# Answers

*Marks*

1 OOO Botillion

(a) Profits tax liability for the year 2011

| | RR | |
|---|---|---|
| Domestic sales of goods (net of VAT) 318,718,000*100/118 | 270,100,000 | ½ |
| Confirmed export sales (zero VAT) | 17,700,000 | ½ |
| Prepayments from domestic customers (non-taxable) | 0 | ½ |
| Total sales | 287,800,000 | |
| Direct expenses: | | |
| Direct materials 59,354,000*100/118*85% | (42,755,000) | 1 |
| *(½ for net of VAT, ½ for 85%)* | | |
| Direct wages 16,967*200*12*85% | (34,612,680) | 1 |
| *(½ for inclusion of temporary employees, ½ for 85%)* | | |
| Direct social insurance contributions on wages | | |
| As (16,967*12) < 463,000 RR, 34,612,680*34% | (11,768,311) | ½ |
| Direct depreciation and write-off (Note 1) | (2,964,854) | 2½ |
| Total direct costs | (92,100,845) | |
| Indirect expenses | | |
| Indirect expenses: salaries | (20,100,000) | ½ |
| 47,000*12*25 + 500,000*12 | | |
| Social insurance contributions (Note 2) | (4,092,920) | 1 |
| Indirect expenses: Amortisation of patent (7 years) | | |
| Annual norm 1/7 = 14.29%; 554,600*100/118*14.29% | (67,163) | 1 |
| *(½ for 100/118, ½ for 7 years)* | | |
| Indirect expenses: depreciation (Note 3) | (9,389,480) | 4 |
| Professional training only for employees 590,000*100/118*90% | (450,000) | 1 |
| Voluntary medical insurance for employees (Note 4) | (3,649,248) | 1 |
| Voluntary medical insurance for relatives (non-deductible) | 0 | ½ |
| Entertainment expenses (Note 5) | (83,200) | 3½ |
| Total indirect expenses | (37,832,011) | |
| Non-sale income | | |
| Penalties recognised under court decision (non-vatable in the scenario) | 4,500,000 | ½ |
| Non-sale expenses | | |
| Forex loss on loan 2,700,000*(42 – 41) | (2,700,000) | 1 |
| Interest expense (Note 6) | (1,273,809) | 2½ |
| Total taxable income | 158,393,335 | |
| Total tax loss (2,570,000 + 1,450,000) | (4,020,000) | ½ |
| Taxable income after loss utilisation | 154,373,335 | |
| Tax at 20% | 30,874,667 | ½ |
| | | 24 |

Note 1

Direct depreciation of the production equipment:

| | |
|---|---|
| NBV at the date of purchase 35,400,000*100/118 – 9,000,000 = 21,000,000 | ½ |
| NBV at 31 December 2011 21,000,000*(1 – 1.8%)^10 = 17,511,936 | *1* |
| Depreciation: 21,000,000 – 17,511,936 = 3,488,064 | ½ |
| 3,488,064*85% = 2,964,854 | ½ |
| Direct depreciation and write-off = 10,614,854 RR | 2½ |

| | Marks |
|---|---|
| Note 2 | |
| Social insurance contributions | |
| Since 47,000*12 > 463,000, only 463,000 will be subject to SIC for managers<br>463,000*34%*25 = 3,935,500 | ½ |
| Salary of GM also exceeds 463,000 RR, thus, 463,000*34% = 157,420 | ½ |
| Total of social contributions in indirect costs 157,420 + 3,935,500 = 4,092,920 RR | 1 |
| Note 3 | |
| One-off write-off 35,400,000*100/118*30% = 9,000,000<br>*(½ for 100/118, ½ for 30%, ½ for including into direct expenses)* | 1½ |
| Indirect depreciation | |
| NBV at 1 January 2011 53,100*100/118*70%*35*(1 – 5.6%)^6 = 780,208<br>*(½ for net of VAT, ½ for 30% write-off, ½ for correct formula)* | 1½ |
| NBV at 31 December 2011 780,208*(1 – 5.6%)^12 = 390,728<br>*(½ for application of NBV as at the beginning of the year, ½ for correct formula)* | 1 |
| Depreciation: 780,208 – 390,728 = 389,480 RR | 4 |
| Note 4 | |
| Voluntary medical insurance – limit 6% of labour costs<br>(34,612,680*100/85 + 20,100,000)*6% = 3,649,248 | 1 |
| *(½ for 100/85, ½ for 6%)* | |
| Note 5 | |
| Business entertainment expenses can include only official reception (dinner), interpreter's services, transportation services for shareholders. Business entertainment expenses are subject to 4% limitation of labour costs, including insurance costs: | |
| (34,612,680*100/85 + 20,100,000 + 3,649,248)*4% = 2,578,802 | 1 |

