Mock 2

Taxation (Russia)

F6TX(Rus)-MK2-X17-A

Answers & Marking Scheme

Paper F6

BECKER PROFESSIONAL EDUCATION®

Question	Answer	Mark
1	D	2
2	B	2
3	C	2
4	C	2
5	C	2
6	B	2
7	C	2
8	C	2
9	A	2
10	B	2
11	B	2
12	C	2
13	A	2
14	B	2
15	B	2

Item *Answer* *Justification*

1 D IC under author's agreement:

	RR
Remuneration received under author's agreement	1,500,000
Professional deduction (1,500,000 × 40%)	(600,000)
IC base	900,000
IC:	
(876,000 × 27.1%)	237,396
(900,000 – 876,000) × 15.1%	3,624
	241,020

Tutorial note: *It is more tax efficient for Alena to apply the professional deduction than the actual expenses she incurred.*

2 B Bad debt expense

Outstanding receivables	RR
for 40 days	Not included
for 60 days at 50% (20,650,000 × 50%)	10,325,000
for 127 days in the full amount	41,300,000
	51,625,000
But not exceeding 10% of revenue **net** of VAT:	
(10% × $^{100}/_{118}$ × 542,345,700)	45,961,500
Actual reserve = Bad debt expense 2017	45,961,500

3 C Q2 VAT return

	RR
Output VAT on export @ 0%	0
Input VAT on services (3,835,000 × $^{18}/_{118}$)	(585,000)
VAT refund	(585,000)

Tutorial note: *The recognition date is the last date of the relevant quarter in which the package of documents confirming the export was collected and submitted to the tax authorities (i.e. 30 June 2017). The exchange rates are irrelevant since VAT on exports is 0%.*

4 C Direct expenses

	RR
Cost of goods sold	
((20,253,072 + 168,775,600) × $^{100}/_{118}$ × 75%)	120,145,342
Transportation expenses	
((810,123 + 6,751,024) × $^{100}/_{118}$ × 75%)	4,805,814
Total direct costs	124,951,156

5 C Costs incurred on constructed premises:

	RR
Materials invoiced (322,966 × $^{100}/_{118}$)	273,700
Labour expenses	483,000
ICs thereon (483,000 × 30%)	144,900
	901,600
VAT (output) thereon (901,600 × 18%)	162,288

6 B Imputed interest

10 October to 31 December (82 days):
(1,270,000 × ($^{2}/_{3}$ × 5% – 1%) × $^{82}/_{365}$) 6,657 RR

Tutorial note: *Imputed interest income for December will be taxable even though the interest charge will only be paid in January 2018.*

7 C (1) is incorrect as VAT on the investment in non-current assets will be recoverable. (2) is correct (irrespective of the purpose of the construction usage). (3) is correct as VAT will be clawed-back over 10 years relating to non-taxable transactions.

8 C Personal income tax:

	RR
Advertising prize – trip to Mexico	115,000
Prize deduction	(4,000)
Taxable income	111,000
Tax at 35%	38,850

9 A

		RR
Total taxable income		419,316,114
Total tax losses brought forward (FIFO basis):		
2011 loss	(227,000,000)	
2013 loss	(125,000,000)	
2014 loss	(97,000,000)	
2014 loss to be carried forward at year end 2017:		29,683,886

10 B Total dividend: 48,000,000 × 20% = 9,600,000 RR
Ivan's share: 6,000 ÷ 180,000 × 9,600,000 = 320,000 RR
Withholding @ 13% = 41,600 RR (320,000 × 13%)

11 B Only the official reception (dinner), interpreter's services, and transportation services are deductible:

	RR
City guide (not deductible)	0
Transportation in Moscow (11,328 × $^{100}/_{118}$)	9,600
Professional interpreter's services (16,992 × $^{100}/_{118}$)	14,400
Official dinner in a restaurant (29,500 × $^{100}/_{118}$)	25,000
Total business entertainment expenses	49,000

12 C Average property value for Q1 (in 000 RR):

((1,200 – 410) + (840 – 390) + (510 – 280) + (610 – 300)) ÷ 4 = 445

13 A $^1/_3$ × 221,000 × $^1/_{300}$ × 5% × (31 – 25 + 18) = 295 RR

14 B A tax declaration can be reviewed by the tax authorities during the period of three months starting from the date of submission.

