Answers

1 **(a)** A tax loss achieved in a particular tax year is carried forward up to five future tax years. It can be utilised to reduce taxable income in any of those five years, but no more than 50% of the loss can be used in any one of those five years.

		PLN	PLN
2003 loss			360,000
Utilised	2004	180,000	
	2005	94,000	
	2007	10,000	
			(284,000)
Available for 2008			76,000
2006 loss available: 390,000 x $^1/_2$			195,000
			271,000

(b) **(i)** The conditions for research and development expenditure to qualify for high technology relief are that it:

- occurred after 1 January 2006;
- results in the taxpayer being able to supply new or improved goods or services;
- is certified by an expert that the new technology is less than five years old; and
- has not otherwise been refunded.

Up to 50% of the expenditure can be claimed as a deduction (relief) from income in arriving at the tax base. A claim can include relevant expenditure made in the previous year. If there is insufficient income, the balance can be carried forward for up to three years. Any qualifying expenditure that is not claimed can be capitalised as an intangible asset and depreciated over 12 months. Any research expenditure that does not qualify for relief can be claimed as a tax allowable cost in the year the project ends. The relief must be repaid if within three years the claimant:

- transfers the rights;
- receives a refund, or
- is declared insolvent/liquidated.

(ii)

	PLN
Qualifying expenditure (142,000 + 128,000 – 58,000)	212,000
Maximum relief 50%	106,000

(c) **(i)** Donations for religious purposes or for a public benefit organisation in Poland or a body with similar aims registered elsewhere in EU qualify for relief. Donations made to individual physical persons can never qualify. The taxpayer must provide details of the amount, address and tax identification number of the recipient in his tax return. The maximum relief is 10% of income, and it is deducted from income in arriving at the tax base.

(ii)

	PLN
Maximum allowed: both public benefit bodies	33,000
Church	16,000
	49,000

(d)

Revenues:	PLN	PLN
Sales of products	3,144,000	
Dutch dividend (taxed since not from a shareholding over 10%)	12,000	
Interest received (7,200 – 1,250 + 500)	6,450	
Bad debt (previously claimed)	4,950	
Sale of machinery	20,000	
Grant (exempt)		
Sale of investment	84,600	
		3,272,000

	PLN	PLN
Costs:		
Research (part (b))		58,000
Net book value of machinery		5,000
Original cost of investment		11,000
Doubtful debts: (only):		
In court	7,400	
Bankrupt	3,600	
Certified as not worth executing	2,600	
		13,600
Salaries paid (641,000 – 74,000)		567,000
		654,600
Remaining costs (balance)		2,377,400
Total		3,032,000
Income		240,000

(e) Clearly, the available reliefs exceed the taxable income for the year.
The maximum available donation relief must be claimed first, since no carryforward is possible:
240,000 x 10% = 24,000.
No loss relief in respect of 2003 can be claimed after 2008, so that also must be claimed now.

		PLN
Thus:	Income	240,000
	Donation relief (10%)	(24,000)
	2003 loss (balance)	(76,000)
	Remaining relief claims	140,000

The 2006 loss (390,000) was high, and if not claimed now, only three years remain to recover it, with a maximum claim of PLN 195,000 in each year. Thus there is a serious risk that it will not be fully offset. It seems best to claim PLN 140,000 of the 2006 loss now to reduce the risk of non-recoverability.

The high technology relief will thus not be claimed in 2008, but can be recovered in the years 2009 to 2011 if there is sufficient income. Furthermore, unclaimed high technology expenditure may be depreciated over 12 months, so depreciation may fully recover the entire expense in 2009, or the depreciation can even be deferred, to ensure that the 2006 loss is not lost.

