# Answers

Section B *Marks*

1 Cienki Sp. z o.o.

| | | PLN | |
|---|---|---|---|
| **Qualifying equity** | | | |
| Registered share capital | | 500,000 | 0·5 |
| Share premium | | 4,995,000 | 0·5 |
| Prior year earnings | | 2,500,000 | 0·5 |
| Year to date profit/(loss) | | (400,000) | 1 |
| Contribution made as know-how | | (250,000) | 1 |
| Debt to equity swap on share premium account | | 0 | 1 |
| Qualifying equity | | 7,345,000 | |
| **Qualifying debt** | | | |
| Bank in the Cayman Islands | | 0 | 0·5 |
| Bank in Poland | | 0 | 0·5 |
| Mama Sp. z o.o. | | 5,000,000 | 1 |
| Wujek Sp. z o.o. | | 4,000,000 | 1 |
| Principal | | 9,000,000 | |
| *Add:* interest (9,000,000 x 5%) | | 450,000 | 0·5 |
| Qualifying debt | | 9,450,000 | |
| Debt to equity ratio | 7,345,000/9,450,000 | 0·777 | 1 |
| Excess interest disallowed | 450,000 (1 – 0·777) | 100,238 | 1 |
| | | | **10** |

**Tutorial note:** *Under previous thin capitalisation regulations, equity arising from a debt to equity swap could not be taken into account in the debt to equity calculation. The current regulations disallow a debt to equity swap from such calculation if the loan was converted into statutory share capital, but do not exclude it in this case because the conversion was into supplementary capital.*

2 Edyta

Income tax

Upon registration of business activity, Edyta will obtain her tax identification number (NIP) and will be obliged to settle the income tax on her earnings.

The following taxation options are available:

**(i) Standard taxation at progressive rate**

– Edyta will need to calculate the tax basis adding taxable revenue derived from the business activity and deducting the allowed tax deductible costs including social security contributions.

– The taxable income from business activity will be cumulated with other types of income Edyta potentially earns during the year which qualify for cumulative taxation (e.g. employment, personal services, sale of items within six months from purchase).

– The taxable basis may be then reduced by loss carried forward and allowed reliefs.

– Tax would be calculated at 18% on first PLN 85,528 and at 32% on the excess. Tax would be reduced by the amount of PLN 556 corresponding to the tax free amount.

– Tax would be payable in monthly instalments and reconciled by 30 April of the next year. 3

**(ii) Taxation of income at flat rate**

– Taxable income would be calculated in the same manner as under the standard method.

– Taxable income would not be cumulated with other types of cumulative income.

– Taxable basis may be reduced by the loss carried forward but no reliefs are available.

– Tax would be calculated at 19% of the basis.

– Tax would be payable in monthly instalments and reconciled by 30 April of the next year. 3

*Marks*

(iii) **Flat rate revenue taxation**

- Tax would be calculated based on taxable revenues less social security contributions.
- Tax would be calculated at 8·5% of the basis.
- Tax would be payable in monthly instalments and reconciled by 20 January of the following year. 2

(iv) **Tax card**

- Tax would be paid in the amount established in the decision of the tax office based on the tax card factors.
- Tax card factors include number of employees, type of activity, size of town, etc.
- Tax would be payable monthly. 2

**10**

**3 Stefan**

**Net profit (cash retained) without value added tax (VAT) registration**

| | PLN | PLN | Marks |
|---|---|---|---|
| **Revenue** | | | |
| Sales of goods in Poland | 20,000 | | 0·5 |
| Sales of goods in the USA | 75,000 | | 0·5 |
| Goods gifted | 0 | | 0·5 |
| | | 95,000 | |
| **Expenditure** | | | |
| Materials purchased in Poland | 34,000 | | 0·5 |
| Salary | 20,000 | | 0·5 |
| Purchase of recipes | 8,000 | | 0·5 |
| | | (62,000) | |
| Profit (cash retained) | | 33,000 | |

