

Fundamentals Level – Skills Module

# Taxation (Russia)

Monday 3 December 2007

**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

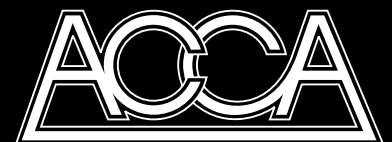
ALL FIVE questions are compulsory and MUST be attempted.  
Tax rates and allowances are on pages 2–3.

**Do NOT open this paper until instructed by the supervisor.**

**During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.**

**This question paper must not be removed from the examination hall.**

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.
3. All workings should be shown.

**TAX RATES AND ALLOWANCES**

The following tax rates and allowances are to be used in answering the questions unless stated otherwise

**Tax rates****Personal and children allowances**

Standard personal allowance	400 RR (up to 20,000 RR)
Children allowance	600 RR (up to 40,000 RR)

**General limitation on "housing" allowance**

Investments in residential property for tax purposes	1,000,000 RR (upper limit)
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**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)

Medical deduction	50,000 RR (upper limit)
Educational deduction	50,000 RR (upper limit)

**Gains on property sales:**

– immovable property	1,000,000 RR (upper limit)
– movable property	125,000 RR (upper limit)

**Statutory per diem rate:**

– for domestic business trips	100 RR per day
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**Threshold interest rates for personal income tax purposes**

Rouble bank deposits	CB refinancing rate
Foreign currency bank deposits	9%
Rouble loans	3/4 of the CB refinancing rate
Foreign currency loans	9%

**Combined unified social tax rates for individual entrepreneurs****Income amount**

up to 280,000 RR	10 %
from 280,001 RR to 600,000 RR	3.6%
from 600,001 RR	2%

**Combined unified social tax rates for employers**

Income amount	Employer (general)	Employer (licences, copyrights and under civil contracts)
up to 280,000 RR	26%	23.1%
from 280,001 RR to 600,000 RR	10%	9%
from 600,001 RR	2%	2%

**Expenses for profits tax purposes**

Voluntary medical insurance expenses are limited to 3% of labour costs

Voluntary life insurance expenses are limited to 12% of labour costs

Certain advertising expenses are limited to 1% of sales revenue

Entertainment expenses are limited to 4% of labour costs

**Special depreciation ratios**

Passenger cars (cost > 300,000 RR per item)	0.5
Minivans (cost > 400,000 RR per item)	0.5
Fixed assets received under financial leasing	3 (upper limit)

**Allowances for receivables**

General limitation	10% of sales
Aged 0 to 45 days	0% of receivable
Aged 46 to 90 days	50% of receivable
Aged more than 90 days	100% of receivable

**VAT rates**

Standard	18%
Exports	0%

**General profits tax rate**

Tax on dividends for residents	24%
	9%

**Property tax rate**

2.2%

**Personal income tax rates**

Basic rate	13%
Higher rate	35%

**Central Bank refinancing rates (notional)**

January 2007 to 30 April 2007	60%
01 May 2007 to 30 October 2007	40%
31 October 2007 to 31 December 2007	35%

**Number of calendar days in calendar months for the year 2007**

January	31
February	28
March	31
April	30
May	31
June	30
July	31
August	31
September	30
October	31
November	30
December	31

**ALL FIVE questions are compulsory and MUST be attempted**

1 ZAO Whillys ('Whillys'), a 100% subsidiary of the US company Whillys Holding Inc, is a manufacturing company which sells a wide range of different products, such as butter, cheese and cookies, both in the Russian market and to other CIS countries. Most of the food products are produced using Whillys' own production facilities, but sometimes the company uses the production facilities of other manufacturers under processing services agreements.

Whillys always applies the accruals method for both value added tax (VAT) and corporate profits tax purposes. Whillys uses the straight-line method of depreciation for both tax and accounting purposes and applied its right to an immediate 10% write-off on the asset cost in 2007, as well as in 2006. The company's corporate profits tax reporting period is quarterly. All the finished goods sold by Whillys in the domestic market are subject to VAT at the standard rate. The annual salaries of Whillys' employees do not exceed 250,000 RR per person.