2 (a)

Piotr	PLN
Salary (4,500 x 12)	54,000
Relocation payment (15,000 – (2 x 4,500))	6,000
	60,000
ZUS deducted 13·71%	(8,226)
Basis for HSC	51,774
HSC deducted 9%	4,660
HSC allowed 7·75% (part (b))	4,012
Olga	
ZUS basis 3,200 x 60%	1,920
HSC basis 3,200 x 75%	2,400
ZUS paid 1,920 x 31·72% (18·01%+13·71%) x 8	4,872
HSC paid 2,400 x 9·0% x 8	1,728
HSC allowed 2,400 x 7·75% x 8 (part (b))	1,488

(b) **Piotr**

		PLN
Salary and relocation (part (a))		60,000
ZUS deduction		(8,226)
		51,774
Cost allowance		
111·25 x 125% x 3	417	
111·25 x 9	1,001	
(Note: no adjustment to actual costs for car (not public transport).)		
		(1,418)
Taxable income		50,356
Sale of car: revenue	50,000	
Cost, including restoration (6,000+11,000)	(17,000)	
		33,000
Total income		83,356
Olga		
Fees receivable		32,000
ZUS deduction	4,872	
Depreciation of room (15 x 988 x 1·5% x 8/12)	148	
Electricity, gas (3,400 x 20%)	680	
Motor travel (2,400 km x 1·00)	2,400	
Hotel stays (including disallowed VAT of 165)	915	
Allowance for staying privately (24 x 1·5 x 7)	252	
Meal allowance (maximum) (24 x 12 nights)	288	
Telephone	850	
Internet (business cost)	1,060	
Subscription	700	
Entertaining (not allowed)	–	
Computer depreciation (7,200 x 30% x 6/12)	1,080	
		13,245
Taxable income		18,755
Joint income (83,356 + 18,755)	102,111	
Half total base	51,055	
Tax on first PLN 44,490		7,866
30% on balance of PLN 6,565		1,969
		9,835
Total tax (9,860 x 2)		19,670
Less: HSC allowed (4,012 + 1,488)		5,500
Total tax payable		14,170

(c) The couple must be married throughout the year, and have joint ownership of property. They both must sign the relevant tax return.

In the case of Piotr and Olga, the claim is beneficial since without such a claim Piotr's income of PLN 83,356 is taxed marginally at 30%, while Olga, whose income is PLN 18,755, is still paying tax at the basic rate of 19%. By applying for joint taxation the remainder of her PLN 44,490 basic rate band is utilised, reducing tax on about PLN 25,700 of Piotr's income from 30% to 19%, and saving the couple over PLN 2,800.

3 **(a)** **(i)** The latest date for the submission of a VAT return is the 25th of the following month.

Excess input tax can be carried forward for offset against future output tax, or a refund may be claimed, which will normally be made 180 days after submission of VAT return.

(ii)

	July	August
Output VAT	**PLN**	**PLN**
Hygiene products at 22%	33,000	33,000
Surgical at 7%	–	2,800
Exports	–	–
	33,000	35,800
Input VAT		
Materials at 22%	17,600	44,000
Overheads at 22%	8,800	11,000
Equipment at 22%	44,000	–
	70,400	55,000
Excess input	(37,400)	(19,200)
Refund claim	37,400	13,200
Carry forward	–	6,000

(1) An accelerated refund of PLN 37,400 is available for July 2008 because this relates to the fixed asset purchase.

(2) An accelerated refund of PLN 13,200 (60,000 at 22%) is available for August 2008 because this relates to export and lower rate sales.

(3) Those early refunds will be made 60 days after the submission of the relevant return, or 25 days after all input invoices in the tax return have been fully paid, as opposed to the normal 180 days (60 days for paid invoices).

(iii) A normal refund claim will be received in 180 days, whereas it is possible that the excess input tax carried forward will effectively be recovered sooner by reduction of a future month's output tax payable. Even for the quick (60 day) refunds it is possible that normal offset will recover the tax sooner or as soon. A refund claim may also result in the inconvenience of a tax inspection.

