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# Answers

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		<i>Marks</i>	
<b>1</b>	<b>Krona, s. r. o.</b>		
	<b>(a) Corporate income tax payable for 2009</b>	<b>CZK</b>	<b>CZK</b>
	Accounting income		
	Proceeds from the sale of goods and services		150,560,000
	Sale of land		3,100,000
	Proceeds from the sale of Ukrkrona		4,500,000
	Contractual penalties		88,000
	Interest from the current bank account		32,900
	Clearance of statutory reserves		35,000
	Clearance of other reserves		52,000
	Share of profit distributed by Norkrona		3,500,000
	<b>Total</b>		<u>161,867,900</u>
	Accounting expenses		$1\frac{1}{2}$
	Goods and services purchased	33,500,000	
	Entertainment expenses	123,000	
	Salaries and wages	55,700,000	
	Mandatory social security and health care	18,938,000	
	Directors' fees	760,000	
	Mandatory social and health insurance on directors' fees at 30·5%	231,800	$\frac{1}{2}$
	Travel expenses	560,400	
	Road tax	23,000	
	Accounting depreciation	3,000,000	
	Interest on loan from a bank	348,400	
	Immovable property tax 2009	24,000	
	Tax on the transfer of immovable property	93,000	
	Tax penalty assessed by the social security office	43,090	
	Gift to animal shelter	100,000	
	Payment for temporary dwelling	100,000	
	Reserves within the legal limit	130,500	
	Other reserves and provisions	270,100	
	Ukrkrona book value	2,300,000	
	Acquisition price of land	<u>3,600,000</u>	
	<b>Total expenses</b>		<u>119,845,290</u>
	Accounting profit/loss		42,022,610
	<i>Add back:</i>		$\frac{1}{2}$
	Entertainment expenses	123,000	1
	Expenses linked to the exempt distribution from Norkrona (3,500,000 * 5%)	175,000	1
	Travel expenses over the statutory limit (560,400 * 20%)	112,080	1
	Penalty from social security office	43,090	1
	Gift to animal shelter	100,000	$\frac{1}{2}$
	Value of temporary dwelling over the limit (note 2)	10,000	1
	Depreciation – difference between accounting and tax (see working)	393,033	$\frac{1}{2}$
	Other reserves and provisions	270,100	1
	Loss on the sale of land	500,000	1
	Book value of Ukrkrona share (Note 3)	<u>2,300,000</u>	1
			<u>4,026,303</u>
			46,048,913
	<i>Less:</i>		
	Contractual penalties not received	38,000	1
	Clearance of other reserves	52,000	1
	Receivable paid by Obchod (already taxed in 2008)	230,000	1
	Sale of shares in Ukrkrona (note 3)	4,500,000	1
	Share of profits from Norkrona (note 4)	<u>3,500,000</u>	1
			<u>(8,320,000)</u>
	<b>Tax base</b>		<u>37,728,913</u>

	CZK	CZK	Marks
Less: Tax loss (1,890,600 + 880,400)		(2,771,000)	1
		<u>34,957,913</u>	
Gift to animal shelter (note 1)		(100,000)	1
Reduced tax base		<u>34,857,913</u>	
Rounded tax base		<u>34,857,000</u>	1/2
Tax at 20%		6,971,400	1/2
Tax prepayments		(300,000)	1/2
Tax payable		<u>6,671,400</u>	

Working: Depreciation

Car 1

Year	Depreciation	Residual value	
2007 input price	1,500,000		
2007	$1,500,000/4 = 375,000$	1,125,000	
2008	$(1,125,000 * 2)/(6 - 1) = 450,000$	675,000	
2009	$(675,000 * 2)/(6 - 2) = 337,500$	337,500	1 1/2

