Answers

Section B *Marks*

1 OOO Apollon – Loan finance interest

(a) Loan from the Dutch shareholder company Verman

Verman's share of 60% exceeds 25%, so the loan will be treated as a controlled loan.	½
Net assets: (320,000,000 – 152,000,000 + 15,000,000) = 183,000,000 RR	1
3*net assets: 183,000,000*3 = 549,000,000 RR	½
Interest payable: ((10,200,000*63.5*3.5%*(31 – 5) + 30 + 31)/365) = 5,403,415 RR *(½ for correct rate, ½ for %, ½ for correct dates)*	1½
Lower limit – EURIBOR + 4% = (4% – 0.5%) = 3.5%	
Upper limit – EURIBOR + 7% = (7% – 0.5%) = 6.5%	
Therefore, deduction of interest at 3.5% per annum is not subject to interest rate limitations.	1
Principal amount + interest: ((10,200,000*63.5) + 5,403,415) = 653,103,415 RR	½
653,103,415 > 549,000,000, so the thin capitalisation rules apply.	½
Capitalisation coefficient: (653,103,415/(549,000,000*60%)) = 1.9827	1
Deductible interest: (5,403,415/1.9827) = 2,725,281 RR	½
Imputed dividends: (5,403,415 – 2,725,281) = 2,678,134 RR	½
Withholding tax: (2,678,134*15%) = 401,720 RR	½
	8

(b) Loan from Mr Polozov

Since Mr Polozov is a Russian tax resident, the loan is not a controlled loan for thin capitalisation purposes.	½
Therefore, tax on the interest will be withheld at the 13% rate.	½
	1

(c)

In the case of OOO Apollon having negative net assets, none of the interest can be treated as deductible for profits tax purposes.	½
So, the full amount of the interest would be reclassified as dividends.	½
	1
	10

2 (a) Peter – Insurance contributions (IC) for 2017

(i) Actual expenses confirmed

	RR	
Remuneration received	2,800,000	
Expenses confirmed (>40% of remuneration)	(1,450,000)	½
Taxable base	1,350,000	

IC payable:

	RR	
Pension fund (876,000*22% + (1,350,000 – 876,000)*10%)	240,120	1½
Social fund	0	½
Federal fund of obligatory medical insurance (5.1%*1,350,000)	68,850	½
Total IC	308,970	
		3

			Marks
(ii)	**No supporting documentation**		
		RR	
	Remuneration received	2,800,000	
	Professional deduction (2,800,000*40%)	(1,120,000)	1
	Taxable base for IC	1,680,000	
			1

(b) Angelina – Insurance contributions (IC) for 2017

	RR	
Salary (70,000*12)	840,000	½
Professional training (exempt)	0	½
Material aid due to the birth of her child (paid during the first year after the birth)	52,000	½
Material aid deduction	(50,000)	½
Voluntary medical insurance for herself (exempt)	0	½
Voluntary medical insurance for her child (exempt)	0	½
(**Note:** *If the candidate answers that voluntary medical insurance for her child is taxable, the same ½ mark should be added.*)		
Discount on annual membership (20%*55,000)	11,000	1
(**Note:** *The same mark will be added if the candidate excludes discount from the insurance contributions tax base with the explanation that it is not a part of a labour agreement with employer.)*		
Total tax base for IC	853,000	

IC payable by employer:

	RR	
Pension fund (853,000*22%)	187,660	½
Social fund(755,000*2.9%)	21,895	1
Federal fund of obligatory medical insurance (853,000*5.1%)	43,503	½
Total IC payable	253,058	
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3 (a) Iliya – Personal income tax (PIT) liability on sale of shares

(i) Gain on the sale of unquoted shares

The gain will be exempt from PIT because the shares are unquoted and have been held for a period exceeding five years of ownership. 1

(ii) Gain on the sale of quoted shares

	RR	
Sale of quoted shares	1,700,000	
Acquisition costs	(1,150,000)	½
Interest expense (Note 1)	(86,524)	3
Taxable income	463,476	
Tax at 13%	60,252	½
		4