(b) (i) The conditions to be satisfied are:

- Registered for VAT
- No taxable activity (except import) to date
- Acquired fixed assets for over PLN 250,000
- Paid for them
- Lodges a declaration that assets will be used for taxable activity
- Commence activity within six months of last fixed asset invoice receipt
- Will not claim small activity exemption (below 50,000 PLN)

(ii) A refund can only be claimed for the fixed assets, not the rent; i.e. 22% x 1,800,000 = PLN 396,000

The refund will be received in three equal instalments of PLN 132,000, 60, 120 and 180 days after the claim is made.

4 (a) A taxpayer is a legal or physical person who has a tax obligation under a particular tax law. He is responsible for getting registered, completion of any returns required by the law, and in many cases, settling tax liablilties. He is liable for any unpaid tax liabilities with his entire assets.

A tax remitter is a legal or physical person who is required to deduct tax from payments he is making and to pay the tax over on a due date, completing any necessary returns.

A tax liability arises when an event requiring tax to be paid occurs. This is irrespective of whether the taxpayer/remitter has registered, completed the necessary return or even is aware of the obligation. A tax liability will also arise upon the issue of a decision by the appropriate tax authority.

(b) Paying a salary; paying under a contract (*umowa zlecenie/o dzielo*); paying a dividend; paying interest abroad (or in Poland for banks); paying licence fees or royalties; paying prizes over PLN 760.

(c) Zagraniczna SP. z o.o.

(i)

Month	Income	Cumulative income	Tax at 19% on cumulative income	Tax liability	Due date
	PLN	PLN	PLN	PLN	
January	1,000,000	1,000,000	190,000	190,000	20 February
February	800,000	1,800,000	342,000	152,000	20 March
March	(500,000)	1,300,000	247,000	nil	–
April	700,000	2,000,000	380,000	38,000	20 May

(ii)	PLN	PLN
Interest on arrears at 5 May		
From 20 February to 5 May: 75 days at 10%/366 x 190,000	3,893	
From 20 March to 5 May: 46 days at 10%/366 x 152,000	1,910	
Interest on arrears of tax		5,803
Tax arrears at 5 May 2008 (190,000 + 152,000)		342,000
Total arrears at 5 May 2008		347,803
Allocation of 250,000 to interest: (250,000 x 5,803/347,803)		4,171
Allocation against tax (= balance) (250,000 x 342,000/347,803)		245,829
This is allocated against oldest liability first		(190,000)
Balance against the tax due on 20 March		55,829
Remaining tax arrears (152,000 – 55,829)		96,171
Plus tax due on 20 May 2008		38,000
Tax due		134,171
(iii) Interest on arrears (96,171 x 15/366 x 10%)		394
Outstanding interest from earlier payment (5,803 – 4,171)		1,632
Total to be settled 20 May 2008		136,197

5 **(a)** **(i)** A person is treated as resident in Poland if he has his centre of personal or economic interests in Poland, or if he stays in Poland for more than 183 days in a year

(ii) Permanent home
Closer personal or economic links
Usually resides
Citizenship
Negotiation between the tax authorities of the two countries

(iii) Edward has both a home (albeit rented) and a registered business in Poland, so he will be treated as resident even if his actual stay in Poland was below 183 days.

(b)	PLN	PLN
Polish source: partnership profit share		11,845
Peru: gross royalties (10,800 x 100/90)	12,000	
Less: 50% cost allowance	(6,000)	
		6,000
Sweden: gross salary (4,800 x 3·5)	16,800	
Less: allowed cost (4 x 111·25)	(445)	
Less: overnight allowance (40 x 3·5) = (140 x 30% x 100 days)	(4,200)	
		12,155
Total taxable income		30,000
Tax: 19% x PLN 30,000	5,700	
Less	587	
		5,113
Less: Credit for Peruvian tax: paid	1,200	
maximum (5,113 x 6,000/30,000)	1,023	(1,023)
Less: Credit for Swedish tax: paid (900 x 3·5)	3,150	
maximum: (5,113 x 12,155/30,000)	2,072	(2,072)
Final Polish tax liability		2,018