15 B

1 BEGEMOT

Begemot – 2nd Quarter 2017

Output VAT ((2,714,000 – 230,000) × $^{18}/_{118}$)		378,915	*(½)*
Proportion for allocation of costs related to both activities:			
VATable sales net of VAT (2,714,000 – 230,000 – 378,915)		2,105,085	*(½)*
Total sales net of VAT (2,105,085 + 230,000)		2,335,085	*(½)*

Percentage of VATable sales in total Quarter 2 sales

(2,105,085 ÷ 2,335,085 × 100%)		90.15%	*(½)*
Percentage of exempt sales in total sales (100% – 90.15%)		9.85%	*(½)*

Percentage costs

Cost of materials used for both VATable and exempt operations:			
(106,200 × $^{100}/_{118}$)	90,000		*(½)*
Materials allocated to exempt activities (90,000 × 9.85%)		8,865	*(½)*
Indirect costs used for both VATable and exempt operations:			
(200,000 × $^{100}/_{118}$)	169,492		*(½)*
Indirect costs related to exempt activities (169,492 × 9.85%)		16,695	*(½)*
Exempt costs excluding VAT for materials (212,400× $^{100}/_{118}$)		180,000	*(½)*
Exempt costs excluding VAT for indirect costs (118,000× $^{100}/_{118}$)		100,000	*(½)*
		305,560	
Total costs excluding VAT ((2,124,000 + 1,180,000) × $^{100}/_{118}$)		2,800,000	*(½)*
Exempt costs ÷ Total costs (305,560 ÷ 2,800,000)		10.91%	*(½)*

Tutorial note: 10.91% > 5%, *therefore VAT on costs related to both activities should be recoverable only to the extent of the part related to VATable activities. VAT on costs related to both activities would only be recoverable in full if the percentage of costs related to exempt activities in total period costs is less than 5%.*

Final VAT calculation

Input VAT paid:		
On materials for VATable operations (1,805,400 × $^{18}/_{118}$)	(275,400)	*(½)*
On indirect costs for VATable operations (862,000 × $^{18}/_{118}$)	(131,492)	*(½)*
Offsetable part on materials for VATable and exempt activities		
(106,200 × $^{18}/_{118}$ × 90.15%)	(14,604)	*(½)*
Offsetable part on indirect costs for VATable and exempt activities		
(200,000 × $^{18}/_{118}$ × 90.15%)	(27,503)	*(½)*
Total input VAT	(448,999)	*(½)*
VAT refund (378,915 – 448,999)	(70,084)	*(½)*
VAT amount to be included in cost of sales:		
((2,800,000 × 18%) – 448,999)	55,001	*(½)*
		10

2 ELENA

Final settlement of personal income tax liability for the year 2017

	RR	
Gross salary accrued (Note 1)	1,799,791	*(2)*
Bonus (130,500 ÷ 0.87 × 75% × 4)	450,000	*(1½)*
Children allowance (1 month only)	(1,400)	*(½)*
Inheritance received (no tax)	0	*(½)*
Sales proceeds from the sale of apartment	2,500,000	*(½)*
Property deduction (less than 3 years ownership)	(1,000,000)	*(1)*
Housing incentive	(2,000,000)	*(1)*
Mortgage loan interest as a part of housing incentive (Note 2)	(16,712)	*(2)*
Taxable base	1,931,679	
Tax due to the budget at 13%	251,118	*(½)*
No imputed interest arises on loan qualifying for housing incentive.		*(½)*
		10

Note 1

January salary – gross	x	
1,400 RR children allowance available therefore PIT =	$(x - 1{,}400) \times 0.13$	*(1)*
Net income received	130,500	
Solving for $x - (0.13x - 182) = 130{,}500$		
Gives x (January salary) = (130,500 – 182) ÷ 0.87	149,791	*(½)*
Feb – December (11 × 130,500 ÷ 0.87)	1,650,000	*(½)*
	1,799,791	2

