

Fundamentals Level – Skills Module

# Taxation (Russia)

Thursday 7 December 2017



**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 350,000 RR)	1,400 RR per child
Third child (up to 350,000 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)

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

$V_i$  – 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 CB key rate*	125% of CB 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%

\*Note: The CB refinancing rate is equal to CB key rate

## Thresholds for insurance contributions for the year 2017

(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 876,000 RR	22%
	Over 876,000 RR	10%
Social insurance fund (SIF):	Up to 755,000 RR	2.9%
	Over 755,000 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	1.3%

**Personal income tax rates**

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

**Central Bank refinancing and key rates (notional)**

1 January to 30 April 2017	15%
1 May to 30 September 2017	7%
1 October to 31 December 2017	5%

**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.

- 1 000 Apollon is 60% owned by a Dutch company, Verman, and 40% owned by a Russian tax resident, Mr A Polozov. Verman acquired its share in February 2017, and Mr Polozov acquired his share in June 2015. The two shareholders are not related parties.

The following information relates to the assets and liabilities of 000 Apollon:

Assets	320,000,000 RR
including: Deferred tax assets	100,000,000 RR
Liabilities	152,000,000 RR
including:	
Current tax liabilities	15,000,000 RR
Deferred tax liabilities	70,000,000 RR

On 5 October 2017, 000 Apollon requested financing from its shareholders of 10,200,000 EUR at an interest rate of 3.5% per annum for one year for a new investment project. The interest on the financing will be accrued on a quarterly basis for profits tax purposes and should be paid on the fifth day following the preceding quarter (i.e. interest for Quarter 4 should be paid on 5 January 2018). None of the principal amount will be repaid in 2017.

**Required:**

- (a) Calculate for 000 Apollon for the year 2017 the deductible interest, imputed dividends (if any) and relevant withholding tax on dividends, if 100% of the financing is received from Verman.

Notes:

1. Relevant (notional) exchange rates are as follows:

EUR/RR exchange rates (notional):

1 October	60
5 October	61
31 October	61.5
1 November	62
30 November	62.5
1 December	63
31 December	63.5

EURIBOR one year rates (negative rates):

1 October	-0.5%
5 October	-0.5%
31 October	-0.75%
1 November	-0.25%
30 November	0%
1 December	-0.5%
31 December	-0.75%

2. Ignore interest calculations on a monthly basis. (8 marks)

- (b) Explain and state the withholding tax rate applicable to the interest paid if 000 Apollon receives 100% of the financing from Mr Polozov. Mr Polozov is not registered as an individual entrepreneur.

Note: Calculations are not required in this part. (1 mark)

- (c) Explain the interest treatment in terms of deductibility for 000 Apollon if its net assets at the end of Quarter 4 of 2017 were negative. (1 mark)

**(10 marks)**

- 2 (a) Peter works as a musician. Based on his license agreement with the recording company, 000 Arcada, he received total remuneration of 2,800,000 RR in 2017. His actual expenses in 2017 equalled 1,450,000 RR.

**Required:**

(i) Calculate Peter's insurance contributions (IC) subject to payment by 000 Arcada if he has all the supporting documents confirming his expenses. (3 marks)

(ii) Calculate Peter's IC tax base if he has lost all supporting documents confirming his expenses.

Note: Calculation of the IC payable is not required for this sub-part. (1 mark)

- (b) Peter's wife, Angelina, works as a fitness instructor at the sports club, Iron. Her monthly gross salary is 70,000 RR. In addition, she received the following benefits from her employer in 2017:

	RR
Professional training	21,000
Material aid on the birth of her child and paid during the first year after the birth	52,000
Voluntary medical insurance for herself	21,000
Voluntary medical insurance for her child	15,000

She was also provided with a 20% special discount on the sports club's annual membership. The market value of an annual club membership is 55,000 RR.

Note: The 20% discount is not treated as a gift from her employer.

