

Fundamentals Level – Skills Module

# Taxation (Russia)

Monday 2 June 2008

**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)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black rectangular background.

## 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.

## TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions.

### 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)

Maximum limit for social deductions listed below 100,000 RR  
(medical, personal educational, non-state pension insurance and voluntary pension insurance – subject to certain conditions set out in the law)

Educational deduction for children	50,000 RR (upper limit)
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Gains on property sales:	
– immovable property	1,000,000 RR (upper limit)
– movable property	125,000 RR (upper limit)

Statutory per diem rate for profits tax:	
– for domestic business trips	100 RR per day

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

### 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 (subject to conditions set out in the law) are limited to 3% 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 accident at work resulting in death or permanent physical disability are limited to 15,000 RR per employee per annum

Certain advertising expenses are limited to 1% of sales revenue

Entertainment expenses (subject to conditions set out in the law) are limited to 4% of labour costs for the reporting period

### Special depreciation ratios

Fixed assets received under financial leasing 3 (upper limit)

Effective from 2008:

Passenger cars (cost > 600,000 RR per item) 0.5

Minivans (cost > 800,000 RR per item) 0.5

For assets in 2007:

Passenger cars (cost > 300,000 RR per item) 0.5

Minivans (cost > 400,000 RR per item) 0.5

### Allowances for receivables

General limitation 10% of sales

Aged 0 to 44 days 0% of receivable

Aged 45 to 90 days 50% of receivable

Aged more than 90 days 100% of receivable

### VAT rates

Standard 18%

Exports 0%

### General profits tax rate

24%

Tax on dividends for residents 9%

### Property tax rate

2.2%

### Personal income tax rates

Basic rate 13%

Higher rate 35%

### Central Bank refinancing rates (notional)

1 January 2008 to 31 May 2008 60%

1 June 2008 to 30 November 2008 50%

1 December 2008 to 31 December 2008 40%

### Number of calendar days in calendar months for the year 2008

January 31

February 29

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**

1 000 Leman ("Leman") is a company jointly owned in equal shares by a German company Leman GmbH and a Russian trading company Ruslem. Leman sells a wide range of different household appliances such as lawn mowers, gardening equipment, flowers, seeds and others, both in the Russian market and to other CIS countries. Most of these goods are imported from different Leman subsidiaries, but some products are purchased on the local market.

Leman always applies the accruals method for both value added tax and corporate profits tax purposes. Leman uses the straight-line method of depreciation for tax and accounting purposes for most groups of its fixed assets. For all fixed assets purchased in either 2007 or 2008 Leman applied its right to an immediate 10% write-off on the asset cost. The company uses a quarterly profits tax reporting period.

All goods sold by Leman in the domestic market are subject to value added tax (VAT) at the standard rate. The annual salary paid by Leman to its employees does not exceed 258,000 RR per person.

The following information is available for 2008.

**Sales and prepayments for 2008 (VAT inclusive, amounts in 000 RR):**

Domestic sales for 2008		71,390
	1 January	31 December
Sales receivable	6,000	4,248*
Prepayments from domestic customers	1,652	4,484

\*During the year 2008 Leman wrote-off 1,357,000 RR of receivables (including VAT) as a bad debt expense.

**Cost of goods for 2008 (VAT exclusive unless stated otherwise, amounts in 000 RR):**

Goods in inventory for re-sale as at 1 January 2008	3,500
Transportation expense balance related to goods in inventory as at 1 January 2008	610
Imported goods purchased during the year 2008 (inclusive of customs duties)	7,300
Local goods purchased during 2008 (VAT inclusive)	4,720
Cost of goods sold during the year 2008 – imported goods	8,200
– local goods	4,800
Transportation expense relating to the delivery of imported goods from customs to Leman's office (VAT inclusive, fully paid in 2008)	1,722.8
Property insurance costs incurred in 2008	350

Of the goods in inventory for re-sale as at 1 January 2008, 70% of the goods were imported ones.

