
Answers

Marks

1 Milka, a.s.

(a) 2008 corporate income tax liability and tax due

	CZK	CZK	
Revenues:			
Sale of goods		79,245,000	
Interest from a bank account		140,000	
Released reserve		215,000	
Sale of building		23,000,000	
Sale of share in MIGE		15,000,000	
Sale of share in MILI		2,400,000	
Total revenues		<u>120,000,000</u>	
Expenses:			
Goods and services	19,966,200		
Contractual penalty	230,000		
Salaries and wages	28,000,000		
Corresponding social security and health care insurance contributions	9,800,000		
Directors' fees	820,000		
Corresponding health care insurance contributions at 9% (note 1)	73,800		½
Accounting depreciation charge	6,792,000		
Grocery for cafeteria	3,250,000		
Cafeteria operational costs	1,850,000		
Pension scheme	1,960,000		
Corresponding social security and health care insurance contributions (1,960,000 – (40 * 24,000)) * 0.35 (note 2)	350,000		1
Yoghurts liquidated	48,000		
Chocolates liquidated	120,000		
Costs of liquidation	30,000		
Accounting residual value of the building	19,120,000		
Transfer of immovable tax	750,000		
MIGE book value	15,200,000		
MILI book value	800,000		
Statutory reserve created	120,000		
Interest to MIA	<u>3,720,000</u>		
Total expenses		<u>113,000,000</u>	
Accounting profit		7,000,000	5
Add back			
Contractual penalty not paid	230,000		1
Directors' fees (note 1)	820,000		1
Accounting depreciation charge	6,792,000		½
Grocery products for cafeteria (note 3)	3,250,000		1
Chocolates liquidated (note 4)	120,000		1
Accounting residual value of the sold building	19,120,000		½
Yoghurts liquidated (note 5)	0		½
Pension scheme (note 6)	0		½
Nondeductible interest from related party (Working 1)	2,867,860		
Book value of exempt share (expense linked to exempt income)	15,200,000		1
Revaluation of exempt share (loss) (expense linked to the exempt income)	<u>800,000</u>		1
Total add back		49,199,860	
<i>Less</i>			
Other reserves released	215,000		1
Sale of share in MIGE (participation over 10% exempt)	15,000,000		1
Sale of share in MILI (note 7)	0		1
Tax residual value of the building (Working 2)	18,432,000		
Tax depreciation charge	<u>8,737,000</u>		½
Total less		<u>42,384,000</u>	
Tax base		<u>13,815,860</u>	

	CZK	Marks
Rounded tax base down to '000	13,815,000	½
Tax liability at 21%	2,901,150	½
Corporate tax advances (2 * 420,000 + 2 * 715,000)	2,270,000	1
Tax due	631,150	

Tax due in the amount of CZK 631,150 is due by 30 June 2009. Although Milka is not represented by a certified tax advisor or a member of the bar, Milka is a joint stock company (a. s.) and its accounts have to be checked by a certified accountant, therefore, the tax return is due by the end of the sixth month after the end of the fiscal year

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Working 1 – Thin capitalisation

	CZK	
Equity		
3,000,000 + 480,000 + 1,220,000 + 300,000	5,000,000	1
Average level of related debt		
(30,000,000 + (12,000,000/365) * (365 – 31) + (8,000,000/365) * (30 + 31 + 30 + 31))	43,654,795	1
Excessive debt		
43,654,795 – (5,000,000 * 2)	33,654,795	1
Related non-deductible interest		
(3,720,000/43,654,795) * 33,654,795	2,867,860	1

Working 2 – Tax residual value of the sold building

Input price	20,000,000	
2006 depreciation charge		
20,000,000/50	400,000	½
2006 tax residual value		
20,000,000 – 400,000	19,600,000	
2007 depreciation charge		
2 * 19,600,000/51 – 1	784,000	½
2007 tax residual value		
19,600,000 – 784,000	18,816,000	
2008 depreciation charge		
(2 * 18,816,000/51 – 2) * 50%	384,000	½
2008 tax residual value		
18,816,000 – 384,000	18,432,000	½

