one son, aged seven and 17 years respectively. Alexey's gross monthly salary is 270,000 RR.

In addition to his salary, Charlotka provided Alexey with the following benefits during the year 2013:

– In January 2013, a birthday gift in the form of a payment of 50% of his annual membership of the sports club XYZ with a market value of 34,000 RR

– In February 2013, an annual net bonus for the year 2012 of 453,600 RR was credited to his bank account. This bonus had been accrued in December 2012 and is treated as a part of his salary

– In March 2013, pension contributions in the amount of 35,000 RR were withheld from his salary and paid to the licensed non-state pension fund RUN under the special long-term employees' pension plan with this fund and Charlotka

– Annual voluntary medical insurance for Alexey with the value of 16,000 RR

– Annual voluntary medical insurance for his children with the value of 12,500 RR per each child

– Medical expenses for the surgery of Alexey's father in a licensed clinic with the value of 34,000 RR. These expenses were treated as non-deductible for profits tax purposes for Charlotka

– In September 2013, an incentive trip to Kuala-Lumpur as a reward for his work during the year with the value of 55,000 RR

In February 2013, Alexey sold his small summer house for 850,000 RR. This house had been acquired in December 2009 for 550,000 RR.

On 14 March 2013, Alexey decided to invest in the acquisition of a plot of land for further construction. The purchase price of the plot of land was 2,500,000 RR. In order to finance this acquisition, on 3 April 2013 Alexey took a loan from a bank of 500,000 RR at the interest rate of 10% per annum for a seven-year period. In addition, on 15 April 2013 Charlotka provided Alexey with a subordinated mortgage loan of 1,200,000 RR at the annual interest rate of 3% for a ten-year period. Interest on Charlotka's loan will be payable starting from the year 2014, whereas interest on the bank loan is payable on a monthly basis starting from 1 May 2013 (the first date after the end of the preceding month).

The residual amount of 800,000 RR invested in the plot of land was provided by Alexey and Irina from their personal savings in May 2013.

The title of ownership for the above plot of land was received jointly by Alexey and Irina in November 2013. Alexey managed to submit document from the tax authorities confirming his entitlement for the ownership of this plot of land to his employer in December 2013. Alexey and Irina have never used their housing allowance before 2013.

In April 2013, Alexey paid his part of 15,000 RR (out of a total of 20,000 RR) to the specialised ballet school for his daughter and in July 2013 his part of 35,000 RR (out of a total of 51,000 RR) for his son's first year of study in the Medical Academy. Both educational institutions have appropriate licences under the law of the Russian Federation.

In August 2013, Alexey paid 10,000 RR for his brother's Spanish lessons at a licensed provider and his part of 11,000 RR (out of a total of 31,000 RR) for the voluntary medical insurance for his wife, Irina

Irina works as a freelance batik designer. Her gross monthly remuneration for the year 2013 was as follows:

January	75,000 RR	
February	100,000 RR	
March	104,000 RR	
April	95,000 RR	
May to December	856,000 RR	(total for the eight months)

Irina did not provide any claim for professional deductions in respect of the above remuneration to the source of payment.

Irina's actual business expenses for the year 2013 were 500,000 RR; all these expenses are supported with source documents.

In May 2013 her husband, Alexey, presented Irina with a jewellery ring as a gift, which cost him 77,000 RR.

In June 2013, Irina received tickets for the new fashion show free of charge, as a gift from Moscow Fashion House SN. The market price of these tickets was 3,000 RR.

During the year 2013, Irina paid her part of 5,000 RR (out of a total 20,000 RR) for her daughter's ballet school and her part of 16,000 RR (out of a total of 51,000 RR) for her son's Medical Academy.

Irina paid 20,000 RR (out of a total of 31,000 RR) for her voluntary medical insurance to a licensed hospital.

In November 2013, Irina provided 15,000 RR in cash and 22,000 RR of educational films in kind, as donations to an orphanage school in Noginsk. The orphanage school has appropriate licences under the law of the Russian Federation.

Required:

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

(a) Calculate the personal income tax of Alexey withheld at source by his employer for the year 2013, assuming that Alexey has asked Charlotka for all possible deductions to be given. (12 marks)

(b) Calculate the final settlement of Alexey's personal income tax liability (additional payment or refund) upon the submission of his 2013 personal income tax return. (5 marks)

(c) Calculate the final settlement of Irina's personal income tax liability (additional payment or refund) upon the submission of her 2013 personal income tax return. (8 marks)

Notes:
1. Where possible, use all the personal income tax deductions which are potentially available to Alexey and Irina.
2. State separately the amounts of all personal income tax deductions claimed by Alexey and Irina 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) ZAO Marialla ('Marialla'), a company engaged in trading equipment subject to value added tax (VAT) at the standard rate, had the following transactions during the year 2013:

On 12 March goods with a value of 120,000 EUR were exported to the Czech Republic. The goods were customs cleared and the export regime was confirmed on the same date.

Payment for these goods, in the full amount of 120,000 EUR, was received in the bank account of Marialla on 31 March 2013.

The actual costs incurred by Marialla before the date of shipment and related to the export shipment were 2,633,760 RR inclusive of VAT. This input VAT was recovered in January 2013 on the VAT return for Quarter 4 of 2012.

Documents confirming the application of the zero VAT rate were only submitted to the tax authorities on 12 October 2013. Relevant VAT was paid to the budget on 20 October 2013 in the full amount without instalments.

