

Fundamentals Level – Skills Module

Taxation (Czech)

Monday 7 June 2010

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 (CZE)

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

SUPPLEMENTARY INSTRUCTIONS

- 1. Calculations and workings need to be made to the nearest CZK if the law does not require otherwise.
- 2. All apportionments should be made to the nearest month.
- 3. All workings should be shown.

TAX RATES AND ALLOWANCES

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

Corporate income tax

20%

Individual income tax

15%

Personal tax credits (CZK)

Personal tax credit	24,840
Dependent spouse allowance	24,840
Child credit	10,680
Student tax credit	4,020

Tax depreciation periods

Group 1	3 years
Group 1a	4 years (cancelled in 2008)
Group 2	5 years
Group 3	10 years
Group 4	20 years
Group 5	30 years
Group 6	50 years

Depreciation rates under the straight-line method

	1st year	following years	for increased input price
Group 1	20	40	33.3
Group 1a	14.2	28.6	25 (cancelled in 2008)
Group 2	11	22.25	20
Group 3	5.5	10.5	10
Group 4	2.15	5.15	5.0
Group 5	1.4	3.4	3.4
Group 6	1.02	2.02	2

Where the depreciation rates for the first three groups are increased by 10% in the first year

	1st year	following years	for increased input price
Group 1	30	35	33.3
Group 1a	24.1	25.3	25 (cancelled in 2008)
Group 2	21	19.75	20
Group 3	15.4	9.4	10

Depreciation rates under the accelerated method

	1st year	following years	for increased input price
Group 1	3	4	3
Group 1a	4	5	4 (cancelled in 2008)
Group 2	5	6	5
Group 3	10	11	10
Group 4	20	21	20
Group 5	30	31	30
Group 6	50	51	50

Depreciation periods for intangible assets

Audiovisual work	18 months
Software and R&D results	36 months
Start-up costs	60 months
Other assets	72 months

Value added tax

Standard rate	19%
Reduced rate	9%
Registration threshold limit	CZK 1,000,000

Social security and health care insurance contributions

Social security	Employee's contributions	6.5%
	Employer's contributions	25.0%
Health care	Employee's contributions	4.5%
	Employer's contributions	9.0%

Cap for social security and health care insurance purposes as regards income from employment CZK 1,130,640.

Social security contributions – Private entrepreneur

Illness insurance	1.4%
Pension scheme	28.0%
Unemployment insurance	1.2%
Total	34.0%

Minimum monthly assessment base for the main activity CZK 5,889

Minimum monthly base for the additional activity CZK 4,711

Health care contributions – Private entrepreneur 13.5%

Minimum monthly assessment base CZK 11,777.50

Repo interest rate

2.25%

Note: You should apply this rate for all tax years when the repo or discount interest rate is applicable.

Minimum wage

CZK 8,000 per month or CZK 48.10 per hour

ALL FIVE questions are compulsory and MUST be attempted

1 Autopol, a. s. (hereafter: 'Autopol') is a car machinery manufacturer established in 1998 and a Czech tax resident company.

The following information relates to Autopol and its shareholders:

(1) Autopol is an 80% subsidiary of a German tax resident company Autoglobal GmbH. The remaining shares are held by an Italian tax resident Ms Grappiolo (15%) and a Swedish tax resident company ATP aktiebolag (5%). The withholding tax rate on dividends according to the Italian/Czech double taxation convention is 15% for individuals. The withholding tax rate on dividends according to the German/Czech tax treaty is 15% and 5% and the Swedish/Czech tax treaty is 10% and 0% for companies with a shareholding of less than and at least 25% respectively. Autopol distributed the retained profit to its three shareholders on 5 June 2010.

(2) Autopol's fiscal year is equal to the calendar year. The company had incurred profits in all fiscal years except for 2007 and 2008 when Autopol incurred losses of CZK 412,000 and CZK 764,895 respectively.