| | | |
|---|---|---|
| Official dinner in a restaurant | 73,986*100/118 = 62,700 | ½ |
| Interpreter's services rendered by a professional firm | 18,054*100/118 = 15,300 | ½ |
| Air tickets from Lyon–Paris–Moscow | 75,000 non-deductible | ½ |
| Hotel expenses in Moscow | 53,600 non-deductible | ½ |
| Transportation to the office and back (taxi firm invoice) | 6,136*100/118 = 5,200 | ½ |
| Total business entertainment expenses | 83,200 RR | 3½ |

| | |
|---|---|
| Note 6 | |
| Interest in currency are limited to CBR rate*0.8 = 10%*0.8 = 8% | 1 |
| 2,700,000*8%*(30 – 9)/365*40.5 = 503,310<br>*(½ for correct days, ½ for correct exchange rate)* | 1 |
| 2,700,000*8%*31/365*42 = 770,499<br>*(½ for correct exchange rate)* | ½ |
| Total interest deductible 1,273,809 RR | 2½ |

| | | Marks |
|---|---|---|

**(b) Value added tax (VAT) liability for the year 2011**

| | RR | |
|---|---|---|
| Output VAT | | |
| Sales of goods 318,718,000*18/118 | 48,618,000 | ½ |
| Export sales (confirmed export) | 0 | ½ |
| VAT on 2011 prepayments from domestic customers at 31 December 2011 | | |
| 6,690,600*18/118 | 1,020,600 | ½ |
| Total output VAT | 49,638,600 | |
| Input VAT | | |
| VAT on prepayments from domestic customers at 1 January 2011 | | |
| 15,080,400*18/118 | (2,300,400) | ½ |
| VAT on direct materials 59,354,000*18/118 | (9,054,000) | ½ |
| *(½ for net of VAT)* | | |
| VAT on production equipment 35,400,000*18/118 | (5,400,000) | ½ |
| VAT on professional training for own employees 590,000*18/118*90% | (81,000) | 1 |
| VAT on voluntary medical insurance (exempt from VAT) | 0 | ½ |
| VAT on business entertainment expenses related to deductible part: | | |
| VAT on official dinner 73,986*18/118 | (11,286) | ½ |
| VAT on interpreter's services 18,054*18/118 | (2,754) | ½ |
| VAT on taxi invoice 6,136*18/118 | (936) | ½ |
| Total input VAT | (16,850,376) | |
| VAT payable | 32,788,224 | 6 |
| | | **30** |

**2 Sergey and Anna**

**(a) Personal income tax liability of Sergey withheld at source by Artisan for the year 2011**

| | RR | |
|---|---|---|
| Income taxed at 13% | | |
| Gross salary accrued 200,000*12 | 2,400,000 | ½ |
| No standard personal allowance | | |
| (income exceeds the 40,000 RR threshold in January) | 0 | ½ |
| Children allowance (income exceeds the 280,000 RR threshold in February) | | |
| for two children (1,000*2) | (2,000) | 1 |
| *(½ per each child)* | | |
| Incentive trip to Vietnam | 100,000 | ½ |
| I-pad | 25,000 | ½ |
| Gift allowance | (4,000) | ½ |
| Imputed income on car purchase with the discount 850,000*25% | 212,500 | 1 |
| Voluntary medical insurance from employer (non-taxable) | 0 | ½ |
| Voluntary medical insurance for his wife and children (non-taxable) | 0 | ½ |
| Social deduction with respect to withholding to LJL pension fund | (9,000) | 1 |
| Property allowance for land acquisition and construction (maximum limit) | (2,000,000) | 1 |
| Property allowance – bank loan interest (Note 1) | (22,438) | 1 |
| Property allowance – corporate loan interest (no actual interest expenditure in 2011) | 0 | ½ |
| Part of bank interest reimbursed by employer (non-taxable) | 0 | ½ |
| Total employment income | 700,062 | ½ |
| Tax withheld at 13% | 91,008 | ½ |
| Income taxed at 35% | | |
| Imputed interest income on corporate loan for the construction of residential house | | |
| (mortgage loan) | 0 | ½ |
| | | 11 |