The following information is available for 2007. All figures are inclusive of VAT unless stated otherwise.

**Sales and prepayments (in 000 RR):**

Domestic sales for 2007	147,500
Export sales for 2007 (all exports were confirmed in 2007)	3,500
Cash collections in the year 2007	130,750
Prepayments received from domestic customers as at 1 January 2007	208,860
Prepayments received from domestic customers as at 31 December 2007	126,260

**Cost of finished goods as recorded in the financial accounting ledgers, exclusive of VAT (in 000 RR):**

Balance of finished goods brought forward as at 1 January 2007	40,000
Finished goods manufactured during the year 2007	60,000*

(\*this amount does not include the finished goods manufactured under the processing agreement)

Finished goods sold during the year 2007 – 80% of the finished goods produced and processed during 2007.

**Direct materials and components**

The value of direct components transferred to the processing entity (a third-party manufacturer which charges processing services fees for manufacturing goods from clients' materials and components) for the year 2007 was 500,000 RR (net of VAT). In the financial accounting ledgers the cost of finished goods received from the processing entity was 900,000 RR (net of VAT), including the cost of processing services of 400,000 RR (net of VAT). The cost of processing services was the same in both the tax accounting and financial accounting ledgers. Whillys received VAT invoices for the amount of processing services with a total value of 413,000 RR.

In the tax accounting ledgers the total cost of components and materials purchased and then used in production (including the components transferred to the processing entity) was 50,000,000 RR (net of VAT) for the year 2007.

**Wages and salaries**

Whillys accrued 20,000,000 RR and 5,000,000 RR of wages and salaries related to production workers and administrative personnel respectively in 2007. In addition, under the terms of their employment agreements, the company purchased one-year voluntary medical insurance for its employees for 5,600,000 RR, and provided five-year voluntary life insurance policies for its employees for 3,000,000 RR (no payments will be made to employees during this five-year term).

**Fixed assets depreciation (in 000 RR):**

Category of fixed asset	Quantity	Historic cost (per item)	Accounting depreciation in years	Tax depreciation in years	Date put into use
Production line	1	19,824.0	10	7	February 2007
Other production assets	1	660.8	6	5	November 2006
Passenger car	3	584.1	6	5	June 2006
Mini van	10	477.9	7	6	January 2007

### Allowances for receivables

Whillys created allowances for receivables totalling 77,000 RR during the year 2007. Actual write-offs of receivables were 38,500 RR. These write-offs were made due to the bankruptcies of several debtors. As at 31 December 2007 Whillys' credit manager, after evaluating all the accounts receivable, calculated the year-end closing balance of allowances for receivables at 65,000 RR.

### Entertainment expenses

Whillys arranged a number of business events during the year 2007, resulting in a total of business entertainment expenses incurred for the year 2007 of 15,340,000 RR. However, only 70% of this amount was paid in 2007, and only 50% was documented with VAT invoices received in 2007.

### Interest

On 7 November 2007, Whillys received a four-year loan in the amount of 1.7 million USD to finance an increase in its production and marketing activities. The lender is Whilton Corporation which owns a 19% share in the capital of Whillys' US holding company, Whillys Holding Inc. The interest rate on the loan was originally set at 5.75% per annum. However, the loan agreement had a provision regarding possible interest rate changes and the interest rate was increased to 6.5% per annum, effective from 1 December 2007. The first interest payment on the loan is due on 5 January 2008 (interest is not compound).

### Losses from prior years

Whillys has unused tax losses of 800,000 RR brought forward from 2005 and 1,800,000 RR brought forward from 2004.

The following USD/RR exchange rates are to be used in answering this question:

07 November 2007	26.6
30 November 2007	26.5
31 December 2007	26.8
05 January 2008	27.3

### Required:

- (a) Calculate the taxable profits and corporate profits tax liability of ZAO Whillys for 2007. Show separately all elements of taxable income and deductible expenses. Ignore property tax. (24 marks)
- (b) Calculate ZAO Whillys' value added tax (VAT) liability for 2007. Show separately all elements of output/input VAT. (6 marks)

**(30 marks)**

2 Valentina works as a public relations manager in a well-known fashion agency. She is divorced and has one son, aged six years. Her gross monthly salary is 100,000 RR for all months in the year, but she only received 37,000 RR gross for the month of January due to her illness.