(3) In 2009 Autopol accounted for revenues as follows:

Proceeds from the sale of goods of CZK 2,242,200

Proceeds from the sale of process plant and machinery of CZK 8,240,000. The 2009 book value of this plant and machinery amounted to CZK 7,320,000 (see also note 6).

Proceeds from the sale of 12 cars (depreciation group 1a in 2007 and, depreciation group 2 in 2008 and 2009) used by Autopol's employees of CZK 410,000 per car. The 2009 book value of these cars amounted to CZK 390,000 each. Autopol had purchased the cars in 2007 for CZK 750,000 each.

Proceeds from the sale of furniture and equipment of CZK 260,000. The accounting and tax input price of the furniture had been fully written down in previous fiscal years. Autopol had purchased the furniture during the period 1998 to 2008 and the price of the individual items did not exceed CZK 20,000.

Proceeds from the sale of receivables of CZK 1,010,000, the nominal value of which amounted to CZK 3,000,000. The receivables had all been fully written off in the books by the end of 2008. Connected tax provisions created and deducted in previous tax years amounted to CZK 990,000.

Proceeds from the sale of land of CZK 2,500,000. The land had been acquired in 2004 for CZK 850,000.

Interest from the current bank account of CZK 42,800.

(4) In 2009 Autopol accounted for expenses as follows:

- Services purchased of CZK 610,000.
- Salaries and wages of CZK 1,400,000.
- Mandatory social and health insurance contributions on salaries and wages of CZK 476,000 all of which were paid within the statutory limit.
- Accounting depreciation charges totalling CZK 1,352,000.
- Remuneration to the accredited expert for appraisal of sold assets of CZK 1,310,000.

(5) Autopol cleared statutory reserves of CZK 295,000 and other reserves of CZK 4,500,000.

(6) The process plant and machinery sold included:

- Two items of plant (both depreciation group 3), one of which had been acquired in 1996 for CZK 4,520,000 and the other in 2007 for CZK 8,315,000.
- An appliance (depreciation group 2) acquired in 2008 for CZK 1,760,000.
- Five machines (depreciation group 2) acquired in 2003 for CZK 215,000 each.

(7) In 2006 Autopol acquired another plant (depreciation group 3) for CZK 3,800,000. The company decided to interrupt the depreciation of this plant in 2009 and not to apply any tax depreciation allowance due to a massive decrease of production and limited use of this plant.

- (8) Autopol used the accelerated method of depreciation for cars and the straight-line method for the depreciation of all remaining depreciable assets. Autopol always claimed the maximum possible deduction and never interrupted the depreciation of any asset. Autopol used the increased tax depreciation charge in the year of acquisition as regards all assets where the law allowed it.
- (9) Autopol made a gift of 15 computers to a local public school. Autopol had acquired the computers for CZK 25,000 each in 2005. The book and tax acquisition price of the computers were both fully written down in the year of the acquisition. The total market value of the computers at the date of the gift amounted to CZK 10,526 (exclusive VAT).
- (10) Autopol had no other fixed assets than mentioned above.
- (11) In March 2009, Autopol paid CZK 481,000 to its supplier Metal, a. s., this amount had been payable since 31 May 2005 and had affected Autopol's 2008 corporate tax base accordingly.
- (12) Autopol's financial statement is subject to the review by an accredited auditor.

Required:

- (a) **Prepare the computation of corporate income tax payable by Autopol, a. s. for 2009. State by when the tax return and tax are due. Calculate 2010 corporate income tax advances and state by when they will be due.**
(25 marks)
- (b) **State whether the profit distributed to shareholders will be taxed or exempt in the case of each of Autopol, a. s.'s three shareholders and if taxable, explain how it will be taxed.**
Note: computations are not required in this part. (3 marks)
- (c) **Assuming Autopol, a. s. claimed a tax credit in 2006 amounting to its overall tax liability on the basis of being granted an investment incentive, state the additional tax obligations that would follow from the finding that although the plant mentioned in (7) was included in Autopol's investment plan when acquired, Autopol was not the first owner of it in the Czech Republic.**
(2 marks)

(30 marks)

- 2 Mr Tomas Kouba is a Czech tax resident. He has been living in his house in Karlovy Vary with Ms Jana Blatna since 1996. Mr Kouba is not married to Ms Blatna but he and Ms Blatna have a daughter Klara born on 2 April 2009. Ms Blatna had no taxable income in 2009.

