Answers

Section B		Marks
1	**OOO Kopilka**	
	Alternative financing options	
	Beauty SA, a foreign investor, owns > 25% of OOO Kopilka, so the loan will be treated as a controlled loan.	1
	Option 1	
	Interest payable in Q1: (3,000,000*(31 – 15 + 28 + 31)/365*18%) = 110,959 RR	1
	Interest (18%) in RR should be less or equal to:	
	125%*15% = 18.75%	½
	Therefore, a deduction of 18% is not subject to limitation.	½
	Principal amount + interest = (3,000,000 + 110,959) = 3,110,959 RR	½
	3,110,959 < 3*2,000,000, so thin capitalisation rules do not apply.	½
	Deductible interest for Q1 2018 (in full) = 110,959 RR	½
	Option 2	
	12% is less than 18.75% (as calculated for Option 1 above), so within the threshold.	½
	Interest payable in Q1: (4,500,000*(31 – 15 + 28 + 31)/365*12%) = 110,959 RR	½
	Principal amount + interest = (4,500,000 + 110,959) = 4,610,959 RR	½
	4,610,959 > 3*500,000, so thin capitalisation rules will be applied.	½
	Capitalisation ratio: 4,610,959/3*500,000*100% = 3,0740	1
	Deductible interest for Q1 2018 profits tax: (110,959/3,0740) = 36,096 RR	½
	Imputed dividends: (110,959 – 36,096) = 74,863 RR	½
	Withholding tax on dividends at 15%: (74,863*15%) = 11,229 RR	½
	Under both options, the contribution of share capital by Beauty SA, the 100% shareholder, will be exempt from profits tax.	1
		10

2 (a) Mr Komov – Insurance contributions under a civil law agreement for the year 2018

	Marks
Remuneration: (350,000*(22% + 5.1%)) = 94,850 RR *(½ for 22%, ½ for 5.1% or 1 for 27.1%)*	1
Social insurance fund contributions will not be applicable.	1
Reimbursement of both the tickets and accommodation will be exempt. *(½ for tickets, ½ for accommodation)*	1
	3

(b) Marina – Insurance contributions (IC) under a labour agreement for the year 2018

	RR	
Salary (87,000*12)	1,044,000	½
Pension contributions to the non-state pension fund (exempt)	0	½
Half-year voluntary medical insurance for herself	14,000	½
Compensation for her unused vacation	115,000	1
Professional training in communications (exempt)	0	½
Reimbursement of her relocation expenses (within the state limits – exempt)	0	½
Support payment on the birth of her daughter	52,000	½
Less: exempt amount	(50,000)	1
Total insurance contribution base	1,175,000	

	RR	Marks
IC payable by employer:		
Pension fund (876,000*22% + (1,175,000 – 876,000)*10%))	222,620	1
(½ for 22%, ½ for 10%)		
Social fund (755,000*2.9%)	21,895	½
Federal fund of obligatory medical insurance (1,175,000*5.1%)	59,925	½
Total insurance contributions payable	304,440	
		7
		10

3 (a) Pavel

(i) Final personal income tax (PIT) liability for the year 2018

	RR	
Annual salary (80,000*12)	960,000	½
Social deduction (Note 1)	(120,000)	1½
Taxable income	840,000	
PIT at 13%	109,200	½
Tax withheld by employer: 960,000*13% = 124,800		½
Tax due from budget: 15,600		
		3

Note 1

The expenses can be split in a variety of ways such as:

	RR	
– annual voluntary insurance for his wife (37,000 – 4,000)	33,000	½
– prescribed medical products for himself	45,000	½
– contributions to the non-state pension fund for himself	42,000	½
Maximum social deduction	120,000	*1½*

Tutorial note: *The same marks should be given for another split to get the maximum of 120,000 RR.*

(ii) Pavel's social deductions at source will be limited to the expenses incurred for:

– the annual voluntary insurance for his wife; and ½
– the prescribed medical products for himself. ½

Pavel will only be able to qualify for these social deductions at source if he provides his employer with the following documents:

– a written application for these social deductions; and ½
– confirmation from the tax authorities of his eligibility for these social deductions. ½

