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# Answers

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Section B

Marks

1 AO Virginy

Deductibility of loan interest expense for Q2 2016

Option 1

AO Emirin owns 16% which is less than 20% of AO Virginy's share capital. 1/2

The thin capitalisation rules do not apply. 1/2

Loan – 250,000,000 RR

Interest on loan as at 30 June 2016:

$$(250,000,000 * 7\% * (31 - 12 + 30) / 365) = 2,349,315 \text{ RR}$$

*(1/2 for 7%, 1/2 for correct days)*

1

Interest is fully deductible. 1/2

Option 2

A loan from Geminay Ltd will be a controlled loan (84% > 20%). 1/2

Net assets as at 30 June 2016:

$$(436,000,000 - 416,000,000 + 55,000,000) = 75,000,000 \text{ RR}$$

1

$$\text{Net assets} * 3 = (75,000,000 * 3) = 225,000,000 \text{ RR}$$

1/2

$$(250,000,000 + 2,349,315) = 252,349,315 > 225,000,000$$

1/2

Capitalisation ratio: (loan + interest) / (net assets \* 3 \* 84%)

$$(252,349,315 / (225,000,000 * 84\%)) = 1.3352 > 1$$

1

Interest deductible for profits tax purposes: (2,349,315 / 1.3352) = 1,759,523 RR 1

Portion of interest which will be requalified as dividends:

$$(2,349,315 - 1,759,523) = 589,792 \text{ RR}$$

1/2

$$\text{Withholding tax: } (589,792 * 15\%) = 88,469 \text{ RR}$$

1

Option 3

A loan from an unaffiliated bank is not treated as a controlled loan, so interest is fully deductible. 1/2

Interest on loan at 30 June 2016:

$$(250,000,000 * 27\% * (31 - 12 + 30) / 365) = 9,061,644 \text{ RR}$$

1

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2 Pavel – Social insurance contributions for the year 2016

(a) Under the labour agreement with OOO Alivia

	RR	
Salary (71,000*8)	568,000	1/2
Professional training in Sochi (exempt)	0	1/2
Annual voluntary medical insurance for himself (exempt)	0	1/2
Half-year voluntary personal insurance	7,000	1
Annual voluntary medical insurance for his wife (now exempt)	0	1/2
Compensation for unused vacation	105,000	1
Compensation on termination:		
Three months of average monthly salary (exempt)	0	1/2
Fourth month of average monthly salary (344,000/4)	86,000	1/2
Total remuneration	<u>766,000</u>	
Social insurance contributions (SIC):		
Pension fund: (711,000*22% + (766,000 – 711,000)*10%)	161,920	1
Social security fund: (670,000*2.9%)	19,430	1/2
Federal fund of obligatory medical insurance: (766,000*5.1%)	39,066	1/2
Total SIC	<u>220,416</u>	
		<u>7</u>

**(b) Under the civil law agreement with OOO Luksor**

	RR	
Speaker's fee (120,000*4)	480,000	½
Reimbursement of expenses (exempt)	<u>0</u>	1
Total remuneration	<u>480,000</u>	
Social insurance contributions (SIC):		
Pension fund: (480,000*22%)	105,600	½
Federal fund of obligatory medical insurance: (480,000*5.1%)	<u>24,480</u>	½
Total SIC	<u>130,080</u>	
No social fund contributions.		½
		<u>3</u>
		<u><b>10</b></u>

**3 (a) Vladimir and Malvina****(i) Housing allowance for the year 2016**

	RR	
Market value of apartment	10,000,000	
Reimbursed portion (excluded)	<u>(5,000,000)</u>	1
Value subject to housing allowance	<u>5,000,000</u>	
Vladimir's share (5,000,000*70%)	3,500,000	½
Maximum available housing allowance	<u>(2,000,000)</u>	½
Malvina's share (5,000,000*30%)	1,500,000	½
Maximum available housing allowance	<u>(1,500,000)</u>	
Housing allowance to be carried forward to future years (2,000,000 – 1,500,000)	500,000	½
		<u>3</u>

**(ii)** Since Gregory is Vladimir's brother, he is treated as a close relative, so no housing allowance would be available to Vladimir.

½

Malvina is not a close relative of Gregory, therefore she can claim the same amount of housing allowance as in part (i).