				Marks
1	**(a)**		Carried forward against future income	½
			Five years maximum	½
			50% maximum per year	1
			2003 calculation	1½
			2006 calculation	½
				4
	(b)	**(i)**	After 1 January 2006	½
			New improved products/services	1
			Certified by an expert	½
			Not otherwise refunded	½
			50% as a relief	1
			Can include previous year expenditure	½
			Carry forward for up to three years	1
			Depreciate balance – over 12 months	1
			Treatment of non-qualifying research costs	1
			Circumstances of repayment	1
				8
		(ii)	Calculation of relief	1
	(c)	**(i)**	Religious purpose	½
			Public benefit body	½
			Elsewhere in EU	1
			Provide details, NIP	½
			10% limit	½
				3
		(ii)	Calculation of relief	1
	(d)		Foreign dividend	½
			Interest received	1
			Old debt recovery	½
			Machinery sale	½
			Investment sale	½
			Exclude grant	½
			Research cost (from (b))	½
			Machinery cost	½
			Investment cost	½
			Correct doubtful debts	2
			Salaries paid	1
				8
	(e)		Donations to 10%	1
			Old loss	1
			2006 loss, with reason	2
			No high technology, with reason	1
				5

			Marks
2	**(a)**	Employed ZUS basis	1
		ZUS rate	½
		HSC basis	1
		HSC calculations	½
		Self employed ZUS basis	1
		HSC basis	1
		ZUS rate	½
		HSC calculations	½
			6
	(b)	Salary + relocation (from (a))	½
		Deduct ZUS	½
		Cost allowance	1½
		No car allowance	½
		Sale of vintage car	2
		Fees receivable	½
		Deduct ZUS	½
		Depreciation – room	1
		Electricity	½
		Motor travel	½
		Hotel stays	1
		Allowance – overnight	1
		Meals – maximum	1
		Telephone	½
		Internet	½
		Subscription	½
		Computer depreciation	1
		Income tax computation on joint basis	1½
		Deduct HSC	1
			16
	(c)	Married throughout year	1
		Joint property	½
		Both sign form	½
		Marginal rates	1
			3
			25
3	**(a)** **(i)**	Due date	½
		Carry forward	1
		Claim refund	½
			2
	(ii)	VAT account for each month, 1½ each	3
		Fixed asset acquisition refund	1
		Lower rate/export refund	1
		60/25 days	1
			6
	(iii)	Each reason 1 mark, maximum	2
	(b) **(i)**	Each condition ½ mark, maximum	3
	(ii)	Fixed asset VAT only	1
		Three instalments	½
		Dates	½
			2
			15

				Marks
4	**(a)**		Taxpayer: legal/physical person, tax obligation under a law	1
			Returns	½
			Accountability for unpaid tax	½
			Remitter: deduct and pay a tax	1
			Returns	½
			Liability: arises on a relevant event	1
			Or decision	½
				5
	(b)		Each item listed ½ mark, maximum	2
	(c)	**(i)**	Tax liability at each date (including nil at 20 March); ½ each	2
		(ii)	Correct interest rate	½
			Interest computation at 5 May, including correct number of days; 1 each	2
			Allocation method aganst tax/interest	1
			Oldest tax eliminated first	½
				4
		(iii)	Second interest calculation on 20 May	1
			Include outstanding interest from 5 May	½
			Include tax due on 20 May	½
				2
				15
5	**(a)**	**(i)**	Centre of interests	1
			Stays over 183 days	1
				2
		(ii)	Each test (5 in total) ½ mark each	2½
			Correct order	½
				3
		(iii)	Correct conclusion	1
			Reasons	1
				2
	(b)		Partnership profit share	½
			Royalties, gross up	1
			Cost allowance	1
			Swedish salary	½
			Cost allowance	½
			Overnight allowance	1
			Compute tax on total income	½
			Credit Peruvian tax paid	½
			restriction	1
			Credit Swedish tax paid	½
			restriction	1
				8
				15