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# Answers

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Section A

1 B  $250,000 * 70% * 27.1% = 47,425$

2 D

3 B

4 A  $150,000 \text{ RR } ((155,000 - 40,000) + (70,000 * 50\%))$

5 C

6 B

7 A

8 D

9 B

10 A  $8,451,500 \text{ RR } ((30,000,000 * 100/120) + (13,275,000 + (13,275,000 * 30\%)) * 20\%$

11 A

12 D  $4,605,000 \text{ RR } (500,000 + 70,000 + 2,500,000) * 1.5$

13 D (more than three-year holding period)

14 A  $43,668 \text{ RR } (3,960,000 * 7% * 125% * (31 - 15 + 30) / 365)$

15 B  $22,100 \text{ RR } ((1,100,000 * 70%) - 600,000) * 13%$

## Section B

Marks

## 1 (a) (i) Net amount of interim dividends payable

	RR	
Taxable base Q1 2019	25,000,000	
The deduction for losses brought forward cannot exceed 50% of the taxable base. The maximum loss available to be utilised is therefore: $25,000,000 \text{ RR} \times 50\% = 12,500,000 \text{ RR}$		$\frac{1}{2}$
FIFO method of application		
2013	(7,500,000)	$\frac{1}{2}$
2014	(4,900,000)	$\frac{1}{2}$
2015: $12,500,000 - 7,500,000 - 4,900,000 \text{ RR}$	(100,000)	$\frac{1}{2}$
Taxable base after loss utilisation	<u>12,500,000</u>	
$12,500,000 \times 20\%$	2,500,000	$\frac{1}{2}$

Dividends available for distribution:  $12,500,000 - 2,500,000 = 10,000,000 \text{ RR}$   $\frac{1}{2}$

**Note:** *The distribution of 100% after-tax Q1 2019 profits as dividends will not bring the net asset value (100 million RR) below the charter capital (20 million RR).*

**OOO Idea**

Withholding tax based on ownership share:  $10,000,000 \times 20\% \times 13\% = 260,000 \text{ RR}$  1  
 Net amount of dividends to OOO Idea:  $(10,000,000 \times 20\%) - 260,000 = 1,740,000 \text{ RR}$   $\frac{1}{2}$

**OOO Biotechnology**

Withholding tax based on ownership share:

Since:

- the ownership exceeds 365 days and  $\frac{1}{2}$
- the ownership holding exceeds 50% of the share capital, i.e. 80%  $\frac{1}{2}$

the dividend should be subject to withholding tax at the 0% rate.  $\frac{1}{2}$

Net amount of dividends to OOO Biotechnology:  $10,000,000 \times 80\% = 8,000,000 \text{ RR}$   $\frac{1}{2}$

The deadline for withholding tax for OOO Idea is 21 May 2019, the day following the day on which the dividends are paid.  $\frac{1}{2}$

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- (ii) Where a foreign shareholder provides OOO Biotechnology with a rouble loan on 15 May 2019 to 31 August 2019, the maximum deductible interest should not exceed the following percentage:

$125\% \times 7\% = 8.75\%$  1

( $\frac{1}{2}$  for correct CB key rate application,  $\frac{1}{2}$  for 125%)

- (b) (i) The main parties to be included in the participation notification for the multinational group of companies are:

- The taxpayer;  $\frac{1}{2}$
- The parent company or authorised participant of the multinational group of companies.  $\frac{1}{2}$

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- (ii) The deadline for submission of the participation notification is eight months following the deadline of the parent company's reporting period. 1

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## 2 (a) Anna's insurance contributions (IC) to be paid by OOO Flight

Pension fund (PF):  $1,021,000 \times 22\% + (1,104,000 - 1,021,000) \times 10\% = 232,920 \text{ RR}$  1

Federal fund of obligatory medical insurance (FFOMI):  $1,104,000 \times 5.1\% = 56,304 \text{ RR}$   $\frac{1}{2}$

Total IC  $232,920 + 56,304 = 289,224 \text{ RR}$

Social insurance fund (SIF) – exempt 1

Hotel and train ticket costs are exempt because the expenses are confirmed with documents.

Marks

1/2

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**(b) Andrey's insurance contributions to be paid by Ozero for the year 2019**

	RR	
Gross salary 90,000*12	1,080,000	1/2
Annual voluntary medical insurance for Andrey	0	1/2
Compensation for interest paid on his mortgage loan	0	1/2
Additional insurance contributions paid for the accumulated pension portion in excess of limit: (36,000 – 12,000)	24,000	1
Compensation for his unused vacation	192,000	1/2
Professional training	0	1/2
Per diems reimbursement for the business trips (exempt within 700 RR per day)	0	1/2
Support payment on the birth of his son in excess of exemption (51,000 – 50,000)	1,000	1
	<u>1,297,000</u>	
Pension fund (PF): 1,021,000*22% + (1,297,000 – 1,021,000)*10% = 252,220 (1/2 for 22%, 1/2 for 10%)		1
Social insurance fund (SIF): 815,000*2.9% = 23,635		1/2
Federal fund of obligatory medical insurance (FFOMI): 1,297,000*5.1% = 66,147		1/2
Total IC 342,002 RR (252,220 + 23,635 + 66,147)		