Management building

2009 tax depreciation charge  $(15,300,000 + 4,500,000) * 2/100 = 396,000$  1

Patent

2009 depreciation charge  $(1,360,000/72) * 12 = 226,667$  1

Machinery

Krono continues the depreciation commenced by Mr Novy

Input price (2005) 200,000  
2009 depreciation charge  $(200,000 * 9.4)/100 = 18,800$  1

Total depreciation charge:

$337,500 + 396,000 + 226,667 + 18,800 + 1,628,000 = \text{CZK } 2,606,967$  1/2

Difference between accounting and tax depreciation charge:

$3,000,000 - 2,606,967 = \text{CZK } 393,033$

Notes:

1. The gift of CZK 100,000 to the animal shelter qualifies (the limit of up to 5% from the tax base of CZK 34,957,913 is met).
2. The temporary dwelling is tax deductible only up to the amount stipulated in the internal guideline.
3. The sale of shares in Ukrkrona is tax exempt because all the conditions are fulfilled. Therefore the connected expenses also have to be excluded from the tax expenses.
4. The share of profit distributed from Norkrona is tax exempt. Expenses linked to the exempt distribution are not deductible.
5. Travel expenses over statutory limit are subject to mandatory social security and health care contributions and included in the total figure.

27

**(b) Treatment of profit distributions**

Profits distributions made by Krona are subject to a withholding tax. Krona is obliged to withhold a tax on behalf of its shareholders and pay out a dividend net of tax. The rate of a withholding tax given by the law is subject to a modification by the appropriate tax treaty concluded between the Czech Republic and a state where the beneficial owner of the dividend (profit distribution) is tax resident.

Share of profit distribution paid to Mr Novy:

850,000 x 15% = CZK 127,500

Withholding tax at 15% CZK 19,125

1/2

Share of profit distribution paid to Mr Smith:

850,000 x 25% = CZK 212,500

Withholding tax at 15% CZK 31,875

1/2

The tax must be withheld by 31 July and paid to the financial authority by 31 August 2009.

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The share of the profit distribution paid to KOVOS, AG is tax exempt, as it is a dividend paid to a qualifying parent company (holding exceeds 10%).

1

3

Total

**30****2 Radka****(a) Personal income tax computation for 2009**

	CZK	CZK	CZK	
Employment income	240,000			1/2
Employer's social and health contributions	81,600			1
Partial tax base			321,600	
Business income	900,000			1/2
Business expenses:				
– Cost of goods and services		200,000		
– Repair of personal car (100,000 * 60%)		60,000		1/2
– Fuel cost for business journeys (120,000 * 60%)		72,000		1/2
– Road tax		4,000		
– Rent of the office		80,000		
– Total tax depreciation charge		160,000		
Partial tax base			324,000	1
Capital income:				
Interest from business bank account	10,000			1/2
Interest from Slovak bank account	15,000			1/2
Dividends from Kupalisko, a.s.	100,000			1/2
Partial tax base			125,000	
Rental income	150,000			1/2
Rental expenses at 30%		45,000		1
Partial tax base			105,000	
Total tax base			875,600	1/2
Less: loss from 2008			(90,000)	1
Tax base after deduction of loss			785,600	
Donation (maximum 10% of tax base)			(3,000)	1
Mortgage interest			(70,000)	1
Pension insurance (12,000 – 6,000)			(6,000)	1
Life insurance (maximum CZK 12,000)			(12,000)	1
Reduced tax base			694,600	

	CZK	CZK	CZK	Marks
Rounded tax base			694,600	1/2
Tax liability at 15%			104,190	1/2
Tax credit – rental				
Rental income	150,000			
Rental expenses	45,000			
Maximum tax credit				
$(150,000 - 45,000)/875,600 = 12.00\%$				1
$104,190 \times 12.00\%$	12,502			1/2
Tax paid in Slovakia	15,000			
Allowable tax credit			(12,502)	1
Tax credit – dividends				
Dividends	100,000			
Maximum tax credit				
$100,000/875,600 = 11.42\%$				1
$104,190 \times 11.42\%$	11,898			1/2
Tax paid in Slovakia	15,000			
Allowable tax credit			(11,898)	1
Tax after foreign tax credit			79,790	
Personal allowance			(24,840)	1/2
Child tax credit			(10,680)	1/2
Tax liability			44,270	
Less: tax prepayments made by employer			(23,400)	1/2
tax prepayments made by Radka			(20,000)	1/2
Tax due			<u>870</u>	