Marks

Note 1

2 March 2011 to 31 May 2011
(interest accrued starting from the date following the date of providing the loan, 1 March)

| | Marks |
|---|---|
| 1,000,000 RR*9%*(30 + 30 + 31)/365 = 22,438 RR | *1* |

Since Sergey managed to provide confirmation from the tax authorities to his employer, interest paid by him and not reimbursed by the employer should also be included into his property allowance.

**(b) Final settlement of Sergey's personal income tax liability for the year 2011**

| | RR | Marks |
|---|---|---|
| Taxable base including benefits from employer (from (i)) | 700,062 | |
| Inherited garage from his grandfather (non-taxable item) | 0 | ½ |
| Sale of garage in December 2011 | 520,000 | |
| Property deduction (less than three years of ownership) | (250,000) | 1 |
| Educational deduction for his daughter (out of 50,000 RR limit) | (46,000) | ½ |
| Educational deduction for his son (out of 50,000 RR limit) | (7,000) | 1 |
| Taxable base | 917,062 | |
| Tax due to the budget at 13% | 119,218 | ½ |
| Tax withheld by her employer (from (i)) | (91,008) | |
| Tax due under personal tax return at 13% rate | 28,210 | ½ |
| Income taxed at 35% | | |
| Imputed interest income on loans for the construction of residential house | 0 | |
| | | 4 |

**(c) Final settlement of Anna's personal income tax liability for the year 2011**

| | RR | Marks |
|---|---|---|
| Income taxed at 13% | | |
| Gross salary accrued | 1,000,000 | |
| Standard personal allowance 2 months*400 RR | | |
| (gross income exceeds the 40,000 RR threshold in March) | (800) | 1 |
| *(½ per 400, ½ per correct number of months)* | | |
| Children allowance (income exceeds the 280,000 RR threshold in April, because gift from Sonata (less gift exemption) and free theatre tickets are included: 12,000 + 20,000 + 15,000 + 105,000 + 170,000 – 4,000 + 5,000 = 323,000 > 280,000) | | |
| (1,000*2*3) | (6,000) | 2 |
| *(1 per correct months, ½ for inclusion of gift exemption 4,000 RR, ½ for correct number of children)* | | |
| Professional deduction for music writer*40% | (400,000) | 1 |
| (It is better to use professional deduction than the actual expenses of 150,000 RR) | | |
| Educational deduction for her daughter (50,000 – 46,000) | (4,000) | 1 |
| Educational deduction for her son – 12,000 is within the limit of (50,000 – 7,000) | (12,000) | 1 |
| Free of charge theatre tickets | 5,000 | ½ |
| New piano from Sonata | 170,000 | ½ |
| Gift allowance (only one in the calendar year) | (4,000) | ½ |
| Bracelet from her husband (non-taxable amount) | 0 | ½ |
| Charity donations: (within 25% of her income) 1,000,000*25% = 250,000 | | ½ |
| In kind educational toys (not included into deduction) | | ½ |
| In monetary value | (10,000) | ½ |
| Taxable income: | 738,200 | |
| Tax at 13% | 95,966 | ½ |
| | | 10 |
| | | **25** |

| | | | Marks |
|---|---|---|---|

**3 (a) (i) OOO Rostok**

**Output VAT in October**

Debt from Birch (660,800 – 826,000) = 165,200 RR loss
This loss does not make any impact on Rostok's VAT liability since the VAT has been accrued on the date of shipment. ½

Debt from Oak (554,600 – 472,000) = 82,600 RR profit
Thus additional output VAT of 82,600*18/118 = 12,600 RR is payable by Rostok 1

Debt from Platan 295,000 RR written off
This write off does not make any impact on VAT output since the VAT has been accrued on the date of shipment. ½

2

**(ii)** The VAT impact of export and domestic prepayments is:

Prepayments from export customers are subject to a 0% VAT rate. ½

Prepayments from domestic customers result in tax payable of 18/118 of the amount advanced. ½