VAT at 18% is applicable to imported goods and is paid at customs. After payment it is available for recovery in the normal way.

All the goods imported in 2008 were paid for in that year. 20% of goods purchased locally in 2008 were not paid for during the year. VAT invoices were received for 90% of the locally purchased goods. The transportation expenses relating to the delivery of the imported goods from customs to Leman's premises were all paid during 2008.

**Wages and salaries**

In 2008 Leman accrued 22,000,000 RR of wages and salaries related to its trading activities. In addition, under the terms of employment agreements the company:

- (1) purchased one-year voluntary medical insurance for employees (2,340,000 RR);
- (2) provided five-year voluntary life insurance policies to employees without any payments to employees during this five-year term under the agreement with a Russian insurance company (3,000,000 RR).

In addition, the insurance company advised Leman to insure against the risk of accidents at work resulting in death or permanent physical disability of employees (under a voluntary personal insurance agreement). Leman agreed to pay 1,700,000 RR for 100 policies for some of its employees.

Leman reimbursed sports club membership to some of its employees to the value of 100,000 RR.

**Fixed assets depreciation (VAT inclusive, in 000 RR):**

Category of fixed asset	Quantity	Historic cost per item	Accounting depreciation in years	Tax depreciation in years	Date put into use
Passenger cars L	10	414.18	6	5	April 2007
Mini-vans	7	955.80	7	8	June 2007
Passenger cars F	20	720.98	7	6	March 2008
Exhibition samples*	50	24.78	3	3	November 2008

\*Leman purchased several fixed assets as samples for exhibition and applied non-linear depreciation to these samples under the tax policy of the company.

**Advertising expenses (VAT inclusive, in 000 RR)**

Leman used several different advertising and promotion activities during the year 2008, resulting in the following expenses being incurred for the year 2008:

Advertising on TV	3,304
Advertising in the press	1,770
Advertising on the internet	1,062
Advertising prizes for lotteries and massive campaigns	2,183

**Entertainment expenses (VAT inclusive)**

Leman arranged a number of business events during the year 2008, resulting in an amount of business entertainment expenses incurred for the year 2008 of 7,434,000 RR. However, only 80% of this amount was paid in 2008, and only 60% was documented with VAT invoices received in 2008.

**Rent**

Leman rented premises for one of its trading warehouses from 000 Window for a monthly rent of 401,200 RR (including VAT) from 1 April 2008. The rent period under the agreement is three years.

Leman, as the sublessor, concluded an operating sublease agreement with the company 000 Shershen and receives sublease monthly income of 714,000 RR (including VAT) starting from 1 May 2008.

**Interest**

In order to finance the construction of its new trading premises, on 15 May 2008 Leman received a four-year loan in the amount of 5,000,000 RR from VTR bank, with an interest rate of 50% per annum. Interest is paid by the company on a monthly basis on the day following the last day of each calendar month (e.g. interest due for May is paid by the company on 1 June). The loan principal amount is repayable at the end of the loan period. The loan agreement contains a provision for possible changes in the interest rate.

**Losses from prior years**

Leman has unused tax losses of 1,200,000 RR brought forward from 2006 and 2,550,000 RR brought forward from 2005.

**Required:**

- (a) Calculate the taxable profits and corporate profits tax liability of 000 Leman for 2008. Show separately all elements of taxable income items and deductible expenses.

Note: you should ignore property tax.

(23 marks)

- (b) Calculate 000 Leman's value added tax (VAT) liability for 2008. Show separately all elements of output/input VAT.

(7 marks)

**(30 marks)**

**2** Alla works as a key account manager in the commercial department of a well-known pharmaceutical company. She is married to Michael; they have two children, a son aged 11 years and a daughter aged six years. Alla's gross monthly salary is 117,000 RR for all months for the year 2008, with the exception of February when she received only 39,000 RR gross due to her daughter's illness.