**Required:**

Calculate the annual amount of insurance contributions (IC) to be paid in respect of Angelina for the year 2017. Clearly identify any items referred to in the question on which IC is not payable. (6 marks)

**(10 marks)**

**3 (a)** On 30 September 2017, Iliya carried out the following two transactions in shares:

- (1) Sold 500 unquoted shares for 230,000 RR. These shares had been acquired in January 2012 for 170,000 RR;
- (2) Sold 5,000 quoted shares on the Russian stock exchange for 1,700,000 RR. These shares had been purchased in December 2016 for 1,150,000 RR. In order to finance this share purchase, Iliya took out a bank loan of 1,000,000 RR at an interest rate of 20% per annum on 30 December 2016. Interest was payable effective from January 2017 on a quarterly basis on the fifth day following the end of quarter (i.e. interest for Quarter 1 2017 was payable on 5 April 2017).

**Required:**

**(i) State, with reasons, the personal income tax (PIT) treatment of the sale of the unquoted shares.**

(1 mark)

**(ii) Calculate Iliya's PIT liability on the sale of the quoted shares.**

**Note: Ignore any interest for December 2016.**

(4 marks)

**(b)** Tatiana received 6,000 quoted shares as a gift from her sister in March 2017. The market value of the shares on the date of the gift was 300 RR per share. In November 2017 Tatiana sold all of the shares for 415 RR per share. Her sister had acquired the shares in 2014 for 500,000 RR. All supporting documents confirming the shares' acquisition were provided to Tatiana.

**Required:**

**(i) Calculate Tatiana's personal income tax (PIT) liability as a result of the above transactions.**

(4 marks)

**(ii) State the deadlines for Tatiana to submit her annual personal tax return for 2017 and pay the PIT due in respect of this return.**

(1 mark)

**(10 marks)**

- 4 (a) OOO Zlatogon acquired a vehicle for the transportation of goods to its customers on 15 March 2017 for 2,773,000 RR (inclusive of value added tax (VAT)). The vehicle was put into use in March 2017 for both vatable and non-vatable activities. All of OOO Zlatogon's purchases are made from suppliers on the general taxation system and are confirmed with documents.

The following data relates to OOO Zlatogon for Quarter 1 of 2017 (all amounts are stated inclusive of VAT where applicable):

	RR
Taxable revenue	149,742,000
Non-taxable revenue	11,880,000
Direct expenses related to taxable activities	73,160,000
Direct expenses related to non-taxable activities	67,260,000
Administrative indirect costs for both activities	21,240,000

**Required:**

**Calculate (1) the total value added tax (VAT) subject to recovery and (2) the total VAT (if any) to be included in costs as a result of the above transactions of OOO Zlatogon in Quarter 1 of 2017** (8 marks)

- (b) OOO Tandem made an export shipment to Germany on 5 June 2017. OOO Tandem applied the standard rate of value added tax (VAT) in its activities. The export has not been confirmed to the tax authorities as at 31 December 2017. The total export value of the goods was 150,000 EUR. The expenses incurred for the export in Quarter 2 of 2017 were 6,523,335 RR (VAT inclusive) and correct VAT invoices for this total value were received in Quarter 2.

**Required:**

**Calculate the final value added tax (VAT) liability of OOO Tandem for Quarter 2 of 2017, giving an explanation of any recoverability or non-recoverability of the input VAT in that same quarter.**

Note: The goods for export are not classified as raw commodities.

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

5 June 2017	59
25 June 2017	58.5
30 June 2017	58
01 December 2017	57.5
04 December 2017	57
31 December 2017	56.5

(2 marks)

**(10 marks)**



5 Alexander works as a project manager for the consulting company, OOO Origami. He is married to Natalia, and the couple have a three-year-old son and a 16-year-old daughter. Alexander's gross monthly salary is 280,000 RR and in addition his employer provided him with the following benefits in 2017:

- Annual voluntary medical insurance for himself of 18,000 RR
- Annual voluntary medical insurance for his wife and children of 38,000 RR
- Reimbursement of his medical expenses for the purchase of medical goods prescribed from the doctor of 5,500 RR
- Additional insurance contributions for the accumulated portion of his labour pension of 25,000 RR
- A certificate on the occasion of his birthday for Japanese language classes with a value of 52,000 RR.