**Profit (cash retained) with VAT registration**

| | Base PLN | | Net of VAT PLN | | Marks |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Sales of goods in Poland | 20,000 | *100/123 | 16,260 | | 1 |
| Sales of goods in the USA | 75,000 | 0 | 75,000 | | 0·5 |
| Total | | | | 91,260 | |
| **Expenditure** | | | | | |
| Goods purchased in Poland | 34,000 | *100/123 | 27,642 | | 0·5 |
| Salary | 20,000 | 0 | 20,000 | | 1 |
| Purchase of recipes | 8,000 | 0 | 8,000 | | 1 |
| Output VAT payable on goods gifted | 4,000 | *23/123 | 748 | | 1·5 |
| Total | | | | (56,390) | |
| Profit (cash retained) | | | | 34,870 | |
| Net difference (34,870 – 33,000) | | | | PLN 1,870 | 0·5 |

Therefore, based on his current purchases and sales, it would be profitable in terms of cash retained for Stefan to voluntarily register for VAT. 1

**10**

| | | Marks |
|---|---|---|

**Tutorial note:** *As an alternative to the extraction of net revenues and costs (as above), the difference could have been calculated in terms of the total payments and expenditures including payments/refunds of VAT to/from the tax office, as follows:*

| | *PLN* | |
|---|---|---|
| ***Output VAT:*** | | |
| *On local sales in Poland (20,000 x 23/123)* | *3,740* | *1* |
| *On exports to USA* | *0* | *1·5* |
| *On gifts (4,000 x 23/123)* | *748* | *1·5* |
| | *4,488* | |
| ***Input VAT:*** | | |
| *On local purchases in Poland (34,000 x 23/123)* | *(6,358)* | *1·5* |
| *On salary paid* | *(0)* | *1·5* |
| *On purchase of recipes* | *(0)* | *1·5* |
| | *(6,358)* | |
| *Net refundable VAT* | *(1,870)* | *0·5* |

*Therefore, based on his current purchases and sales, it would be profitable, in terms of cash retained for Stefan to voluntarily register for VAT.* 1

*Candidates who chose this method were given equal marks.*

4 **Stara Sp. z o.o.**

**2015 corporate income tax (CIT)**

| | PLN | PLN | |
|---|---|---|---|
| Sales revenue: | | | |
| Polish HQ – direct to customers | 4,200,000 | | 0·5 |
| Polish HQ to Młoda Sp. z o.o. | 1,250,000 | | 0·5 |
| French branch (direct to customers) | 2,600,000 | | 0·5 |
| Transfer pricing adjustment on sales to Młoda Sp. z o.o. (1,250,000 x 3/7) | 535,714 | | 1 |
| | | 8,585,714 | |
| Interest revenue (Młoda Sp. z o.o. only) | 200,000 | | 0·5 |
| Interest revenue (French branch) | 0 | | 0·5 |
| Transfer pricing adjustment on interest (200,000 x 5/5) | 200,000 | | 1 |
| | | 400,000 | |
| Purchases of materials | 5,000,000 | | 0·5 |
| Other costs (400,000 + 300,000) | 700,000 | | 1 |
| | | (5,700,000) | |
| Total income | | 3,285,714 | 0·5 |
| CIT at 19% | | 624,286 | 0·5 |
| Credit for double taxation (Working) | | (21,714) | 0·5 |
| Total CIT payable in Poland | | 602,572 | |

**Working: Double tax relief on profits of the French branch**

| | PLN | |
|---|---|---|
| Tax paid in France | 50,000 | |
| Taxable income of branch: | | |
| Sales | 2,600,000 | |
| Cost of sales (1,250,000 x 10/7) | (1,785,714) | 0·5 |
| Other costs | (300,000) | |
| Interest (200,000 x 10/5) | (400,000) | 0·5 |
| | 114,286 | 0·5 |
| CIT at 19% | 21,714 | 0·5 |
| Relief available (lower of 50,000 and 21,714) | 21,714 | 0·5 |
| | | **10** |

5 Pafnucy

(a) **2015 social security and health service contributions for business activity**

| | | | Marks |
|---|---|---|---|
| Social security contributions (SSC) | (4,000*60%*34·35%*4) | PLN 3,298 | 2 |
| Health service contributions (HSC) | (4,000*75%*9%*12) | PLN 3,240 | 2 |
| | | | 4 |