The cost of her medical treatment for January of 10,000 RR was reimbursed to Valentina by the agency. This amount was treated as a non-deductible expense by the employer.

Valentina has brilliant communications skills which are highly appreciated by her employer. During the year 2007 she received the following benefits from the agency:

- (1) Voluntary medical insurance paid by the agency for the value of 17,000 RR for the period from 1 March 2007 to 29 February 2008.
- (2) Medical insurance for her son for the value of 12,000 RR for the same period as above.
- (3) A company cell phone with a market value of 8,000 RR was provided to her on 1 May 2007. According to the breakdowns of invoices from the network operator, the average monthly cost of Valentina's business-related phone calls was 6,000 RR. The total costs for her cell phone in 2007, which were fully reimbursed by her employer, were 52,000 RR.
- (4) Free lunches with a monthly value of 4,800 RR, but in January the cost of her lunches was only 3,000 RR, due to her illness.
- (5) Bonus accrued for the year 2006: the net amount of 98,000 RR was paid to her account on 12 March 2007.
- (6) A birthday gift of a one week trip to Paris from 17 August 2007, for the value of 52,500 RR.

Starting from April 2007 the fashion agency decided to apply a new pension scheme for all its employees. The amount of the contributions made by the agency on behalf of Valentina under this voluntary pension scheme was 45,000 RR for the year 2007.

In June 2007 Valentina made a decision to sell her personal car to her work colleague Svyatoslav for its market value of 200,000 RR. She has owned this car since May 2004. Svyatoslav agreed to buy it, and this transaction was processed on 15 June 2007.

On 20 June 2007 Valentina received a five-year loan of 25,000 USD from ABC Bank to finance her one and a half year distance educational programme. The interest rate is 6% and the first interest payment is due on 1 January 2008. The loan agreement does not provide for any changes in the CBR rate.

On 20 August 2007 Valentina used her new credit card during the trip to Paris. At the end of the trip, the amount of her overdraft was 50,000 RR. The bank's grace period is 50 days from the day of purchase. Valentina only managed to pay off her overdraft to the bank on 30 September 2007.

Valentina visited a casino while in Paris and unexpectedly won 1,000 EUR. The applicable exchange rate was 34 RR for 1 EUR.

In August Valentina paid 40,000 RR for the first year at a licensed school for her son.

In September 2006 Valentina's grandmother died, and Valentina inherited from her one room in a three-room apartment in a good neighbourhood close to the centre of Moscow. This room had a market value of 2,400,000 RR. Based on advice from her real estate agent, Valentina made a decision to sell this room in October 2007 and received 2,800,000 RR after agency withholdings from the sale.

In October 2007 she received a mortgage loan of 900,000 RR from her employer for the purchase of an unfinished (partly built) cottage in the Moscow region in November 2007. The term of the loan agreement with her employer is five years and interest is charged at the rate of 4.5% per annum. The loan agreement contains a provision for possible changes in the loan interest rate. The first part of the loan (70%) was transferred to Valentina's bank account on 15 October 2007; the remaining 30% of the loan was deposited in her account on 31 October 2007. Interest is payable from January 2008. The loan received was fully spent on the purchase of the unfinished residential cottage, which in total cost 3,700,000 RR. The part of the cost exceeding the loan amount was financed from Valentina's personal savings. The fashion agency acted as the personal income tax agent on this loan.