In early January 2008 Alla paid voluntary medical insurance for her daughter for the first quarter of 2008 to the value of 7,500 RR. From her employer, Alla received a good voluntary medical insurance package for herself for the year 2008 with the value of 25,000 RR. In addition, her employer offered one more voluntary medical insurance for the same value for any other member of the family, and Alla decided to choose this option for her husband Michael.

In late June 2008, following an evaluation of her semi-annual professional results, Alla received a bonus for this period with the net value of 54,000 RR. Moreover, during the year 2008 she received the following benefits from her employer:

- (a) French lessons for the value of 30,000 RR which are not directly related to her work and the reimbursement of a two week voucher in the sport summer camp for her son with the value of 20,000 RR. Both these expenses were treated as non-deductible by the employer.
- (b) A microwave oven valued at 7,000 RR as a gift in kind for Woman's Day.
- (c) Reimbursement of her business calls from her personal cell phone to the value of 45,000 RR for six months.
- (d) Free lunches with the monthly value of 4,000 RR (in every month in 2008, including January).
- (e) Reimbursement of fuel and car expenses related to business use to the value of 20,000 RR.
- (f) As a corporate event, a trip to Switzerland based on the company training policy, from 1 May to 9 May, to the value of 63,000 RR.

In April 2008 Alla paid 25,000 RR for her son's evening special computer course to the licensed training centre. In May 2008 Alla also helped her father and paid 60,000 RR for his medical cardio treatment in a licensed clinic. In September Alla made a decision to pay 18,000 RR out of 52,000 RR for her daughter's daily English lessons in a licensed language school. The rest of this amount was paid by Michael.

During the year 2008 Alla made her personal pension contribution of 40,000 RR in favour of her parents based on an agreement with a non-state pension fund under the voluntary pension scheme.

In May 2008, Alla and Michael decided to purchase jointly in equal shares a new three room apartment to replace their small current one. On 20 May they agreed with the agent to purchase the new apartment for the value of 8,190,000 RR and to sell the current apartment for 5,850,000 RR after agency withholdings. The old apartment had been acquired and owned solely by Michael from January 2005.

The required extra funds were raised as follows:

Alla asked and on 31 May 2008 received from her employer, the sum of 1,340,000 RR as a corporate loan for the period of five years with an interest rate of 5% per annum. Interest is accrued for the entire loan period and is payable starting from 31 December 2008 on the last date of each month.

On 20 June 2008, Michael obtained a bank loan for the rest of the required amount of 1,000,000 RR, for the period of four years with an interest rate of 9% per annum. Interest is accrued for the entire loan and is payable starting from 30 September 2008 on the last date of each month. The bank loan agreement contains a provision for changes in the CBR rate. Michael has already used his housing allowance during the year 2005.

Both the loans received were fully spent on the purchase of the new apartment. The certificate confirming the title of ownership in equal shares was received in July 2008 and the relevant letter from the tax authorities confirming the application of housing allowance was received by Alla's employer in September 2008.

Michael works as a freelance writer. In 2008, he received copyright fees of 1,500,000 RR (net) under his agreement with the publishing company for some articles published in well-known journals. His January income was less than 40,000 RR but exceeded 20,000 RR. The agency gave him all relevant allowances at source.

During the year 2008 Michael made a donation to a charity fund for the amount of 10,000 RR in kind and 7,000 RR in cash.

**Required:**

Assuming that all the above mentioned expenses incurred by Alla and Michael are confirmed with proper supporting documents, and that Alla has never claimed the housing deduction in the past:

- (a) Calculate the personal income tax of Alla withheld by her employer at source for the year 2008. (10 marks)
- (b) Calculate the final settlement of Alla's personal income tax liability (additional payment or refund) upon submission of her 2008 personal income tax return. (4 marks)
- (c) Calculate the aggregate of Michael's personal income tax liability for the year 2008. (11 marks)

Note: to the extent possible use all the personal income tax deductions which are potentially available to Alla and Michael, stating separately the amount of all personal income tax deductions claimed by Alla and Michael for the year 2008 and the deductions carried forward to future years, if any.