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Notes:

- Directors fees are tax non-deductible. Health care insurance contributions have to be paid on the amount of directors fees, whereas social security insurance contributions do not.
- The first CZK 24,000 of contributions to pension and life assurance schemes are exempt from social security and health contributions.
- Operating costs of cafeteria are tax deductible whereas costs of the grocery for the meals are tax non deductible for Milka.
- The value of grocery products liquidated before the expiration date is a tax non-deductible expense. Related costs of liquidation are tax deductible.
- In order to be able to claim the deduction for the value of the liquidated yoghurts after the date of expiration Milka has to keep a protocol of the liquidation.
- The additional contributions to the employees pension scheme are tax deductible as the claim follows from the Unions agreement.
- The income from the sale of the share in MILI is not exempt although the participation exceeds 10% because there is no double tax treaty with Lichtenstein.

(b) Tax on dividends

The dividends paid to Messrs Shepherd, Connor and Waters are subject to withholding tax (WHT) at 15%.

Mr Shepherd:

Gross dividend	600,000 * 11%	66,000	
WHT at 15%	66,000 * 0.15	9,900	½

Mr Connor and Mr Waters (the same calculation applies to both):

Gross dividend	600,000 * 2%	12,000	
WHT at 15%	12,000 * 0.15	1,800	½

The dividend to MIA is subject to withholding tax (WHT) at 5%.

Gross dividend	600,000 * 85%	510,000	
WHT at 5%	510,000 * 0.05	25,500	½

In all the above cases the tax has to be withheld when the income is paid to the shareholders, i.e. on 2 March 2008 and sent to Milka's competent tax authority by the end of April 2008.

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2 Mrs Patkova – 2008 taxable income and tax payable/refundable

	Gross income	Expenses	Partial tax base	
	CZK	CZK	CZK	
Employment income				
Work for Agency, a.s.	30,000			
Partial tax base (note 1)			30,000	½
Business income				
Business income	750,000			½
Business expenses:				
– goods and services		(500,000)		½
– road tax		(4,000)		½
– depreciation (Working 1)		(160,000)		
Partial tax base			86,000	
– social security and health care insurance contributions (note 2)		0		½
– penalty for late payment (note 3)		0		½
– depreciation (Working 1)		(160,000)		
Mrs Patkova would be able to apply lumpsum expenses in the amount of 50% of her taxable business income but this is less than her documented expenses (50% of CZK 750,000 = CZK 375,000). Therefore she should apply documented expenses.				½
Capital income				
Interest income	2,500			½
Dividends from France (45,000/90 * 100)	50,000			½
Partial tax base			52,500	
Rental income				
Weekend house	80,000	(110,000)		½
Flat	180,000	(50,000)		½
Partial tax base			100,000	
Mrs Patkova would be able to apply lumpsum expenses in the amount of 30% of her taxable rental income but this is less than her documented expenses (30% of CZK 260,000 = CZK 78,000). Documented and lumpsum expenses cannot be combined within one partial tax base. Therefore Mrs Patkova should apply documented expenses.				1
Other income				
Sale of shares (Working 2)		30,000		
Sale of painting (note 4)	0			
Sale of apples (note 5)	0			½
Partial tax base			30,000	½
Total tax base			298,500	
Less:				
Loss (up to the amount of income from business activity)			(86,000)	1
Tax base after deduction for loss			212,500	
Gift (up to 10% of CZK 212,500)		(10,000)		1
Mortgage		(30,000)		1
Pension insurance contribution (15,000 – 6,000)		(9,000)		1
Life insurance contributions (maximum)		(12,000)		
Life insurance contributions (maximum)		(61,000)		1
Reduced tax base			151,500	
Rounded tax base			151,500	½
Tax liability (151,500 * 15%)			22,725	½
Tax credit				
Dividends from France		50,000		
Tax paid abroad		5,000		½
Coefficient for tax credit (50,000/298,500) * 100 = 16.75				
Maximum tax credit (16.75 * 22,725)/100			(3,806)	1
Tax liability after tax credit			18,919	
Personal tax deduction			(24,840)	½