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**3 (a) Alexandra's personal income tax liability for the year 2019**

	RR	
Gross salary 105,000*12	1,260,000	1/2
Investment deduction (maximum 400,000 RR)	(250,000)	1/2
Russian corporate bonds interest income Since CB key rate has changed from 5 February to 30 December 2019: Interest income is exempt within CB key rate +5%: 5 February 2019–30 April 2019: 15% + 5% >10.5% 1 May 2019–30 September 2019: 7% + 5% >10.5% 1 October 2019–30 December 2019: 5% + 5% = 10%, only within 10% interest is exempt Bracelet gift from her husband is not taxable (close relative)	0	1/2
	<u>1,010,000</u>	
Taxable base taxable at 13% rate	1,010,000	
Tax due to the budget at 13%	131,300	1/2
Tax withheld by her employer 1,260,000 *13%	(163,800)	1/2
	<u>(32,500)</u>	
Taxable base taxable at 35% rate: Exceeding CB key rate: 10.5% – 10% = 0.5% 0.5%*520,000*(31 + 30 + 30)/365 = 648 (1/2 for correct days, 1/2 for 0.5%)		1/2
		1
PIT at 35%	227	1/2
Total tax refund 32,500 – 227 = 32,273 RR		

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**(b) The list of documents Alexandra should submit to the tax authorities to confirm her eligibility for the investment deduction:**

Agreement with the broker.	1/2
Documents confirming the funds transfer to her individual investment account.	1/2

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(c) Criteria to be met by Alexandra in order to comply with PIT exemption on selling her corporate bonds in the future

**The corporate bonds**

- Traded on the Russian stock exchange, 1/2
- acquired in 2019 from 2014, and 1/2
- ownership period exceeds three years, 1/2
- not booked on Alexandra's individual investment account 1/2

**Alexandra**

- Russian tax resident on the date on which income is received 1/2
- In the same tax year has no income subject to 13% personal income tax 1/2

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4 (a) Diploma's VAT liability

(i) Diploma's VAT liability for Q2 2019

	RR	
<b>Output VAT:</b>		
19,321 EUR*70*20/120 =	225,412	1
<i>(1/2 for 20/120, 1/2 for correct exchange rate)</i>		
<b>Input VAT:</b>		
On goods: 1,227,200*20/120	(204,533)	1/2
On services: 85,904*20/120	(14,317)	1/2
VAT liability due to the budget	6,562*	

\* **Note:** Full marks were given for an answer of 6,561 due to rounding total input VAT up (to 218,851).

Diploma's deadline for submitting a notice for the non-application of the 0% VAT rate to the tax authorities is 1 April 2019 (first date of the tax period when 0% is not applied).

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(ii) General conditions for VAT recovery:

- (1) Goods, works, services are acquired for the VAT taxable transactions 1/2
- (2) Goods, works, services are booked and properly sourced documents have been received 1/2
- (3) Proper VAT invoice has been received 1/2

Maximum period for the VAT recovery claim is three years, following the ending of tax period in which goods, services or works were booked.

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**2**

(b) (i) Export of goods is confirmed

	RR	
<b>Q2 VAT liability:</b>		
Output VAT 19,321 EUR*70*0%	0	1/2
Input VAT on goods and services: 204,533 + 14,317	218,850	1
VAT recoverable in Q2	(218,850)	
<b>Q4 VAT liability:</b>		
Output VAT: export is confirmed on 8 October (before 180 days expire)		
(19,321 EUR – 3,220 EUR)*0%*73	0	1
<i>(1/2 for Q4, 1/2 for 0%)</i>		
Input VAT (already recovered in Q2)	0	1/2
VAT payable/recoverable	0	

**3**

## (ii) Export of goods is not confirmed within 180 days, but confirmed in Q4

	RR	
<b>Q4 VAT liability:</b>		
Output VAT:		
19,321 EUR*76*0%	0	1
<i>(½ for 76, ½ for 0%)</i>		
Input VAT:		
VAT from unconfirmed export in Q2: 19,321*70*20/120	(225,412)	1
VAT recoverable	(225,412)	
		<u>2</u>
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## 5 (a) George's personal income tax (PIT) liability withheld at source by 000 Dream