**(25 marks)**

- 3 (a) 000 Jabluck ('Jabluck') reviewed its accounts receivable and accounts payable as at 1 April 2008. Based on this analysis the financial director decided to sell the following debts to company 000 ZNV ('ZNV') acting as a factor:

Jabluck's accounts receivable:

Name of customer	Date of due payment	Amount (RR)	Date of debt sale	Proceeds from debt sale (RR)
Tomato	1 December 2007	3,658,000	30 April 2008	2,743,500
Carrot	1 September 2007	6,195,000	15 May 2008	6,504,750

Later the factor company ZNV resold Tomato's liability to a third party. Carrot's liability was collected by ZNV, however not in the full amount.

Name of customer	Date of further sale/ value received	Amount of further sale/ payment received (RR)
Tomato	30 May 2008	3,017,850
Carrot	3 June 2008	5,854,275

The following account payable was settled by Jabluck by providing its own promissory note to the supplier:

Name of creditor	Payment due	Amount (RR)	Date of settlement	Promissory note par value
Cucumber	15 October 2007	4,425,000	14 April 2008	1,770,000

**Required:**

- (i) Calculate the value added tax (VAT) base for both 000 Jabluck and 000 ZNV for the year 2008 based on the above transactions. Show separately output VAT, input VAT and VAT payable/recoverable per the relevant VAT returns. (5 marks)
- (ii) Clearly state the main rules for the procedure of VAT recovery in the form of the offset of the excess of input VAT over output VAT on non-zero rate supplies.

Note: you are not required to refer to the criteria for the offset of input VAT, the situation of tax violations revealed during the tax audit, or the cash refund procedure. (4 marks)

- (b) 000 Vinograd ('Vinograd') hired a construction company and constructed the following fixed assets for its business purposes (all figures are VAT inclusive unless stated otherwise):

Name of fixed asset	Historical cost (000 RR)	Tax useful life in years	Date put into use	Date of transfer to VAT-exempt activities
Warehouse 1	27,612	15	1 January 2006	30 April 2008
Warehouse 2	29,545	25	1 May 1993	1 June 2008

Ordinary VAT rated (VATable) sales of goods for the year 2008 were 22,656,000 RR.

Sales of goods exempted from VAT in every year – 20% of ordinary sales net of VAT.

From the date of being put into use until 2008 both these warehouses were used in all the activities of Vinograd. But based on a new company strategy Vinograd made the decision to transfer the above fixed assets to a VAT exempted business activity of the company in 2008 (see transfer dates in the table above).

**Required:**

Advise 000 Vinograd on the value added tax (VAT) outcome of the above transfers and calculate the VAT liability due to the budget for the year 2008 based on the above transactions.

Note: you should assume that Vinograd has appropriate systems for separate accounting. (6 marks)

**(15 marks)**



4 Alexandra Maykova works as a brand manager for the company OOO Gain. Her monthly net salary is 115,000 RR. She has one child of seven years old. For the year 2008 she made the following transactions in securities:

On 20 February 2008 she purchased 450 shares of 1,500 RR each of a listed company RTT; purchased 200 shares of 700 RR each of listed company Trend; and received 700 shares of listed investment fund Georg with the value of 1,200 RR each as a gift from her far relative. The expenses incurred for these transactions included:

- commission fees to brokers of 4.5% of the acquisition price for both RTT and Trend;
- registration fees incurred in respect of the investment fund shares to get ownership rights of 10,500 RR; and
- other stock exchange expenses which cannot be allocated directly to any of the acquired shares of 25,000 RR.