2

(iii) If Pavel's employer reimburses him for the expenses related to medical insurance, medical products under receipt and insurance contributions to the non-state pension fund before the end of the year 2018, Pavel will lose his right to a social deduction based on his annual personal income tax return for the year 2018. 1

		Marks

(b) Svetlana – Final PIT liability for the year 2018

	RR	
Total remuneration for the year (70,000 + 63,000*10)	700,000	½
40% professional deduction (since she lost all the documents)	(280,000)	1
Taxable income	420,000	
PIT at 13%	54,600	½
Taxable base at 35% (advertising campaign prize)	205,000	½
Prize deduction	(4,000)	1
Tax base	201,000	
PIT at 35%	70,350	½
Total PIT at 13% and 35%	124,950	
		4
		10

4 OOO Parket

(a) Recognition date for value added tax (VAT) on construction works for own needs

The date for defining the VAT taxable base for construction works for own needs is the last day of each tax period, i.e. the last day of the reporting quarter for VAT purposes. 1

(b) VAT output tax base of constructed warehouse in Quarter 2 (Q2) 2018

	RR	
Materials (1,003,000*100/118) *(½ for 100/118; ½ for 90% adjustment)*	850,000	1
Labour (2,475,000 + (2,475,000*30%)) *(½ for salaries, ½ for insurance contributions)*	3,217,500	1
Third party services (not included)	0	½
Depreciation	100,000	½
Taxable base	4,167,500	
		3

(c) Input VAT for Q2 2018

	RR	
VAT on materials (1,003,000*90%*18/118) *(½ for 90%, ½ for 18/118)*	137,700	1
VAT on third party services (2,124,000*18/118)	324,000	½
VAT on investment in non-current assets (4,167,500*18%)	750,150	½
Total input VAT	1,211,850	
		2

(d) Output VAT accrued on the construction works for own needs can be recovered in the same quarter (i.e. Q2) provided both the following two criteria are met:

– the warehouse has been put into use for operations subject to VAT; and ½
– the warehouse's depreciation will be deductible for profits tax purposes. ½

1

(e) A VAT invoice should be issued (one copy) for the constructed warehouse for own needs; and it should be registered in the sales book on the last day of Q2 2018. 1

(½ for registering in the sales book, ½ for the last day of Q2 2018)

		Marks
(f) If OOO Parket commenced using the above constructed warehouse for activities not subject to VAT in Quarter 4 (Q4) 2018, then one-tenth of the VAT recovered in Q2 2018 should be clawed back in Q4.		
In subsequent years, a further one-tenth of the recovered VAT will be clawed back for each year that the warehouse is still kept in use for non-VATable activities.		2
(½ for claw back, ½ for quarter indication, ½ for 1/10th; ½ for any reference to subsequent years)		**10**

5 (a) David – Personal income tax (PIT) withheld at source by OOO Mascarad for the year 2018

	RR	
Tax at 13%		
Gross salary (120,000*12)	1,440,000	½
Children allowance (income exceeds 350,000 RR in March 2018) – (2*1,400*1)	(2,800)	1
(½ for 1,400, ½ for 2 months)		
Annual voluntary medical insurance for himself (exempt)	0	½
Annual voluntary medical insurance for his children	0	½
Material aid for his brother	20,000	½
Less: support allowance deduction	(4,000)	1
Italian lessons as an additional incentive (not work related)	40,000	½
No housing allowance (already used)	0	½
Taxable income	1,493,200	
Tax at 13%	194,116	½
Tax at 35%		
Imputed interest income (David has already used his housing allowance)		
12 March to 30 April		
(5,000,000*((2/3*15%) – 5%))*(31 – 12 + 30)/365	33,562	2
(½ for 2/3, 1 for correct CBR rate, ½ for correct days)		
1 May to 30 September		
((2/3*7%) – 5%) would be negative, so no imputed interest income)	0	½
1 October to 31 December		
(mortgage loan rate is equal to CBR rate, so no imputed interest income)	0	½
Total imputed interest income	33,562	
Tax at 35%	11,747	½
Total tax at 13% and 35% (194,116 RR + 11,747 RR)	205,863	**9**