1

**(b) ZAO Panacota and OOO Promode**

**(i)** VAT on sales should be invoiced in *schet-facturas* (VAT invoices) issued by the agent to customers and reported to the principal. However, such VAT should not be included in the agent's VAT tax return. 1

**(ii) VAT for Q3 2011 (July to September)**

**Panacota**

| | | RR | Marks |
|---|---|---|---|
| Output VAT for Q3 – Sales | | | |
| 3 August 2011 | 454,300*18/118 | 69,300 | ½ |
| 15 August 2011 | 678,500*18/118 | 103,500 | ½ |
| Output VAT | | 172,800 | |
| No VAT on prepayments (October sales were paid for in Q4 of 2011). | | | ½ |
| Input VAT for Q3 – Agent fees | | | |
| 15 September 2011 | 454,300*5%*18/118 | (3,465) | 1 |
| 30 September 2011 | 678,500*5%*18/118 | (5,175) | 1 |
| Input VAT | | (8,640) | |
| VAT liability 172,800 – 8,640 | | 164,160 | |

**Promode**

| | | RR | Marks |
|---|---|---|---|
| Output VAT for Q3 – Agent fees billed | | | |
| 15 September 2011 | 454,300*5%*18/118 | 3,465 | ½ |
| 30 September 2011 | 678,500*5%*18/118 | 5,175 | ½ |
| Output VAT | | 8,640 | |

No input VAT

No VAT on prepaid agent's fees (fees for October sales were withheld in October). ½

5

**(iii) VAT for Q4 2011 (October to December)**

**Panacota**

| | | RR | Marks |
|---|---|---|---|
| Output VAT for Q4 – Sales | | | |
| 2 October 2011 | 359,900*18/118 | 54,900 | 1 |
| Input VAT – Agent fees | | | |
| 7 October 2011 | 454,300*5%*18/118 | (3,465) | ½ |
| 1 November 2011 | 359,900*5%*18/118 | (2,745) | ½ |
| 8 November 2011 | 678,500*5%*18/118 | (5,175) | ½ |
| Input VAT | | 11,385 | |
| VAT liability 54,900 – 11,385 | | 43,515 | |

| | | | Marks |
|---|---|---|---|
| **Promode** | | | |
| Output VAT for Q4 – Agent fees billed: | | **RR** | |
| 7 October 2011 | 454,300*5%*18/118 | 3,465 | ½ |
| 1 November 2011 | 359,900*5%*18/118 | 2,745 | ½ |
| 8 November 2011 | 678,500*5%*18/118 | 5,175 | ½ |
| Output VAT | | 11,385 | |
| Input VAT for Q4 | | | |
| Offset of VAT on prepaid agent's fees received in Q3 | | | |
| 454,300*5%*18/118 | | (3,465) | 1 |
| 678,500*5%*18/118 | | (5,175) | 1 |
| Input VAT | | (8,640) | |
| VAT liability | | 2,745 | |
| | | | 6 |
| | | | **15** |

**4 (a) Vladimir Suvorov**

**Treatment of non-salary benefits for social insurance contributions purposes**

| | **Labour agreement RR** | **Civil law agreement RR** | |
|---|---|---|---|
| Salary/remuneration | 240,000 | 240,000 | ½ |
| Bonus for the quarter 2011 45,000*100/87 | 51,724 | 51,724 | ½ |
| Semi-annual club membership | 20,000 | 20,000 | ½ |
| Material aid | 35,000 | 35,000 | ½ |
| Deduction | (4,000) | (4,000) | ½ |
| Material aid on the birth of his daughter | | | |
| – non-taxable by law up to 50,000 RR | 0 | | ½ |
| – fully taxable | | 45,000 | ½ |
| Professional seminar in Moscow | | | |
| – non-taxable item | 0 | | ½ |
| – fully taxable | | 13,000 | ½ |
| Reimbursement of private cell phone expenses 36,000*20% | 7,200 | 7,200 | ½ |
| Reimbursement of business cell phone expenses | | | |
| – non-taxable by law | 0 | 0 | ½ |
| Annual voluntary medical insurance for Vladimir | | | |
| – non-taxable by law | 0 | | ½ |
| – fully taxable | | 50,000 | ½ |
| Annual voluntary medical insurance for his wife | 40,000 | 40,000 | ½ |
| Annual voluntary medical insurance for his child | 25,000 | 25,000 | ½ |
| Contributions to the non-state pension fund | | | |
| – in excess of the limit of 12,000: 60,000 – 12,000 | 48,000 | | 1 |
| – fully taxable | | 60,000 | ½ |
| Total | 462,924 | | ½ |
| | | 582,924 | ½ |
| SIC at | 34% | 31.1% | |
| | 157,394 | | ½ |
| | 463,000*31.1% = | 143,993 | ½ |
| | | | 11 |