In June 2017, Alexander decided to sell his old motorbike for 500,000 RR. He had owned this motorbike since 2015, and had acquired it for 400,000 RR. On 7 July 2017, Alexander took a car loan from his employer of 1,000,000 RR with interest at the rate of 4% per annum. The interest is payable on a quarterly basis on the third day following the end of the quarter (i.e. interest for the quarter ending 30 September is payable on 3 October). The principal amount will be repaid in 2018. In July 2017, Alexander purchased a new car for 1,700,000 RR.

In September 2017, Alexander paid 55,000 RR for the one-year daily study by his daughter at a design art school. In November 2017, Alexander paid 32,000 RR to the Russian licensed hospital for a surgical operation on his brother. He did not manage to provide confirmations and entitlements for either of these two deductions to his employer before the year end.

Also, in November 2017 Alexander made two donations comprising of 12,000 RR in cash and 10,000 RR in different medical products respectively to an orphanage school in the Moscow region.

**Required:**

**(a) Calculate the personal income tax (PIT) of Alexander withheld at source by OOO Origami for the year 2017, assuming that he asked for all possible maximum deductions to be given at source (if not stated otherwise in the scenario above).**

Note: You should list all of the relevant items referred in the question, indicating by the use of zero (0) any which are not taxable or are tax exempt. (9 marks)

**(b) Calculate the final settlement of Alexander's PIT liability (additional payment or refund) on submission of his PIT return for the year 2017. Clearly identify any limits to the available deductions.** (6 marks)

**(15 marks)**

- 6 AO Parfumer is a Russian company engaged in manufacturing and selling different perfumes to both the domestic and export markets. In compliance with its tax policy, AO Parfumer applies the accruals method for both value added tax (VAT) and corporate profits tax purposes and uses a quarterly profits tax reporting period. In addition, AO Parfumer uses the non-linear depreciation method and its tax policy stipulates its right to an immediate 30% write-off on the initial cost of any tangible non-current assets.

The following data relates to the year 2017. All amounts stated are inclusive of VAT unless it is stated otherwise or the payment is VAT-exempt under the law.

**Sales and prepayments for the year 2017:**

Domestic sales	601,800,000 RR	
Export sales (confirmed)	45,000,000 RR	
	<b>1 January 2017</b>	<b>31 December 2017</b>
Prepayments from domestic customers	18,054,000 RR	16,248,600 RR

**Direct expenses incurred for the year 2017:**

Direct raw materials and ingredients	352,230,000 RR
Direct wages of the 270 workers engaged in manufacturing	23,000 RR (gross) per person per month

**Inventory:**

Only 60% of the products manufactured in the year were sold before 31 December 2017, the remaining 40% were held in the year-end inventory.

The opening inventory of finished products as at 1 January 2017 was 0 RR.

The value of work in progress on both 1 January and 31 December 2017 was also 0 RR.

**Investment into production equipment:**

Acquisition date	Initial value	Tax depreciation rate per month	Month put into use
August 2016	74,340,000 RR	1.8%	September 2016

**Indirect expenses for the year 2017:**

- Ten administrative employees with a gross salary of 12,500 RR per person per month.
- One director with a gross salary of 225,000 RR per month.
- Annual voluntary medical insurance, provided to all employees, for a total value of 3,000,000 RR.
- Insurance against accidents at work, also provided to all employees, for a total value of 4,300,000 RR.
- Reimbursement of 1,400,000 RR to employees as a % on mortgage loans provided to them.
- Television advertising placement of 107,380,000 RR.
- 15 software licences acquired for 35,000 RR per licence (VAT exempt).

**Non-sales income:**

Dividend income of 10,000,000 RR was received from OOO Oil. OOO Oil has been 70% owned by AO Parfumer since the year 2015.

**Additional information:**

In December 2017, AO Parfumer's internal audit department initiated an investigation and found abnormal shortages of inventory at the warehouse of 7,200,000 RR (net of VAT). This shortage was not caused by any officially recognised emergency situation.

**Required:**

**Calculate the taxable profit and corporate profits tax liability of AO Parfumer for the year 2017. Show separately all elements of income and expenses, clearly identifying by the use of zero (0) any non-deductible, non-taxable or exempt items. You should provide a brief reason for any items you treat as exempt.**

**Notes:**

1. Ignore obligatory payroll insurance contributions.
2. Ignore property tax.

**(15 marks)**

**End of Question Paper**