(b) **2015 personal income tax (PIT)**

| | PLN | Marks |
|---|---|---|
| **Business activity (flat rate tax)** | | |
| Revenue from services | 55,000 | 0·5 |
| Revenue from sale of assets | 25,000 | 0·5 |
| | 80,000 | |
| SSC (from (a)) | (3,298) | 0·5 |
| Taxable revenue | 76,702 | |
| Tax | | |
| At 8·5% on 55/80ths | 4,482 | 1 |
| At 3% on 25/80ths | 719 | 1 |
| Tax | 5,201 | |
| *Less:* HSC at 7·75% | (2,790) | 0·5 |
| Tax due on business | 2,411 | |
| **Employment** | | |
| Gross salary (12,000 x 8) | 96,000 | 0·5 |
| Social security at 13·71% | (13,162) | 0·5 |
| HSC basis | 82,838 | |
| Employee costs (10 months) | (1,112) | 1 |
| | 81,726 | |
| Motor bike won in promotion | 8,000 | 1 |
| Taxable income | 89,726 | |
| Half income | 44,863 | 0·5 |
| Tax at 18% – 556 | 7,519 | 0·5 |
| x 2 | 15,039 | 0·5 |
| *Less:* HSC (82,838 x 7·75%) | (6,420) | 1 |
| *Less:* child relief (1,112 x 2) | (2,224) | 1 |
| Tax due on employment | 6,395 | |
| **Tax on stock exchange gains** | | |
| Income | 1,000 | |
| Tax at 19% | 190 | 0·5 |
| | | 11 |
| | | **15** |

*Marks*

**6** Ekspansywna Sp. z o.o.

**(a)** Initial value and 2015 depreciation of non-current assets

| | PLN | |
|---|---|---|
| **Land** | | |
| Purchase price | 5,300,000 | 0·5 |
| Notary costs | 20,000 | 0·5 |
| Legal fees | 140,000 | 0·5 |
| Capitalised expenses | 5,460,000 | |
| Capitalised interest (Working) | 22,438 | 1 |
| Initial value | 5,482,438 | |
| 2015 Depreciation | 0 | 0·5 |
| **Factory building** | | |
| Building services | 4,400,000 | 0·5 |
| Materials | 2,300,000 | 0·5 |
| Inspection costs | 25,000 | 0·5 |
| Capitalised expenses | 6,725,000 | |
| Capitalised interest (Working) | 267,158 | 1·5 |
| Initial value | 6,992,158 | |
| 2015 Depreciation (at 2·5% for seven months) | 101,969 | 1 |
| **Production machinery** | | |
| Purchase price | 14,000,000 | 0·5 |
| Customs duty | 700,000 | 0·5 |
| Forex difference | 12,000 | 0·5 |
| Capitalised expenses | 14,712,000 | |
| Capitalised interest (Working) | 648,940 | 1·5 |
| Initial value | 15,360,940 | |
| 2015 Depreciation (at 14% x 2 for six months) | 2,150,532 | 1 |
| | | 11 |

**Working: Capitalised interest**

| | | | PLN |
|---|---|---|---|
| **Land** | | | |
| Initial value | | | 5,460,000 |
| Purchase date | | 15 January | |
| Number of days | | 15 | |
| Capitalised interest | 5,460,000*10%*15/365 | | 22,438 |
| **Factory building** | | | |
| Initial value | | | 6,725,000 |
| Completion date | | 25 May | |
| Number of days | | 145 | |
| Capitalised interest | 6,725,000*10%*145/365 | | 267,158 |
| **Production line** | | | |
| Initial value | | | 14,712,000 |
| Date put into use | | 10 June | |
| Number of days | | 161 | |
| Capitalised interest | 14,712,000*10%*161/365 | | 648,940 |

*Marks*

**(b)** **2015 taxable income for corporate income tax**

| | PLN | PLN | Marks |
|---|---|---|---|
| Taxable income before adjustments | | 6,200,000 | 0·5 |
| Legal fees (post acquisition) | 45,000 | | 0·5 |
| Building repairs | 28,000 | | 0·5 |
| Insurance post completion | 45,000 | | 0·5 |
| Employee training | 160,000 | | 0·5 |
| Depreciation (from (a)) | 2,252,501 | | |
| Balance of interest [(30 million x 10%) – 938,536 (from (a)] | 2,061,464 | | 1·5 |
| | | (4,591,965) | |
| Taxable income | | 1,608,035 | |
| | | | 4 |
| | | | **15** |