The certificate of ownership, confirming the purchase of 100% ownership of the unfinished cottage, was received on 20 December 2007. Additional expenses incurred by Valentina in 2007 in respect of the unfinished cottage were as follows (including VAT):

– construction materials	100,000 RR
– construction works and compensation to workers	200,000 RR

The following USD/RR exchange rates are to be used in answering this question:

01 April 2007	28.67
30 April 2007	28.7
01 May 2007	28.7
31 May 2007	28.45
01 June 2007	28.56
20 June 2007	28.85
30 June 2007	28.77
01 July 2007	28.8
31 December 2007	28.65

**Required:**

(a) **Assuming that all the above mentioned expenses incurred by Valentina are confirmed with proper supporting documents, and that Valentina has never claimed the housing deduction in the past:**

(i) **Calculate the personal income tax of Valentina withheld by her employer at source for 2007.**

(12 marks)

(ii) **Calculate the final settlement of Valentina’s personal income tax liability (additional payment or refund) upon her 2007 personal income tax return.**

(11 marks)

**Note:** to the extent possible, use all the personal income tax deductions which are potentially available to Valentina. State separately the amounts of all personal income tax deductions claimed by Valentina for the year 2007 and the deductions carried forward to future years, if any.

(b) **Assuming that in the above scenario Valentina sells her inherited room to her brother Edward for the same market value of 2,800,000 RR, and in the same period, explain the tax implications of this particular transaction for Valentina’s personal income tax liability. Ignore any other taxes and data in the scenario.**

(2 marks)

**(25 marks)**

- 3 (a) OOO Tondem ('Tondem') is a trading company which used the cash method for value added tax (VAT) calculations before 1 January 2006. The following transactions occurred during the year 2007. All figures include VAT unless stated otherwise.

Months	January 000 RR	March 000 RR	April 000 RR
Domestic sales to customers	17,700	20,650	21,299
Goods returns from customers (Note 1)		14,160	
Promissory note with coupon interest of 65% per annum (Note 2)			649
Domestic prepayments:			
Prepayments as at 1 January	12,980		
Prepayments received (Note 3)	15,000	21,240	
Export prepayments			14,278

**Notes:**

1. On receiving the goods returned from customers due to reasons of poor quality, Tondem reduced the current month's sales to the same customer by the amount of the trade receivable related to the goods returned, and stipulated this fact in the acts of mutual offset with the respective customers.
2. A promissory note with a par value of 649,000 RR was issued by a customer and received on 17 April 2007 as consideration for a trade receivable which had remained unsettled from 2005. This promissory note, including accrued coupon interest, was redeemed and cash received for the full amount on 27 June 2007.
3. All prepayments received are fully offset against sales in the following calendar month, except for the prepayments received in January which were offset against the sales in March.

All goods returns, as well as all other transactions, were properly documented from a VAT standpoint.

**Required:**

**Calculate the value added tax (VAT) payable/recoverable by OOO Tondem for the months of January, March, April and June 2007. For each VAT return show separately the VAT base, the input and output VAT and the VAT payable/recoverable.**

(10 marks)

- (b) OOO Zlata ('Zlata') has the following fixed assets on its balance sheet as at 1 January 2007. Zlata uses the straight-line method of depreciation. Before 2007 all these assets were used in a production activity subject to value added tax (VAT) at the general rate. In 2007 Zlata terminated the use of these fixed assets in that production activity for the reasons stated below. All figures are inclusive of VAT.

Fixed asset number	Historical cost (000 RR)	Tax useful life in years	Date put into use	Reasons for termination of use in production	Date of termination
N 1	1,770	10	15 March 2005	Consumed for the company's own needs	21 April 2007
N 2	1,947	7	10 February 2004	Started being used solely in a non-vatable activity of Zlata	30 September 2007
N 3	2,006	6	05 May 2006	Sold to a third party for its market value of 1,416,000 RR	30 November 2007



**Required:**

- (i) Calculate the input and/or output VAT arising as a result of the above changes in the use of fixed assets by 000 Zlata. (3 marks)
- (ii) State how the VAT in respect of the first two fixed assets (N1 and N2) should be treated for profits tax purposes. (2 marks)

**(15 marks)**

4 Vyateslav Bykov works as an IT group manager for the company Orchids. His monthly net salary is 95,000 RR. He has a six-year-old son. He made the following sale and purchase transactions in securities for the year 2007.

On 5 April 2007 he purchased 300 shares in NBG, a listed company, for the price of 1,200 RR per share. His expenses incurred for the above transaction included:

- commission to the broker – 5% of the acquisition price;
- registration fee – 10,800 RR; and
- other expenses – 5,000 RR.