(b) David – Final settlement of PIT on submission of return for the year 2018

	RR	
Tax at 13%		
Taxable base (from (a))	1,493,200	
Social deduction re life insurance (maximum)	(120,000)	1
(125,000 >120,000)		
Taxable base	1,373,200	
Tax at 13%	178,516	½
Tax withheld at source by employer (from (a))	(194,116)	½
Tax refund due	(15,600)	
		2

Marks

(c) Anna – Housing allowance to be used in 2018

	RR	
Gross salary (75,000*12)	900,000	½
Children allowance (income exceeds 350,000 RR in May 2018) (4*1,400*1)	(5,600)	1
Interest paid to the bank in 2018 (none for December) (2,000,000*10.5%*(30 + 31 + 30 + 31 + 31 + 30 + 31 + 30)/365	(140,384)	1
Housing allowance used in 2018	(754,016)	½
Anna has no imputed interest income for 2018 since she has never used the housing allowance		½
Taxable base	0	
Tax at 13%	0	
Housing allowance to be carried forward: (2,000,000 – 754,016) = 1,245,984 RR		½
		4
		15

6 OOO Raduga

Corporate profits tax liability for the year 2018

	RR	
Domestic sales net of VAT (371,700,000*100/118)	315,000,000	½
Confirmed export sales	44,604,000	½
Prepayments (non-taxable)	0	½
Total sales	359,604,000	
Direct expenses		
Cost of goods sold [((37,170,000 + 148,680,000 – (148,680,000*15%))*100/118] *(½ for 15%, ½ for 100/118)*	138,600,000	1
Transportation expenses [(2,601,900 + 10,407,600)*100/118*138,600,000/((37,170,000 + 148,680,000)*100/118)] *(½ for 100/118, 1 for ratio application)*	9,702,000	1½
Note to the markers: *Candidates who calculate the proportion of cost of goods sold to purchases, as stipulated in the Tax Code, should also be given the full mark.*		
Total direct costs	(148,302,000)	
Indirect expenses		
Wages and salaries: [200*710,000 + 61*280,000]	159,080,000	½
Annual voluntary medical insurance (6% limit) (159,080,000*6% = 9,544,800 (out of 18,000,000))	9,544,800	1
Life insurance for employees (6 years agreement – 12% limit) (159,080,000*12% = 19,089,600 (out of 35,000,000))	19,089,600	1
Depreciation (Note 1)	1,796,865	3½
Participation in various advertising exhibitions (9,558,000*100/118)	8,100,000	½
Advertising in relevant Russian journals (8,496,000*100/118)	7,200,000	½
Co-promotional programmes in fitness clubs (limited to 1% of total sales (see above)) (359,604,000*1%)	3,596,040	½
Total indirect expenses	(208,407,305)	
Non-sale expenses (Note 2)	(348,896)	3
Total taxable base	2,545,799	
Tax at 20% (2,545,799 x 20%)	509,160	½
		15

	Marks
Note 1	
Net book value (NBV) at 1 January 2018 (719,800*100/118*70%*(1 – 5.6%)^10) = 239,965 RR *(½ for 100/118, ½ for 70%, ½ for correct formula, ½ for correct months in the formula)*	*2*
NBV at 31 December 2018 (239,965*(1 – 5.6%)^12) = 120,174 RR	*½*
Difference for the year 2018 for 15 equipment pieces: (239,965 – 120,174)*15 = 1,796,865 RR *(½ for difference, ½ for correct number of pieces)*	*1*
	3½

Note 2

Bad debts provision in Q4:

	RR	
Customer A (241,900*50%)	120,950	*½*
Customer C (171,100*100%)	171,100	*½*
	292,050	

Should be within 10% of revenue net of VAT:	
(359,604,000*10%) = 35,960,400 RR	*½*
Bad debt from Customer B: 369,340 RR due to liquidation decision.	*½*
Amount to be taken into P&L (provision 2018 – opening balance + bad debts):	
(292,050 – 312,494 + 369,340) = 348,896 RR	*1*
	3