The following is applicable to the year 2009:

- (1) Mr Kouba is employed with Finanze GmbH, a German tax resident company. He works in Berlin and commutes from Karlovy Vary to Berlin every week. He received a gross salary amounting to the equivalent of CZK 2,800,000 in 2009. His employer withheld German mandatory social and health insurance in the equivalent of CZK 335,000 and German tax in the equivalent of CZK 840,000. In addition, Finanze GmbH contributed the equivalent of CZK 280,000 to Mr Kouba's private pension scheme. The amount of this contribution is guaranteed by the company's internal regulations to all employees of Finanze GmbH and is tax exempt in Germany. The German/Czech tax treaty provides for the exemption method in case of employment income earned in one state by the residents of the other state.
- (2) Mr Kouba is a member of the supervisory board of a Czech tax resident company INTIS, a. s., for which he received remuneration of CZK 330,000 in 2009. Mr Kouba has not signed the statement on his personal status (spouse, children etc) with INTIS, a. s.
- (3) Mr Kouba owns a total of three houses, two in Karlovy Vary and one in Prague. One of the houses in Karlovy Vary and the house in Prague are fully rented out. Mr Kouba lives in the other house in Karlovy Vary except for one flat representing 20% of it, which he also rents out. Mr Kouba keeps full tax documentation as regards his immovable property. He has always claimed the maximum tax depreciation allowances as regards his immovable property and uses the straight-line method for the tax depreciation of the properties.
- (4) Mr Kouba incurred repair and maintenance expenses in connection with the rented out properties in the amount of CZK 678,000 in 2009.
- (5) Mr Kouba's overall revenues from renting out the properties amounted to CZK 5,250,000 in 2009.
- (6) The acquisition values and costs incurred as regards Mr Kouba's properties are as follows:

	House 1 in Karlovy Vary (fully rented out)	House 2 in Prague (fully rented out)	House 3 in Karlovy Vary (80% used for private purposes, 20% rented out)
Depreciation group	5	5	5
Acquisition value in CZK	7,000,000	16,000,000	850,000
Date of acquisition	2000	2005	1996
Technical appreciation in CZK	5,000,000	none	3,000,000
Completion of technical appreciation	2008	n/a	2003

- (7) In December 2009 Mr Kouba sold the house in Karlovy Vary in which he had been living since 1996 for CZK 13,000,000 and moved with Jana and Klara from Karlovy Vary to Berlin.
- (8) Mr Kouba has a business licence for rendering technical advisory services and lecturing. He gave eight lectures based on a contract for work (*smlouva o dílo*) with Educa, s. r. o. in 2009, for which he received remuneration of CZK 180,000. He has no actual documented expenses in connection with this income.
- (9) Mr Kouba contributes to his pension scheme in the Czech Republic. His contract with the pension fund fulfils the conditions for tax deductibility. He contributed CZK 35,000 in 2009.
- (10) Mr Kouba is not represented by a tax adviser.

Required:

- (a) Calculate the amount of 2009 income tax due/overpaid by Mr Kouba. (16 marks)
- (b) State by when Mr Kouba must file his 2009 tax return. (1 mark)
- (c) Calculate Mr Kouba's 2010 tax advances and state the due dates for the payment of these advances. (3 marks)

- (d) Mr Kouba plans an overall reconstruction of his house in Prague. The total price of the reconstruction is estimated at CZK 5,000,000. The refurbishment should substantially change neither the appearance nor the functionality of the building. Mr Kouba is not sure whether the reconstruction will fulfil the requirements of a technical appreciation of the building or whether it can be treated as a repair and maintenance cost.