Required:

(i) Explain and calculate ZAO Marialla's value added tax (VAT) liability for Quarter 1 and Quarter 4 of the year 2013 respectively, together with any late interest charges payable. (7 marks)

(ii) Explain and calculate ZAO Marialla's VAT liability for Quarter 2 of the year 2013 if a full set of documents confirming the export had been submitted to the tax authorities on 16 June 2013, clearly stating the date(s) of recognition of the zero rate VAT base. (3 marks)

(iii) State the documents to be provided to the tax authorities for the purpose of confirming the zero rate of VAT for export transactions (general conditions only) and the relevant deadline for their submission. (2 marks)

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

1 March 2013	39
12 March 2013	38.5
31 March 2013	38.0
1 April 2013	37.5
30 April 2013	37.0
1 May 2013	36.5
31 May 2013	36.0
1 June 2013	37.0
30 June 2013	37.2
1 July 2013	37.5
31 July 2013	38.0
1 August 2013	38.2
31 August 2013	38.3
1 September 2013	39
30 September 2013	38.5
1 October 2013	38.3
12 October 2013	37.7
31 October 2013	37.0

(b) OOO Lentiva ('Lentiva') conducts trading activities which are subject to value added tax (VAT) at the standard rate. In 2013 in preparing for a future reorganisation, Lentiva's financial director sold the following outstanding debts (all amounts VAT inclusive):

Customer	Due date	Debt amount in RR	Date of sale	Proceeds received in RR
Parus	20 November 2011	10,283,700	5 May 2013	9,255,330
Priboy	7 September 2012	4,094,600	30 June 2013	4,381,222

In addition, on 3 June 2013 the decision was made to write off a debt of 4,425,000 RR (including VAT) from customer Galogen. This debt was due from 2010 and official publication of Galogen's bankruptcy has been made in the press.

Required:

Explain and calculate OOO Lentiva's value added tax (VAT) liability (refund) for Quarter 2 of the year 2013, based on the above transactions. (3 marks)

(15 marks)

4 (a) For the first eight months of 2013 (January to August), Alena worked for the company OOO Pantera ('Pantera') as an editor of various films, including videos. Alena's gross salary was 85,000 RR per month and in addition, she received from Pantera a voluntary one-year medical insurance policy of 20,000 RR and one-off material aid of 40,000 RR.

On 31 August, Alena terminated her labour agreement with Pantera to undertake a three-month project for another film business under an author's agreement. As a result of the termination of her labour agreement, she received compensation for unused vacation from Pantera of 55,000 RR.

On completing the three-month project, Alena had created a customised film for training purposes. In December 2013, Alena received the equivalent of 400,000 RR for her work under the author's agreement. The expenses she incurred for this work were equal to 150,000 RR

Required:

Assuming that Alena is not registered as an individual entrepreneur and that all her professional expenses are confirmed with supporting documents:

(i) Calculate Alena's final personal income tax liability for the year 2013 in the most tax efficient manner. (5 marks)

(ii) Calculate Alena's social insurance contributions base for the year 2013 using the most tax efficient option available for her. (5 marks)

(b) OOO Drema ('Drema') is a Russian company with a total share capital of 170,000 shares. For the year 2012, Drema had profits before tax of 250,000,000 RR and decided to pay 25% of its distributable profits as dividends to its shareholders.

Dmitriy Kostovskiy, a Russian tax resident, owns 5,000 shares in Drema. In addition to the dividends paid to Dmitriy and to other tax residents, Drema also paid 10,000,000 RR in dividends to three shareholders who are tax non-residents.

In May 2013, Drema received a dividend of 35,000,000 RR for the year 2012 from the company ZAO Guliver.

The taxable profits of Drema are equal to its accounting profits.

Required:

Calculate the personal income tax to be withheld by OOO Drema from the dividend paid to Dmitriy Kostovskiy, together with the net amount of the dividend he would have received.

Note: When calculating the dividend per share, you should use an amount with two decimal figures. (5 marks)

(15 marks)

5 **(a)** ZAO Kosmos ('Kosmos') undertakes various trading activities in the Russian market and is registered in Moscow for tax purposes. The following data has been extracted from Kosmos' registers for the year 2013 (in '000 RR):

	1 January	1 February	1 March	1 April	1 May	1 June	1 July
Initial value of fixed assets	1,080	700	950	1,200	840	520	610
Accumulated accounting depreciation	430	370	400	410	390	280	300
Accumulated tax depreciation	510	410	620	710	450	310	390

Required:

Calculate the aggregate advance property tax of ZAO Kosmos for Quarter 2 of the year 2013. (4 marks)

(b) ZAO Viktor ('Viktor') has its main factory and headquarters offices in Moscow but also has a separate subdivision with a separate balance sheet in St Petersburg, and a building, but no separate subdivision with a separate balance sheet or employees, in Samara.

Required:

State the impact on the property tax for ZAO Viktor of each of the subdivisions in St Petersburg and the building in the Samara region.

Note: Calculations are not required for this part. (3 marks)

(c) OOO Orial ('Orial') is owned 60% by a US company, Jimmy, 30% by a French company, Arl S.A., and 10% by a UK company, Rian Ltd. On 14 July 2013, Orial received a 700,000 EUR loan for three years from Arl S.A. at an annual interest rate of 5% to finance its capital expenditure. No payments of loan principle or interest were made in 2013. No other loans were included in Orial's liabilities as at 30 September 2013.

The following data is available regarding Orial's assets and liabilities as at 30 September 2013:

Assets	212,800,000 RR
Liabilities	194,600,000 RR
Including tax liabilities	77,000,000 RR

Required:

Calculate the interest expense deductible for profits tax purposes for OOO Orial for the first nine months of the year 2013.

Notes:

1. The relevant EUR/RR exchange rates are as follows (notional):

1 July	39.9
14 July	39.7
31 July	39.5
1 August	38.0
31 August	38.5
1 September	37.7
30 September	37.0
1 October	37.2

2. Ignore the cash method of interest accrual based on latest court practice. (8 marks)

(15 marks)

End of Question Paper