Notes:

1. The following expenses are not tax deductible:
    - Mandatory social and health insurance contributions 1/2
    - Entertainment of customers 1/2
  2. Alimony is exempted from taxation. 1/2
- 22

**(b) Social security and health insurance contributions for 2009**

<b>Social security contributions:</b>	<b>CZK</b>	
Business profit of CZK 324,000 x 0.5 x 29.2%	47,304	1
Social security advances	60,000	1/2
Social security overpayment	<u>12,696</u>	
<b>Health insurance contributions:</b>	<b>CZK</b>	
Business profit of CZK 324,000 x 0.5 x 13.5%	21,870	1
Health insurance advances	30,000	1/2
Health insurance overpayment	<u>8,130</u>	3
Total		<u><b>25</b></u>

## 3 Adventures, s. r. o.

## (a) Value added tax (VAT) liability for January to March 2009 tax period

Input supplies	Tax base CZK		Tax CZK	
Lodging services from a Swiss operator	680,000	(note 1)		1
Train tickets from a Swiss operator	115,000	(note 1)		1
Air tickets to Thessaloniki	860,000	No deduction (note 2)	0	1
Lodging in Thessaloniki	720,000	No deduction (note 2)	0	1
Rent (3 * 25,000)	75,000		14,250	1
Summer leaflet printing	56,000		10,640	1
Internet commercials	52,000		9,880	1
Total input tax			<u>34,770</u>	
<b>Output supplies</b>				
	55,000			
Payment for holidays in Switzerland	[850,000 – (680,000 + 115,000)]	Exempt (note 1)	0	1
	260,000			
Payment for holidays in Thessaloniki	[1,840,000 – (860,000 + 720,000)]	(260,000 * 19/119) note 2 note 5	41,512	1
Commission fee from a German operator	30,000	Not taxable in the Czech Republic (CR) (note 3)	0	1
Advance payments for summer holidays	530,000	VAT not due (note 4)	0	1
Total			<u>41,522</u>	
VAT due			<u>6,752</u>	1

## Notes:

- The supply of holidays in Switzerland is exempt. Adventures can claim back the deduction of tax paid in Switzerland.
- The supply of holidays in Greece is taxable, but Adventures cannot claim the deduction for tax paid in Greece.
- The commission fee is not taxable as the place of taxable supply is in Germany.
- VAT is not due in the moment of advance payment on services of a travel agent if a special regime is used.
- Travel agencies can use a special regime, if the services include a combination of lodging, or transport services. A special regime means that tax is computed from the margin (i.e. the price of the services minus the costs of the purchased supplies for which a special regime could be used). Tax is computed by applying the coefficient. The place of taxable supply is in the Czech Republic, even if the holidays are spent outside the EU. Only if they are spent outside the EU, the taxable supply is exempt with a claim for input VAT.

12

- (b) Adventures, s. r. o. would be able to apply for a cancellation of its VAT registration if its turnover does not exceed CZK 1,000,000 during the 12 preceding consecutive months.

1

However, Adventures would not be able to apply for such cancellation before June 2009 (one year after the original registration became effective).

12

- (c) The tax authority may cancel a VAT registration *ex officio* if:
- a VAT payer did not make any taxable supply during the last 12 months without notification to the tax authority; or
  - a VAT payer does not fulfil its statutory obligations; or
  - a VAT payer has not been a person liable to tax.