½

1**(b) Kristina – Personal income tax (PIT) for the year 2016****(i) Actual expenses claimed**

	RR	
Business income (3,776,000*100/118)	3,200,000	½
Employee salaries (59,000*2*12)	(1,416,000)	½
SIC on trainers' salaries (working)	(422,596)	1½
Rent expenses incurred (100,000*12)	(1,200,000)	½
SIC on Kristina's income	<u>(13,200)</u>	½
Total	<u>148,204</u>	
PIT at 13%	19,267	½
		<u>4</u>

**Working: Employees' social insurance contributions (SIC)**

(59,000\*12) = 708,000 RR

	<b>RR</b>	
Pension fund: (708,000*22%)	155,760	
Social security fund: (670,000*2.9%)	19,430	
Federal fund of obligatory medical insurance: (708,000*5.1%)	36,108	
Total SIC per employee	<u>211,298</u>	

211,298\*2 = 422,596 RR

**(ii) Professional deduction claimed**

	<b>RR</b>	
Business income (as in (i))	3,200,000	½
Business deduction (3,200,000*20%)	(640,000)	½
	<u>2,560,000</u>	

No entrepreneur's own SIC deduction under this option. ½

PIT at 13% 332,800 ½

2

**10**

**4 AO Serial**

**(a) Value added tax (VAT) liability for Q1, Q2 and Q3 2016**

**(i) Relevant documents provided on 5 August 2016**

Q1 and Q2 – no VAT since the export was confirmed only in Q3. ½

The deadline for the export confirmation (180 days) has not expired on the confirmation date.

**Q3:**

	<b>RR</b>	
Output VAT (25,000*73*0%) <i>(½ for 73, ½ for 0%)</i>	0	1
Input VAT (258,420*18/118)	(39,420)	½
VAT due from the budget	<u>(39,420)</u>	<u>2</u>

**(ii) Relevant documents provided on 15 September 2016**

The 180 day deadline expired on 13 September 2016, hence an amended VAT return for Q1 2016 must be submitted. ½

**Adjusted Q1:**

	<b>RR</b>	
Output VAT (25,000*77*10%) <i>(½ for 77, ½ for 10%)</i>	192,500	1
Input VAT (as in (i) above)	(39,420)	½
VAT liability	<u>153,080</u>	

Export confirmed in Q3 2016.

The recognition date is the last day of Q3 – 30 September 2016.

**Q3:**

Output VAT on confirmed export (25,000*73*0%) <i>(½ for correct exchange rate, ½ for 0%)</i>	0	1
Claw-back of output VAT on unconfirmed export	(192,500)	1
		<u>4</u>

(b) 000 Lama

(i) Input VAT was included in the booked cost of the asset

Depreciation:  $1,062,000 \times 7 / (12 \times 5) = 123,900$  RR 1  
*(1/2 for correct months, 1/2 for correct years)*

Net book value:  $(1,062,000 - 123,900) = 938,100$  RR 1/2

VAT is calculated on the difference between the selling price and the net book value.

VAT on sale:  $(800,000 \times 118/100 - 938,100) \times 18/118 = 900$  RR 1 1/2  
*(1/2 for difference, 1 for 18/118)*

3

(ii) Input VAT was recovered at the point of acquisition

VAT on sale:  $800,000 \times 18\% = 144,000$  RR 1/2

No claw-back of VAT previously recovered. 1/2

1

**10**

5 Anastasiya

(a) Personal income tax (PIT) withheld at source by 000 Wellbee for the year 2016

	RR	
Gross salary ( $100,000 \times 12$ )	1,200,000	1/2
Children allowance:		
Income exceeds 280,000 RR in March 2016 ( $1,400 \times 2 \times 2$ )	(5,600)	1
Voluntary medical insurance for herself (non-taxable)	0	1/2
Voluntary medical insurance for her children (non-taxable)	0	1/2
Pilates courses	50,000	1/2
Professional training in Singapore (exempt)	0	1/2
Meals reimbursement ( $5,000 \times 12$ )	60,000	1/2
Total taxable income	<u>1,304,400</u>	

Tax withheld at 13% 169,572 1/2

**Tax at 35% rate:**

Imputed interest income on loan for personal needs:

1 May to 30 September: CBR is 7%  
 5% is not less than 4.67% ( $2/3 \times 7\%$ ), no imputed interest income 0 1  
*(1/2 for 2/3, 1/2 for correct outcome)*

1 October to 31 December: CBR is 5%  
 5% is equal to the CBR rate, no imputed interest income 0 1/2

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**(b) Final settlement of PIT liability for the year 2016**