Note 2

Housing allowance can be increased by mortgage loan interest for October and November (61 days) only, as Pony reimbursed interest for May-September and interest for December would be paid in 2018. *(1)*

$(2{,}000{,}000 \times 5\% \times {}^{61}/_{365})$	16,712	*(½)*
No income tax liability arises in respect of the interest reimbursement		*(½)*

3 OOO BUTTERFLY

(a) Test for thin capitalisation rules for each potential creditor:

First condition: > 20% shareholding for loan to be treated as controlled

Grasshopper and Ant own indirectly 30% × 80% = 24% each; loan would be controlled. *(½)*

Bee owns directly 40% × 80% = 32%; loan would be controlled. *(½)*

Dragonfly owns directly 20%; loan would **not** be controlled. *(½)*

Ladybird is a Russian company, but it is an affiliated company of foreign companies Bee and Grasshopper, which indirectly control more than 20% of the capital in Butterfly each. So, the loan received from Ladybird would also be controlled under the thin capitalisation rules. *(1)*

Second condition: Controlled debt > 3 × own capital at the end of the reporting period *(½)*

Principal amount of debt 635,000 EUR (for foreign companies)	RR	
Total controlled debt as at 30 June (635,000 × 40)	25,400,000	*(½)*
Own capital (128,870,000 – (121,430,000 – 120,000))	7,560,000	*(½)*
Own capital × 3	22,680,000	
Thin capitalisation test	25,400,000 > 22,680,000	*(½)*

For shareholders of Ladybird (Grasshopper, Ant and Bee) thin capitalisation rules **would** apply. *(½)*

Principal amount of debt for Ladybird (RR loan)		
Total controlled debt as at 30 June	24,700,000	
Thin capitalisation test	24,700,000 > 22,680,000	*(½)*

Thin capitalisation rules **would** apply to the RR loan. *(½)*

6

(b) Loan provided by Bee

From (a), thin capitalisation rules should be applied to Bee's accrued interest.

Thin capitalisation ratio 25,400,000 ÷ (22,680,000 × 32%)	3.5	*(1)*
Actual accrued interest (635,000 × 40 × 9% × $^{87}/_{365}$)	544,882	*(1)*
Maximum limit of interest deductible:		
(544,882 ÷ 3.5)	155,681	*(1)*
Deemed dividend (544,882 – 155,681)	389,201	
Tax on deemed dividend at 15%	58,380	*(1)*

4

Tutorial note: *Controlled debt has been considered for exam purposes to strictly consist of principal debt plus* ***capitalised*** *interest. Candidates would be awarded full marks for the alternative approach; to include accrued but unpaid interest within controlled debt:*

Grasshopper, Ant & Bee	
Principal debt at 30 June (635,000 × 40)	*25,400,000*
Number of days for interest (26 + 31 + 30) = 87	
Actual accrued interest (635,000 × 40 × 9% × $^{87}/_{365}$)	*544,882*
Total controlled debt as at 30 June	*25,944,882*
Ladybird	
Principal debt at 30 June	*24,700,000*
Actual accrued interest (24,700,000 × 15% × $^{87}/_{365}$)	*883,110*
Total controlled debt as at 30 June	*25,583,110*

Thin capitalisation ratio 25,944,882 ÷ (22,680,000 × 32%) = 3.575	
Actual accrued interest (635,000 × 40 × 9% × $^{87}/_{365}$)	*544,882*
Maximum limit of interest deductible (544,882 ÷ 3.575)	*152,415*
Deemed dividend (544,882 – 152,415)	*392,467*
Tax on deemed dividend at 15%	*58,870*