Required:

List the information and documents which Mr Kouba will need to include in an application to obtain a binding ruling from the tax administration on this point. (5 marks)

(25 marks)

- 3** Ms Eva Bendova and Ms Lada Lendlova run a fashion boutique 'Bella'. On 1 April 2009 Eva and Lada established a partnership without a legal personality 'Bella, sdružení bez právní subjektivity'. Before this date Eva had run Bella as a sole entrepreneur and employed Lada. All the invoices issued by Bella, both before and after the establishment of the partnership, have born Eva's name. Eva registered and became a value added tax (VAT) payer in 2005 and she submits the VAT tax return for the partnership quarterly. Eva has never had any income other than that from the Bella business.

The following information is applicable to the quarter from October to December 2009. All figures are exclusive of VAT if not stated otherwise and the basic VAT rate applies if not stated otherwise.

- (1) Bella purchased fabrics and materials from:
 - Czech VAT payers for CZK 250,000;
 - a US supplier for the equivalent of CZK 180,000; and
 - a French supplier registered for VAT in France for the equivalent of CZK 45,000.
- (2) In preparation for three dress parades for the fashion week in Milano Bella purchased services from:
 - Mr Floris, an Italian tax resident not registered for VAT in any state for the equivalent of CZK 80,000; and
 - Stilista, a company registered for VAT in Italy for the equivalent of CZK 375,000.
- (3) Bella had a new spring catalogue printed in December. The overall cost of the catalogue amounted to CZK 165,000 according to the invoice received from a Czech VAT payer, Promotions, s. r. o. on 27 December, which Bella paid on 3 January 2010.
- (4) Bella sold prêt-à-porter clothing for CZK 120,000 and tailored clothes for CZK 341,000 to Czech customers not registered for VAT. In addition, Bella sold a tailored collection to Stilista for the equivalent of CZK 175,000 and prêt-à-porter clothing for the equivalent of CZK 420,000 to a Swiss company Moda, registered to VAT in Switzerland.
- (5) Bella sold models from the dress parade during the fashion week, at their stall installed in the parade hall in Milano, to VAT non-payers for the equivalent of CZK 65,000. You should assume this amount is below the Italian limit for VAT on the delivery of goods abroad.
- (6) Bella received two complaints about clothes sold in September 2009. Bella recognised both as justified. The first customer returned the purchased dress and received a refund of its full price of CZK 15,000 (VAT inclusive). The second customer agreed to keep the defective item but with a 50% reduction on the original price, which had been CZK 18,000 (VAT inclusive). Bella refunded both amounts on 15 October 2009.

Required:

- (a) **Calculate the value added tax (VAT) due by Eva for the taxable period October to December 2009 and state by when the tax return is due.** (10 marks)
- (b) Eva had claimed an excessive deduction on 25 September 2009 and the competent tax authority initiated an examination (*vytýkací řízení*) on 5 October 2009. The examination was completed on 18 October 2009 and the deduction found to be justified.

Required:

State by when the deduction should be paid back to Eva and what surplus she can claim if it is not paid by that date. (3 marks)

- (c) Lada's 2008 share from the Bella business amounted to CZK 3,500,000 and this was paid to her in 12 equal instalments during 2009. Lada has been performing all her services under the brand Bella since 2005, she has had no other income in 2009 and she has had no income other than the income from her employment in previous years. In 2009 she rendered services of equivalent of CZK 5,200,000 and this amount will be reflected in her 2009 share from the business.

Required:

State, giving reasons, whether or not Lada should have registered for VAT and if so, by when. (2 marks)

(15 marks)

- 4 Ms Petra Kroupova is a certified tax adviser. Her new client FAME, a. s. (hereafter 'FAME') has ordered an overall due diligence of its tax returns and connected documentation for the fiscal years 2004 to 2008. The tax authority has not yet initiated any tax audit or examination as regards corporate income tax of any of these fiscal years. FAME has not been represented by a certified tax adviser before.