	RR	
Taxable base (from a)	1,304,400	
Surgical procedure for her father (within 120,000 RR) <i>(½ for mentioning 120,000, ½ for correct figure)</i>	(80,000)	1
Educational deduction for her son (50,000 RR out of 54,000 RR)	(50,000)	1
Educational deduction for her daughter (within 50,000 RR)	(27,000)	½
Charity deduction: limited to 25% of income		½
Donations in cash	(15,000)	½
Donations in toys and books (not qualified for deduction)	0	½
Taxable income	<u>1,132,400</u>	
Tax at 13%	147,212	½
Less tax withheld (from (a))	(169,572)	½
Tax refund due upon the tax declaration	<u>(22,360)</u>	
		<u>5</u>

**(c) Alternative options for social and educational deductions**

Anastasiya has the option to receive the social deduction for medical expenses in favour of her father and educational expenses in favour of her children from her employer at source. ½  
*(for mentioning at source option)*

In order to qualify for the above deductions at source, she is obliged to provide her employer with two types of documentation:

- a written application for these deductions; and ½
- confirmation from the tax authorities of her eligibility for these deductions. ½

If she provides all the above documents to her employer, she will qualify for these deductions effective from the month of notifying OOO Wellbee. ½  
2

**(d) Denis – Sale of apartment**

**(i)** If Denis inherited the apartment in April 2016, he will qualify for a 100% exemption from PIT in respect of the proceeds from sale, if he sells the property after a minimum of three years. 1  
*(½ for 3 years, ½ for 100% exemption)*

**(ii)** If Denis purchased the apartment himself from an independent seller in April 2016, he would only qualify for 100% exemption from PIT in respect of the sales proceeds if he sells it after a minimum of five years. 1

15

## 6 000 Laveymer – Corporate profits tax for the year 2016

	RR	
Domestic sales (828,360,000*100/118)	702,000,000	½
Confirmed exports	15,200,000	½
Prepayments should not be included	0	½
Total sales	<u>717,200,000</u>	
Direct expenses:		
Direct materials (71,980,000*100/118*70%) (½ for net of VAT, ½ for 70%)	42,700,000	1
Direct wages: (400*30,000*12*70%) (½ for correct formula, ½ for 70%)	100,800,000	1
Direct depreciation (working)	<u>6,477,948</u>	3½
Total direct expenses	<u>(149,977,948)</u>	
Indirect expenses:		
Salaries: (50*45,000*12 + 3*250,000*12)	36,000,000	½
Voluntary medical insurance:		
Deductible part: 6% of labour costs ((100,800,000 + 36,000,000)*6%) (½ for correct total labour costs, ½ for 6%)	8,208,000	1
Non-deductible part: 792,000 RR (9,000,000 – 8,208,000)		½
Voluntary personal insurance against accidents at work:		
Deductible part: (15,000*(400 + 50 + 3))	6,795,000	1
Non-deductible part: 205,000 RR (7,000,000 – 6,795,000)		½
Voluntary life insurance:		
Deductible part: 12% of labour costs ((100,800,000 + 36,000,000)*12%)	16,416,000	1
Non-deductible part: 584,000 RR (17,000,000 – 16,416,000)		½
Deductible advertising expenses:		
Participation in exhibitions (106,200,000*100/118)	90,000,000	½
Advertising on the internet (179,360,000*100/118)	152,000,000	½
Prizes to customers during an advertising campaign Limited to 1% of revenue: (717,200,000*1%)	7,172,000	1
Non-deductible part of prizes: 2,828,000 RR (10,000,000 – 7,172,000)		½
Total indirect expenses	<u>(316,591,000)</u>	
Taxable income	250,631,052	
Tax at 20% rate	50,126,210	½

**15****Working: Direct depreciation**

	RR	
Net book value (NBV) at 31 December 2015 (82,600,000*100/118*70%*(1 – 1.8%) <sup>2</sup> ) (½ for net of VAT, ½ for 70%, ½ for correct formula, ½ for correct months)	47,251,876	2
NBV at 31 December 2016 (47,251,876*(1 – 1.8%) <sup>12</sup> ) (½ for correct months)	37,997,665	½
Depreciation for the year 2016 ((47,251,876 – 37,997,665)*70%) (½ for difference, ½ for 70%)	6,477,948	1
		<u>3½</u>