On advice from her broker, Alexandra made the decision to sell part of the above shares on 15 May 2008 in the following order:

Shares	Quantity	Gross sales price RR/share
RTT	300	2,500
Trend	150	650
Georg	350	1,100

The shares of RTT and Trend were traded at only one stock exchange with the following quoted prices (RR per share) as on 15 May:

Time	RTT	Trend
10.00 am	2,450	700
11.00 am	2,430	690
12.00 am	2,400	680
3.00 pm	2,390	670
4.00 pm	2,380	665

The weighted average price per share of the Georg investment fund was calculated by two stock exchanges as follows:

NYC	1,090 RR
RTB	1,098 RR

Alexandra did not sell any other property in 2008.

**Required:**

(a) Calculate Alexandra's personal income tax withheld by her employer OOO Gain for the year 2008.

(2 marks)

(b) Calculate Alexandra's final personal income tax for the year 2008, including her gain from the sale of shares, assuming that all expenses incurred for the above transactions are properly documented and that Alexandra claimed all applicable tax deductions in the maximum possible amount.

(13 marks)

**(15 marks)**

- 5 (a) Maxim works as a consultant under a labour agreement with the company OOO GEO ('GEO'). His net monthly salary is 81,500 RR. On 25 February 2008 he was sent to the seminar 'Population of wild animals in the Far East' held in Vladivostok for two days. On 27 February 2008 he took the flight from Vladivostok to Hong Kong where he had another business meeting with local scientists. On 29 February 2008 he landed back in Moscow and returned to work.

GEO paid Maxim a daily allowance in the form of an advance of 10,800 RR for the whole business trip. As a result of his business trip, he filed the approved expense report to accounting on 3 March 2008. He claimed the full amount of advance received plus reimbursement of the following expenses related to his business trip:

Flight ticket Mosow to Vladivostok – 23,600 RR (VAT inclusive)  
Accommodation in Vladivostok – 7,080 RR (VAT inclusive)  
Flight ticket Vladivostok to Hong Kong to Moscow – 2,300 USD  
Accommodation in Hong Kong – 300 USD  
Taxi transfer from Hong Kong airport to hotel – 50 USD  
Other expenses without any supporting documents – 200 USD

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

1 February 2008	25.87
25 February 2008	25.80
27 February 2008	25.50
29 February 2008	25.65
1 March 2008	25.55
3 March 2008	25.40
30 March 2008	25.20

**Required:**

- (i) Calculate the personal income tax to be withheld by OOO GEO for Maxim's business trip. (5 marks)
- (ii) Calculate OOO GEO's unified social tax (UST) liability in respect of Maxim, giving explanations of the treatment of the expenses incurred for Maxim's business trip. (2 marks)
- (iii) Calculate OOO GEO's unified social tax (UST) liability if Maxim had worked under a civil law agreement (not a labour agreement), giving an explanation of the treatment of the expenses incurred for his business trip.

Note: you should assume that Maxim received the same level of gross annual remuneration for work done and that the cost of his business trip expenses related to work done was the same (except for the exclusion of the daily allowance). (2 marks)

- (b) In May 2008 the shareholders of Russian company OOO Almera ('Almera') made a decision to pay dividends of 10% of its after-tax profits of the 2007 financial year. Almera's profits tax base for 2007 was 100,000,000 RR. The following companies were listed among the dividend beneficiaries.

Alfa – a Russian company which owns 40% of Almera. Alfa should receive 4,000,000 RR of dividends.

Betta – a Russian company which owns 50% of Almera. Ownership was received two years ago and valued at more than 500 million RR. Betta should receive 5,000,000 RR of dividends.

Gamma – a foreign company which owns 10% of Almera. Gamma should receive 1,000,000 RR of dividends.

Included in the above amount of Almera's profits before tax is 3,700,000 RR received as interim dividends from its subsidiary Ipsilon during the year 2008 for the year 2007.

**Required:**

Calculate the relevant taxes to be withheld on the dividend payments made to Alfa, Betta and Gamma, respectively. (6 marks)

**(15 marks)**

**End of Question Paper**