Note 1:

	RR	
20% > (15%*1.1) the maximum threshold		*½*
(1,000,000*(31 + 28 + 31 + 30)/365*15%*1.1)	54,247	*1½*
(½ for correct days, ½ for 15%, ½ for 1.1)		
(1,000,000*(31 + 30 + 31 + 31 + 30)/365*7%*1.1)	32,277	*1*
(½ for correct days, ½ for 7%)		
Total	86,524	*3*

(**Marking note:** *86,523 RR is also an acceptable answer due to the rounding of the interim results*)

			Marks
(b)	**Tatiana**		

(i) Personal income tax (PIT) liability

	RR	Marks
Imputed income on gift received from close relative (sister)	0	1
Sale of shares:		
Proceeds (415*6,000)	2,490,000	½
Acquisition cost	(500,000)	1
Investment deduction (none – holding period less than five years)	0	1
Taxable base	1,990,000	
Tax at 13%	258,700	½
		4

(ii) Tatiana should submit her annual personal tax return to the tax authorities by 30 April 2018. ½

PIT subject to payment based on the annual tax return should be paid by 15 July 2018. ½

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4 (a) OOO Zlatogon – Value added tax (VAT) for Quarter 1 (Q1) 2017

Ratio of taxable revenue to total revenue at the end of Q1 2017:

(149,742,000*100/118/(149,742,000*100/118 + 11,880,000)) = 91.44% 1½
(½ for net of VAT, 1 for correct denominator)

Expenses related to non-taxable activities for Q1:

(67,260,000*100/118 + 21,240,000*100/118*(100% – 91.44%)) = 58,540,856 RR 1½
(½ for net of 67,260,000, ½ for net of 21,240,000, ½ for correct % application)

Total expenses for the quarter:

((73,160,000 + 67,260,000 + 21,240,000)*100/118) = 137,000,000 RR ½

Ratio of expenses related to non-taxable activities to the total expenses incurred for Q1:

(58,540,856/137,000,000) = 42.73% ½

Percentage > 5% maximum, so input VAT should be split between the VAT subject to recovery and VAT to be included in the cost of non-current (fixed) assets. ½

VAT on non-current asset subject to recovery: (2,773,000*18/118*91.44%) = 386,791 RR 1
(½ for net of VAT, ½ for correct %)

VAT on non-current asset to be included in cost (2,773,000*18/118*(100% – 91.44%)) = 36,209 RR ½

VAT to be recovered on other purchases:

((21,240,000*18/118*91.44%) + (73,160,000*18/118)) = 14,122,656 RR 1

VAT to be included in the cost of other purchases:

((21,240,000*18/118*(100% – 91.44%)) + (67,260,000*18/118)) = 10,537,344 RR 1

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(b) OOO Tandem – Amended (final) value added tax (VAT) return for Quarter 2 (Q2) 2017

	RR	Marks
Output VAT on unconfirmed export: (150,000*59*18%) *(½ for correct exchange rate, ½ for 18%)*	1,593,000	1
Input VAT: (6,523,335*18/118)	(995,085)	½
Final VAT liability for Q2	597,915	

There is no change in the recoverability of the input VAT on the unconfirmed export, as this should already have been recovered under the general rules as the correct VAT invoices were in place. ½

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Marks

5 Alexander

(a) Personal income tax (PIT) to be withheld at source by OOO Origami in 2017

	RR	Marks
Tax at 13%		
Gross salary (280,000*12)	3,360,000	½
Children allowance for one month (income exceeds 350,000 RR in February) (2*1,400)	(2,800)	1
Annual voluntary medical insurance for himself (exempt)	0	½
Annual voluntary medical insurance for his wife and children	0	½
Reimbursement of his medical expenses for the medical products prescribed from doctor	5,500	½
Exempt deduction	(4,000)	½
Additional insurance contributions for the accumulated portion of pension	25,000	½
Exempt deduction	(12,000)	½
Gift of Japanese language classes	52,000	½
Exempt deduction	(4,000)	½
Taxable base at 13%	3,419,700	
PIT at 13%	444,561	½
Taxable base at 35%: (Note 1)	1,552	2½
PIT at 35%	543	½
		9