	CZK	Marks
Final tax liability	0	½
Child tax bonus	(10,680)	½
Tax advance withheld by Agency, a.s. (30,000 x 15%)	(4,500)	1
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Final tax repayable (including child tax bonus)	15,180	½
The income of CZK 2,000 from the magazine is taxed at final tax rate of 15%, therefore it is not included in the tax computation.		½
Working 1 – Depreciation		
Depreciation (rounded up to the whole CZK)	CZK	CZK
Personal car		
2008 depreciation charge (800,000 x 11/100) x 50%		44,000
Computer		
2007 depreciation charge (90,000/3)	30,000	
2008 depreciation charge 2 x (90,000 – 30,000 + 60,000)/3		80,000
Printer		
2007 depreciation charge (81,000/3)	27,000	
2008 depreciation charge 2 x (81,000 – 27,000)/(4 – 1)		36,000
Total tax depreciation charge		<hr/> <u>160,000</u>
Working 2 – Sale of shares		
Shares in FI, a. s.	50,000	
	(60,000)	½
Shares in Keramika, s. r. o. Income is exempt as purchased in 2007 and owned for more than six months.		1
Shares in Dolce, a. s.	80,000	
	(40,000)	½
Shares in FI Partners, a. s. Income is exempt as owned for more than six months and representing less than 5% of the registered capital and voting rights		½
Partial tax base		<hr/> <u>30,000</u>
Notes:		
(1) Social security and health care insurance contributions are not due on the income from Agency, a.s. because Mrs Patkova worked based on the contract for work done (<i>‘dohoda o provedeni prace’</i>).		
(2) Social security and health care insurance advance payments paid during 2008 are not tax deductible.		
(3) Penalty for late payment of the tax liability and amount of personal income tax liability are not tax-deductible expenses.		
(4) Income from the sale of the painting is exempt from taxation as it was not included in the business assets.		
(5) Sale of apples from private garden is exempted from taxation up to the annual limit of CZK 20,000.		½
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3 (a) Value added tax (VAT) could be claimed back on the following items:

	Tax base CZK	VAT CZK	
Swarovski crystal figurines	3,500	665	1
Hugo Boss			
Suit + Shirt + Tie bought on the same date	21,900	4,161	2
Crystal vase	1,700	323	1
Jindrich Styrsky monography	1,800	342	1
Bulgari for men	1,900	361	1
Icebreaker underwear	3,300	627	1
Traditional Czech jewellery	8,500	1,615	1
Total		<hr/> <u>8,094</u>	

Mr House could have claimed CZK 8,094 back if the prescribed time limitations had been fulfilled.

- (1) VAT is only claimable on goods purchased for minimum of CZK 2,000, inclusive of VAT, on one day from one seller. Thus, it cannot be reclaimed on the Swarovski crystal pendant, the tie on 5 March or the Magdalena Kozena album. 1/2
- (2) VAT cannot be claimed on any purchase of groceries or on fuel. Thus, cannot be claimed on any of the items bought at the Prague airport boutique, other than the Bulgari perfume or on the tank of fuel at the border 1/2

- (b) The VAT has to be claimed back by the VAT payer (the seller of the goods). The VAT payer (the seller of the goods) is obliged to return the VAT to the purchaser if the purchaser fulfils the statutory conditions and submits the prescribed documentation. 1

The VAT payer (the seller of the goods) should include the claim in his/her VAT return within three years from the end of the taxable period in which the respective taxable supply took place. The VAT payer (the seller of the goods) is obliged to keep the respective documents obtained from the purchaser for ten years. 1

The purchaser (Mr House) would have to fill in the form on the export of the goods and have it certified by the customs office and the actual export would have to be certified by the customs office. The goods have to be exported by the end of the third month after the purchase. 1