Marks

**(b) Andrey Vinner**

**Personal Income Tax (PIT)**

| **Option 1: deduction of actual expenses** | **RR** | |
|---|---|---|
| Business income | 1,700,000 | |
| Business expenses incurred | (500,000) | ½ |
| Employees salary 35,000*2*12 | (840,000) | ½ |
| SIC on salary at 34% | (285,600) | ½ |
| Taxable income | 74,400 | |
| PIT liability at 13% | 9,672 | ½ |
| **Option 2: application of 20% business deduction** | | |
| Business income | 1,700,000 | |
| Business deduction 1,700,000*20% | (340,000) | 1 |
| Taxable income | 1,360,000 | |
| PIT liability at 13% | 176,800 | ½ |

The most tax efficient option is to apply actual expenses spent (not the business deduction) since the PIT taxable base is much less in this case. ½

4

**15**

**5 (a) Irina Lomova's dividend income**

| | **RR** | |
|---|---|---|
| Krola's profit before tax | 340,000,000 | |
| Profits tax at 20% | (68,000,000) | 1 |
| Profit after tax | 272,000,000 | |
| 35% for distribution | 95,200,000 | ½ |
| *Less* dividends received from Gumex | (45,000,000) | 1 |
| Dividends paid to non-residents – not deductible | 0 | ½ |
| Irina's share is calculated out of the total number of shares held by all shareholders (resident and non-resident) | | |
| Taxable dividends | 50,200,000 | |

Share of Irina = 7,000/100,000 = 7% ½

Irina's taxable income = 50,200,000*7% = 3,514,000

Tax to be withheld at 9% by Krola: 3,514,000*9% = 316,260 RR ½

Net amount received: 95,200,000*7% – 316,260 = 6,347,740 RR 1

5

**(b) OOO Langidok**

**(i)** Cheval SA owns more than 20% of the shares in Langidok, so the debt is a controlled debt. ½

Net assets as at 30 September 2011:

(304,000,000 – 278,000,000 + 96,000,000) = 122,000,000 RR 1

Loan amount as at 30 September 2011 1,250,000*39.5 = 49,375,000 RR ½

Interest should be calculated at the end of each month in the quarter:

Maximum interest: 0.8*CBR rate = 0.8*20% = 16% (7% is less than 16% therefore no limitation of rate) 1

Interest accrued:

As of 31 July 2011 1,250,000*7%*(31 – 7)/365*39.7 = 228,411 RR 1
*(½ for correct exchange rate, ½ for correct days)*

As of 31 August 2011 1,250,000*7%*31/365*39.9 = 296,517 RR ½

As of 30 September 2011 1,250,000*7%*30/365*39.5 = 284,075 RR ½

| | Marks |
|---|---|
| Total controlled debt (loan principle amount plus interest accrued) 50,184,003 RR | ½ |
| Own capital*3 = 122,000,000*3 = 366,000,000 RR | ½ |
| Control debt of 50,184,003 is < 366,000,000, so the thin capitalisation rules should not be applied. | ½ |
| Total interest deductible for the first nine months of 2011: 809,003 RR | ½ |
| | 7 |

**(ii) If net assets for thin capitalisation purposes are 15,000,000 RR**

| | |
|---|---|
| The controlled debt exceeds the net assets by 50,184,003/15,000,000 = 3.35 times. | ½ |
| Therefore, the thin capitalisation rules will apply to the loan from Cheval AS. | ½ |
| Thin capitalisation ratio:<br>50,184,003/(15,000,000*3*21%) = 5.3105<br>*(½ for total control debt including interest, ½ for 3, ½ for 21%)* | 1½ |
| Maximum deductible interest: 809,003/5.3105 = 152,340 RR | ½ |
| | 3 |
| | **15** |