4 MOTLEY

(a) Boris

	000 RR	
Profits after tax (per Q)	64,000	
Profits for distribution (75%)	48,000	*(½)*
Less: Interim dividends received	(8,000)	*(½)*
Taxable dividends	40,000	
Total PIT at 13%	5,200	*(½)*
Boris's taxable dividend income: (40 million × 40%)	16,000	*(½)*
Net amount received:		
(48 million × 40%)	19,200	*(½)*
PIT (40% × 5.2 million)	(2,080)	*(½)*
	17,120	*3*

(b) **Pyotr – copyright fee**

PIT	RR	
Gross income	x	
Less: PIT	$(x - 0.2x) \times 0.13$	*(1)*
Net income received	537,600	
Solving: $x - (0.8x \times 0.13) = 537,600$		
Gives: x	600,000	*(½)*
Tax (600,000 × 0.8) × 13%	62,400	*(½)*
Insurance contributions		
Gross income	600,000	
Less: professional deduction 20%	(120,000)	*(½)*
Amount subject to IC	480,000	
Threshhold for IC @ 27.1% is 876,000 RR		
(480,000 × 27.1%)	130,080	*(½)*
		3

(c) **OOO Skile** **10% write-off and depreciation expense on building**

Building cost		
Wages and salaries	600,000	
IC at 30%	180,000	*(½)*
Materials (net of VAT)	700,000	*(½)*
Services	320,000	*(½)*
Interest (indirect expense for CPT purposes is not capitalised)	0	*(½)*
Total cost	1,800,000	
10% immediate write-off	(180,000)	⇒ *(1)*
Depreciation for buildings from 8-10 groups should be calculated only according to <u>straight-line method</u>.		
Depreciable cost	1,620,000	*(½)*
Depreciation: (1,620,000 × 2 ÷ (12 × 25))	10,800	*(½)*
		4

5 MOSTRANS

(a) Personal income tax liability of Vlad for the year 2017 withheld at source by Mostrans

Income tax at 13%

		RR	
Gross salary accrued (10,000 + (11 × 50,000))		560,000	*(1)*
Less:			
Children allowance (January – July) (7 × 1,400)		(9,800)	*(½)*
Salary exceeds 350,000 RR in July:			
(10,000 + 2,000 + (7 × (50,000 + 2,000)) = 376,000			*(½)*
Gross salary less deductions		550,200	
Bonus income (received net) (100,000 ÷ 0.87)		114,943	*(½)*
Free lunches		24,000	*(½)*
Gift income (10,000 + 4,000)	14,000		*(½)*
Less: gift deduction	(4,000)		*(½)*
Taxable gift amount		10,000	
Medical insurance		0	*(½)*
Medical insurance for Vlad's wife		0	*(½)*
Total income subject to 13% rate withholding		699,143	
Tax withheld at 13% rate		90,889	*(½)*

Income tax at 35%

Imputed interest on loan (Note 1)	0		*(½)*
PIT withheld at 35% rate		0	
Total tax withheld by employer		90,889	***6***

Note 1 Imputed interest on loan

Interest on the loan spent on financing of an apartment is not subject to PIT. Interest is added to housing incentive deduction. *(½)*

(b) Final settlement of Vlad's personal tax liability for the year 2017

Income subject to regular rate and corresponding deductions

Insurance income on damaged car (18,000 – 12,000 – 4,000)	2,000	*(1)*
Income on car sale *(owned for more than 5 years)*	0	*(1)*
Gain on sale of summerhouse ((1,200,000 × ¼) – (1,000,000 × ¼))	50,000	*(1)*
Income from Mostrans taxed at 13% rate (per (a))	699,143	*(½)*
Total income subject to 13%: (before social deductions and housing incentive)	751,143	
Social deductions		
Medical deduction (14,000 + 6,000) *(can only be taken with respect to Vlad's children and parents)*	(20,000)	*(1)*
Educational deduction (38,000 + 45,000)	(83,000)	*(1)*
Taxable income subject to 13% (before housing incentive)	648,143	
Housing incentive		
Main	(2,000,000)	*(½)*
Interest (2 million × 2% × $^{244}/_{365}$)	(26,740)	*(1)*
Total social deductions and property incentive	(2,026,740)	
13% rate income after deductions	0	*(½)*
Total tax at 13% rate	0	
Less: Tax withheld by Mostrans at source	(90,889)	
Tax refund at 13% rate	(90,889)	*(½)*
Housing incentive carry forward: (2,026,740 – 648,143)	1,378,597	*(1)*
		9