Petra completed her work and handed over the results to FAME's representative on 25 March 2009. She found the following mismatches:

- (1) A tax loss incurred in the fiscal year 2004 could have been higher by CZK 1,200,000 if FAME had applied the tax deductible provisions in the maximum allowable amount.
- (2) The 2005 corporate income tax liability should have been higher by CZK 280,000 as the tax depreciation had been calculated wrongly.
- (3) In 2006 the tax result should have been a loss of CZK 250,000 instead of a tax base of CZK 750,000. Petra found valid evidence of tax deductible expenses that FAME had incurred but did not use when calculating either the accounting profit or the tax base.
- (4) The 2007 tax liability should have been higher by CZK 280,000 as FAME had not added back the loss on the sale of land which was tax non-deductible to its 2007 accounting profit.
- (5) The 2008 tax liability could have been lower by CZK 36,000 if FAME had applied the tax credit for disabled employees correctly.

Required:

- (a) **For each of the above situations, state, giving reasons, whether or not a supplementary tax return can/should be submitted. Where you conclude that a supplementary tax return can/should be submitted, state by when and, where applicable, calculate the corresponding penalty payable assuming that FAME, a. s. paid the difference on the last day of the deadline.** (9 marks)
- (b) **State the circumstances in which the tax authority can pardon a tax liability, and/or a penalty on a tax liability.** (3 marks)
- (c) **List the information that Petra must include in the application for the pardon of a tax penalty that she is going to prepare for FAME, a. s.**

Note: you are not expected to state references to the law article numbers.

(3 marks)

(15 marks)

- 5 Mr Martin Kodet designs web pages. He studies information technology at the University and lives in a common household with his mother. He is 25 years old, single and has no children.

The following information is applicable for 2009:

- (1) Mr Kodet is employed with Miro, a. s. (hereafter 'Miro') based on a contract on work activity ('*Dohoda o pracovní činnosti*'). He received CZK 12,000 each month from Miro in 2009.
- (2) As for any other employee Mr Kodet received the following benefits from Miro:
 - Free membership of a nearby sports club to the value of CZK 9,600, paid from Miro's social fund.
 - Meal vouchers to the value of CZK 1,250.
 - A one week holiday in a recreational centre Miro runs for its employees in Harrachov to the value of CZK 3,750, paid from Miro's social fund.
 - Contributions to a private pension plan with a state subsidy of CZK 300 per month.
- (3) Mr Kodet also created web pages as a sole entrepreneur as follows in 2009:
 - For a film festival in Uherske Hradiste, for which he received CZK 15,000.
 - For a violinist Philip Cartier, a Belgian tax resident, for which he received remuneration amounting to the equivalent of CZK 25,000. According to the Belgian/Czech double taxation convention business income is only taxable in the state where the recipient is tax resident if not attributable to a permanent establishment in the other state

Mr Kodet has no documented expenses in connection with either of these incomes.

- (4) Mr Kodet has inherited rights to the productions of his father, a famous pop music composer. In 2009 he received royalties of CZK 270,000 from these inherited rights.
- (5) Mr Kodet took up a bank mortgage to buy a flat. Mr Kodet was registered as the owner of the flat in the register of immovable property as of 1 July 2009 and moved into the flat in December 2009. Mr Kodet paid mortgage interest of CZK 7,000 in 2009.
- (6) Mr Kodet has a life insurance contract that fulfils the legal conditions for tax deductibility and paid premiums of CZK 25,000 in 2009.
- (7) Mrs Kodetova has retired, she receives a retirement pension of CZK 8,540 each month.
- (8) Mrs Kodetova writes columns for the magazine Ela. In 2009 she contributed columns in the January, March, April, May, July, September, October and November issues and received CZK 7,000 for each column. Ela paid her these remunerations on the last day of the month in which the column was published.

Required:

- (a) **Prepare Mr Kodet's 2009 individual income tax return.** (9 marks)
- (b) **Calculate the mandatory social security and health care contributions due by Mr Kodet in addition to those paid and withheld by his employer.** (2 marks)
- (c) **Explain how Mrs Kodetova's income for the year 2009 will be taxed and the personal credits, if any, that she will be able to claim.** (4 marks)

(15 marks)

End of Question Paper