	RR	
<b>Tax at 13%</b>		
Gross salary 190,000*12	2,280,000	½
Children allowance (his income exceeds 350,000 RR in February)		
(1,400*1*1)	(1,400)	1
<i>(½ for 1 month, ½ for 1 child since the other one &gt;18 years old)</i>		
Interest actually paid on mortgage loan during the year 2019:		
7,000,000*4% (30 – 25 + 31 + 30 + 31 + 31 + 30)/365)	(121,205)	1
<i>(½ for 4%, ½ for correct days)</i>		
Taxable base	<u>2,157,395</u>	
Tax at 13%	280,461	½
<b>Tax at 35%</b>		
Imputed interest income on mortgage loan:		
25 April–30 April		
7,000,000*(2/3*15% – 4%)*(30 – 25)/365 =	5,753	1½
<i>(½ for 2/3, ½ for correct CBR rate, ½ for correct days)</i>		
1 May–30 September		
7,000,000*(2/3*7% – 4%)*(31 + 30 + 31 + 31 + 30)/365 =	19,562	1½
1 October–31 December (2/3*5% <4%) – not applicable		½
Taxable base at 35%	<u>25,315</u>	
Tax at 35%	8,860	½
		<u>7</u>

## (b) Final settlement of PIT for George

	RR	
<b>Tax at 13%</b>		
Taxable base from part (a)	2,157,395	
Sale of his share in the apartment:	0	1
Since ownership exceeds five years, full exemption will be applicable		
Education deduction for his daughter	(50,000)	1
(out of 60,000)		
Taxable base	<u>2,107,395</u>	
Tax accrued at 13%	273,961	½
Tax withheld by employer (from part (a))	(280,461)	½
Tax refund at 13%	<u>6,500</u>	

	RR	Marks
<b>Tax at 35%</b>		
Taxable base from (a)	25,315	
Sports gym prize	20,000	½
Prize allowance	(4,000)	½
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Taxable base	41,315	
	<hr/>	
Tax accrued at 35% (41,315*35%)	14,460	½
Tax withheld by employer (from part (a))	(8,860)	½
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Tax due to budget	5,600	
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**(c) Final settlement for Ekaterina for the year 2019**

	RR	
Gross income	3,500,000	
Children allowance (in January income exceeded 350,000 limit)	0	½
Income from old apartment sale (held more than five years)	0	½
Housing incentive (actual cost 9 million exceeds maximum)	(2,000,000)	½
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Taxable base	1,500,000	
	<hr/>	
Tax at 13% (1,500,000*13%)	195,000	½
Tax withheld by employer 3,500,000*13%	(455,000)	½
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Taxable refund per tax declaration	(260,000)	½
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		<b>3</b>
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**6 (a) Ambassador's profits tax liability for the year 2019**

	RR	
Domestic sales 663,484,500*100/120	552,903,750	½
Confirmed export sales	27,319,950	
Prepayments from domestic customers – non-taxable	0	½
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Total sales	580,223,700	
<b>Direct expenses:</b>		
Cost of goods sold: (39,028,500 + 420,000,000)*100/120*90%	(344,271,375)	1
Transportation expenses: (3,902,850 + 42,000,000)*100/120*90%	(34,427,138)	1
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Total direct costs	(378,698,513)	
<b>Indirect costs:</b>		
Salaries: (516,000*250) + (204,000*50)	(139,200,000)	½
Annual voluntary medical insurance:		
Limit 139,200,000*6% = 8,352,000, i.e. 8,352,000 out of 9,000,000 will be fully deductible	(8,352,000)	1
7 years life insurance		
12%*139,200,000 = 16,704,000	(16,704,000)	1
16,704,000 out of 17,000,000 will be fully deductible		
Immediate write-off for the equipment purchased:		
18,000,000*100/120*30%	(4,500,000)	1
Linear depreciation: 18,000,000*100/120*70%*11/61 (½ for 100/120, ½ for 70%, ½ for correct months)	(1,893,443)	1½
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Total indirect costs	(170,649,443)	
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Taxable base	30,875,744	
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20% tax due	6,175,149	½
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**(b) Investment deduction for the acquired equipment**

	RR	
Taxable profit from part (a)	30,875,744	
Re-calculation of profits before investment deduction – add-back 30% capex immediate write-off	<u>4,500,000</u>	1
Re-calculated profits before 30% write-off	<u>35,375,744</u>	
Corporate profits tax split by budget:		
Federal part: 35,375,744*3%	1,061,272	½
Regional part: 35,375,744*17%	6,013,876	½
<b>Calculation of investment deduction by steps below:</b>		
(1) Amount of expenses deducted from corporate profits tax due to federal budget: $(18,000,000 * 100 / 120) * 10\% = 1,500,000$ RR		1
(2) Profits tax due to the federal budget: $1,061,272 - 1,061,272$ (out of 1,500,000 RR) = 0 RR		½
(3) Maximum limit of investment deduction to the regional budget: $6,013,876 - (35,375,744 * 5\%) = 4,245,089$ RR		1
(4) 90% of the acquisition amount spent: $0.9 * 15,000,000 = 13,500,000$ RR		1
(5) Since 4,245,089 RR < 13,500,000 RR then only 4,245,089 RR can be included into the regional deduction amount. Corporate profits tax part due to the regional budget: $6,013,876 - 4,245,089 = 1,768,787$ RR		½
(6) Total corporate profits tax due to all budgets: $1,768,787 + 0 = 1,768,787$ RR		
(7) Total amount of deduction: $4,245,089 + 1,061,272 = 5,306,361$ RR		

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