6 OOO KISEL

Profits tax liability

		marks
Sales income (Note 1)	17,400,000	*(½)*
Expenses		
Direct expenses		
Cost of goods sold ((2,830,820 + 8,655,356) × $^{100}/_{118}$ × 80%)	(7,787,238)	*(1)*
Transportation costs (Note 2)	(608,000)	*(1½)*
Indirect expenses		
Property insurance	(174,000)	*(½)*
Wages and salaries	(3,980,000)	*(½)*
IC on wages and salaries at 30% rate	(1,194,000)	*(½)*
Free meals (provided in the contract)	(65,000)	*(½)*
IC on free meals (65,000 × 30%)	(19,500)	*(½)*
Depreciation of cars (Note 3)	(100,901)	*(3)*
30% write-off on minivans (Note 3)	(675,000)	*(1)*
Depreciation of minivans (Note 3)	(324,256)	*(2)*
Total direct and indirect expenses:	(14,927,895)	
Non-operational income		
30% write-off clawback (Note 3)	152,542	*(1)*
Income from cars sale (401,200 × $^{100}/_{118}$)	340,000	*(1)*
Non-operational expenses		
NBV of the sold cars (Note 3)	(170,488)	*(½)*
Total non-operational items:	322,054	
Taxable profits before loss	2,794,159	
Loss (2,000,000 up to 100% of taxable profits)	(2,000,000)	*(½)*
Taxable profits after loss	794,159	
Tax accrued @ 20%	158,832	*(½)*
		15

Marks for workings **not** to be double-counted.

Note 1 Sales revenue

Sales are taken VAT net: (20,532,000 × $^{100}/_{118}$)	17,400,000	*(½)*

Note 2 Allocation of direct transportation costs

Total transportation costs: (295,000 + 601,800) × $^{100}/_{118}$	760,000	*(½)*
Total goods available for sale: (2,830,820 + 8,655,356) × $^{100}/_{118}$	9,734,047	*(½)*

Deductible transportation costs = $\frac{\textit{Cost of goods sold}}{\textit{Total goods available}} \times \textit{Total transportation costs}$

= (7,787,238/9,734,047) × 760,000	608,000	*(½)*
		1½

(Alternatively: 760,000 × 80% = 608,000)

Note 3 30% write-off and depreciation of cars and mini-vans

Cars

As the cars were purchased in 2016 and sold in 2017 to a related party, it is necessary to identify the 30% write-off which was included in expenses in 2016 which will now be clawed back through inclusion in non-operational income in 2017. *(1)*

Purchase cost of cars (net of VAT): (300,000 × 2 × $^{100}/_{118}$)	508,475	*(½)*
30% immediate write-off (in prior year)	(152,542)	*(½)*
Depreciable cost on 1 June 2016:	355,932	
Term of depreciation in 2016 – 7 months (June – December)		
NBV of cars 31 Dec 2016: (355,932 × $(1 – 0.01 × 3.8)^7$)	271,389	*(1)*
NBV of cars 31 Dec 2017: (271,389 × $(1 – 0.01 × 3.8)^{12}$)	(170,488)	*(1)*
Depreciation for 2017	100,901	*3*

Mini-vans

Purchase cost (net of VAT): (885,000 × 3 × $^{100}/_{118}$)	2,250,000	*(½)*
30% immediate write-off	(675,000)	*(½)*
Depreciable cost:	1,575,000	*(½)*
Term of depreciation in 2017 – 4 months (September – December)		
NBV on 31 Dec 2017: (1,575,000 × $(1 – 0.01 × 5.6)^4$)	(1,250,744)	*(1)*
Depreciation	324,256	*(½)*

Markers' note: *3 marks are awarded as 1 mark for the current year write-off and 2 for depreciation expense.*