ANY ONE item

1

Total

**15**

#### 4 SEFA, s. r. o.

- (a) SEFA, s. r. o. is obliged to register with the financial office in Prague 1 by 30 April 2009, within 30 days after the business licence was effective. 2

The application for registration must include identification data for the company, its registered seat and place of effective management, and identification data for the persons acting for the company. SEFA, s. r. o. will also be required to report the numbers of the bank accounts that provide the financial means for the company's business. 2

In addition, SEFA, s. r. o. is obliged to register with the financial office in Prague 1 as regards the payroll tax to be withheld for its employees. Payroll tax registration has to be submitted by 30 May, 15 days after the first obligation to withhold the payroll tax occurred. 2

2

6

- (b) SEFA, s. r. o. is obliged to register with the competent social security authority and notify the competent health care insurance authority of the fact that the new employees will start their work by 9 May 2009. 2

- (c) SEFA, s. r. o.'s first social security contributions of CZK 481,250 (55 \* 35,000 \* 25%) are due by 20 June 2009. 1½

The first health care insurance contributions of CZK 173,250 (55 \* 35,000 \* 9%) are due by 15 June 2009. 1½

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- (d) SEFA, s. r. o. was obliged to open its statutory books on 16 March 2009, the date of establishment. 1

The first taxable period will be the same as the first accounting period, i.e. 16 March to 31 December 2009 if SEFA does not opt for an accounting period different from the calendar year. 1

The first – 2009 corporate income tax return will be due by 31 March 2010. 1

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- (e) SEFA, s. r. o. does fulfil conditions to be a Czech tax resident according to the Czech Income Taxes Act but is likely to be a tax resident in Ireland as its place of effective management, which is the common tie-breaker for resolving dual residence cases according to double taxation conventions, is situated in Dublin. 1

**15**

## 5 Martina

## (a) (i) Social security and health insurance contributions for March 2009

	CZK	
Gross salary	40,000	1/2
Special bonus	15,000	1/2
Company car (400,000 * 1%)	4,000	1
Fuel – private use (6,000 * 50%)	3,000	1
Meal vouchers (exempt)	0	1/2
Private pension (exempt)	0	1/2
Concert (exempt)	0	1
Summer camp (exempt)	0	1
	<u>62,000</u>	

Social insurance payable by Stavba, a.s. is $62,000 \times 25.0\% = \text{CZK } 15,500$	1/2
Social insurance payable by Martina is $62,000 \times 6.5\% = \text{CZK } 4,030$	1/2
Health insurance payable by Stavba, a.s. is $62,000 \times 9.0\% = \text{CZK } 5,580$	1/2
Health insurance payable by Martina is $62,000 \times 4.5\% = \text{CZK } 2,790$	1/2
	<u>8</u>

## (ii) Payroll tax withheld for March 2009

	CZK	
As in (i) above	62,000	
Employer's social insurance	15,500	1/2
Employer's health insurance	5,580	1/2
Employment tax base	<u>83,080</u>	
Rounded tax base	83,100	1/2
Tax liability at 15%	12,465	1/2
Personal tax deduction (24,840/12)	(2,070)	1/2
Child tax credit (10,680/12)	(890)	1/2
Payroll tax	<u>9,505</u>	
		<u>3</u>

## (b) (i) Deductible amounts

(1) Deductible from the tax base – subject to 10% limit.	1/2
(2) Not deductible from the tax base – minimum requirement of CZK1,000 not fulfilled.	1/2
(3) Deductible from the tax base – subject to 10% limit.	1/2
(4) Deductible from the tax base but reduced by CZK6,000.	1/2
(5) Not deductible from the tax base.	1/2
(6) Not deductible from the tax base – minimum requirement of CZK1,000 not fulfilled.	1/2
	<u>3</u>

## (ii) Martina's employer can make the above deductions when making the annual tax reconciliation, except the giving to a German charity (1) which can only be claimed in the tax return.

Total	<u>15</u>
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