Note 1: Imputed interest on the loan from his employer

	RR	
7 July 2017 to 30 September 2017 – CBR rate 7%		
(1,000,000*(2/3*7% – 4%)*(31 – 7 + 31 + 30)/365	1,552	*1½*
(½ for correct CBR rate, ½ for the 2/3, ½ for correct days)		
1 October 2017 to 31 December 2017 – CBR rate 5%		
Since 2/3*5% < 4%, there is no imputed interest income	0	*1*
	1,552	*2½*

(b) Final PIT liability on settlement for 2017

	RR	
Taxable base at 13% (from (a))	3,419,700	
Sale of motorbike	500,000	½
Property deduction (< 3 years)	(400,000)	½
250,000 < 400,000, so 400,000 is more tax effective		½
Educational deduction for payment for daughter	(50,000)	½
Medical treatment for brother	0	½
Total social deductions within 120,000 RR limit		½
Charity deduction (maximum 25% of income)		½
Cash amount	(12,000)	½
Medical products (do not qualify for deduction)	0	½
Taxable base at 13%	3,457,700	
Tax accrued at 13%	449,501	½
Tax withheld at source at 13% (from (a))	(444,561)	½
Tax due to budget at 13%	4,940	
Taxable base at 35%	1,552	
Tax accrued at 35%	543	
Tax withheld at source at 35% (from (a))	(543)	½
Tax due to budget at 35%	0	
Total tax due to budget at 13%	4,940	6
		15

Tutorial note: *A brother is not on the list of close relatives whose medical expenses are allowed a tax deduction. However, in practice, the tax authority can allow the deduction for some relatives, for example, with oncology patients. As such, the mark was also awarded if the medical expenses of the brother were allowed.*

6 AO Parfumer – Corporate profits tax for 2017

	RR	*Marks*
Sales to domestic market (601,800,000*100/118)	510,000,000	½
Export sales	45,000,000	½
Prepayments from domestic customers (non-taxable)	0	½
Total sales	555,000,000	
Direct expenses:		
Direct materials (352,230,000*100/118*60%)	179,100,000	1
(½ for net of VAT, ½ for 60%)		
Direct wages (23,000*12*270*60%)	44,712,000	1
Direct depreciation (Note 1)	4,907,323	3½
Total direct expenses	228,719,323	
Indirect expenses:		
Indirect salaries ((12,500*12*10) + (225,000*12))	4,200,000	1
Voluntary medical insurance		
Limited to: (6%*(44,712,000 + 4,200,000))	2,934,720	1
Voluntary personal insurance against accidents at work		
Limited to (15,000*(270 + 10 + 1))	4,215,000	1
Reimbursement of mortgage percentage		
Limited to 3%*(44,712,000 + 4,200,000) = 1,467,360 RR		1
Reimbursement fully deductible	1,400,000	½
TV advertising (not restricted) (107,380,000*100/118)	91,000,000	½
Software licences (15*35,000)	525,000	½
Total indirect expenses	104,274,720	
Non-sale income/expenses:		
Inventory shortages (non-deductible expense)	0	1
Dividend income (exempt – >50% of equity ownership		½
And owned for > 1 year)	0	½
	0	
Taxable income	222,005,957	
Tax at 20%	44,401,191	½
		15

Note 1: Direct depreciation

	Marks
Net book value (NBV) at 1 January 2017 (from October 2016):	
(74,340,000*100/118*70%*(1 – 1.8%)^3) = 41,761,208 RR	*1½*
(½ for net of VAT, ½ for 70%, ½ for correct number of months)	
NBV at 31 December 2017:	
(41,761,208*(1 – 1.8%)^12) = 33,582,336 RR	*1*
Difference in NBV: 8,178,872 RR	*½*
Depreciation for the year: (8,178,872*60%) = 4,907,323 RR	*½*
	3½