The purchaser (Mr House) also needs the receipt/invoice for the items on which the VAT would be claimed with the prescribed appurtenances. The receipt ought to comprise the name and the registered seat of the seller, description of the taxable supply, the number of the receipt, the date of the taxable supply, the tax base and the applicable rate of VAT, and the price and VAT in CZK. 2

The VAT can be claimed by the end of the sixth month after the end of the month in which the purchase was made, i.e. VAT for the Swarovski figurines and Hugo Boss items would have to be claimed by the end of July 2008, VAT for the vase and Styrsky monography by the end of February 2009 and for the Icebreaker items, Bulgari for men and Allure jewellery by the end of April 2009. 1

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- 4 (a) Allocation of marks: Details of the tax authority. 1
 Details of the taxpayer, including tax identification number. 1
 Details of the tax assessment. 1
 Reasoning of the appeal – when assessing the additional tax, the tax administrator did not take into account the provision of the Income Taxation Act, which states that the tax is paid on the date when deducted from the taxpayer’s bank account. 2
 Suggested amendments, in this case cancellation. 1

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- (b) (1) Yes 1
 (2) No 1
 (3) No 1
 (4) Yes 1
 (5) No 1
 (6) No 1
 (7) Yes 1

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- (c) Amount of tax paid late (150,000 – 120,000) = 30,000 1/2
 Days overdue 30 + 15 = 45 1/2
 Interest calculation:
 30,000 * 45 * (0.0375 + 0.14)/365 CZK 656.51
 Interest rounded (up to the whole CZK) CZK 657

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		CZK	Marks
5 (a) Social security insurance – Computers, a.s.			
Gross salary		600,000	½
Special bonus		100,000	½
Company car (12 x 0.01 x 800,000)		96,000	1
Holiday contribution (30,000 – 20,000)		10,000	½
Pension scheme and life insurance (above the limit of CZK 24,000)		12,000	1
Housing ((15,000 – 3,500) x 12)		138,000	1
Products bought from employer (150,000 – 100,000)		50,000	½
		<u>1,006,000</u>	
Social security insurance contributions paid by Computers, a.s.	$1,006,000 * 26.0\% = 261,560$		½
Social security insurance contributions paid by Petr	$1,006,000 * 8.0\% = 80,480$		½
Health care insurance – Computers, a.s.			
Base for social security insurance		1,006,000	
plus:			
Supervisory board fee		<u>200,000</u>	½
		<u>1,206,000</u>	
Base for health care insurance is above the limit of CZK 1,034,880.			
Health care insurance contributions paid by Computers, a.s.	$1,034,880 * 9.0\% = 93,140$		½
Health care insurance contributions paid by Petr	$1,034,880 * 4.5\% = 46,570$		½
Social security insurance – Elephant, a.s.			
Social security insurance contributions paid by Elephant, a.s.	$60,000 * 26.0\% = 15,600$		½
Social security insurance contributions paid by Petr	$60,000 * 8.0\% = 4,800$		½
Health care insurance – Elephant, a.s.			
Health care insurance contributions paid by Elephant, a.s.	$60,000 * 9.0\% = 5,400$		½
Health care insurance contributions paid by Petr	$60,000 * 4.5\% = 2,700$		½
Petr will be able to apply for a refund of the social security and health care insurance contributions paid in respect of his contract with Elephant, a.s. during 2008 on the base above the limit of CZK 1,034,880.			½
			<u>10</u>
(b) Petr – 2008 personal income tax liability			
Employment income – tax base		CZK	
Base for the health care insurance		1,206,000	½
Plus:			
Employer's social security insurance (Computers, a.s.)		261,560	½
Employer's health care insurance (Computers, a.s.)		93,140	½
Income from Elephant, a.s.		60,000	½
Employer's social security insurance (Elephant, a.s.)		15,600	½
Employer's health care insurance (Elephant, a.s.)		<u>5,400</u>	½
Employment tax base		1,641,700	
Total tax base		1,641,700	½
Tax liability (1,641,700 * 15%)		246,255	½
Personal tax deduction		<u>(24,840)</u>	½
Final tax liability		<u>221,415</u>	½
			<u>5</u>
			15