To finance the above transaction, Vyateslav raised a three-year loan from his employer of 250,000 RR. The interest rate on this loan is fixed for the whole term of the loan at 44% per annum and interest is payable after the end of each calendar year starting from 1 January 2008. Vyateslav received the full amount of the loan on 30 March 2007. The employer is acting as the tax agent for this loan.

Having analysed the market trend, Vyateslav sold the NBG shares on 8 October 2007 for 2,000 RR per share. The commission fee paid by Vyateslav to his broker on the sale was 6,000 RR. No taxes were withheld under this transaction.

On 8 October 2007 NBG shares were traded on only one stock exchange, at the following quoted prices per share:

10:00 am	2,010 RR
12:00 am	2,030 RR
2:00 pm	2,000 RR
4:00 pm	1,920 RR

Vyateslav did not sell any other property in 2007.

After the sale of the securities Vyateslav chose not to use his right to repay the loan received from his employer before the expiry of the loan term.

**Required:**

**(a) In respect of the scenario above:**

- (i) Calculate Vyateslav's personal income tax withheld at source by his employer, Orchids, for the year 2007. (6 marks)
- (ii) Calculate Vyateslav's final personal income tax liability for the year 2007, including in respect of the gain from the sale of the NBG shares, assuming that all expenses incurred for the above transactions are properly documented and that Vyateslav claimed all applicable tax deductions in the maximum possible amount. (7 marks)

**(b) Explain the personal income tax implications for Vyateslav, if he had purchased the NBG shares on 12 May 2003 and sold the same quantity of shares on the same terms as above, on 31 December 2006, but did not have all the proper documents confirming his acquisition expenses. (2 marks)**

**(15 marks)**

- 5 (a) Pavel owns 600 shares of the 5,000 shares in ZAO L-Technology (L-Technology). In May 2007 the shareholders of L-Technology made a decision to distribute as dividends 75% of the after-tax profits of the 2006 financial year. L-Technology's 2006 profits before tax (equal to the taxable profits per its annual profits tax return) were 77,000,000 RR. In 2007 L-Technology received 7,000,000 RR (gross) of interim dividends from its subsidiary. The dividend will be paid to Pavel's bank account in October 2007.

**Required:**

**Calculate the personal income tax which will be withheld on Pavel's dividend income from ZAO L-Technology and the net amount that will be received by him.** (4 marks)

- (b) Yura owns a small hairdressing workshop in Moscow. He is registered as an individual entrepreneur. He is a very creative person and his small business has a good reputation among Moscow hairdressers.

In October 2007 Yura was offered the position of creative manager in the fashionable salon, Jullans. He agreed to work with them under a permanent labour contract on the basis that the aggregate payroll costs (gross salary plus unified social tax (UST)) for the remainder of the year would be 400,000 RR.

Yura's wife Polina is a freelance designer; she has been working under a civil law agreement (but not a copyright contract) with the company Enita. Her net monthly fees for the work performed were 32,000 RR in January to March, 43,000 RR in April to June and 47,000 RR for July and August 2007.

As at 1 January 2007 Polina had one child, a four-year-old son. She stopped working on 31 August 2007, and in September 2007 gave birth to a baby daughter. In October 2007, under the rules of the new government national programme, Polina received in-kind a part of 'mother's capital' for her second child in the amount of 80,000 RR. In 2007 Polina paid voluntary medical insurance for her children in the amount of 30,000 RR (in total) per year.

Polina is not registered as an individual entrepreneur. She did not have any other source of income for the year 2007.

**Required:**

- (i) **In respect of Yura, calculate the personal income tax withheld and unified social tax (UST) payable by Jullans for the year 2007. Ignore value added tax (VAT).** (3 marks)

- (ii) **In respect of Polina for the year 2007:**

- 1) **Calculate the personal income tax withheld and unified social tax (UST) payable by Enita.** (5 marks)
- 2) **Calculate her final personal income tax liability. In your answer, state separately her gross income and all applicable deductions.** (3 marks)

**(15 marks)**

**End of Question Paper**