Fundamentals Level – Skills Module

Taxation (Poland)

Monday 7 December 2009

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 (POL)

ACCA

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest PLN
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.

Personal income tax (PIT) 2008

From PLN	To PLN	Tax amounts to
Nil	44,490	19% of the base minus PLN 586·85
44,490	85,528	PLN 7,866·25 plus 30% on the excess over PLN 44,490
85,528		PLN 20,177·65 plus 40% on the excess over PLN 85,528

Flat rate monthly cost

The basic flat rate monthly cost of earning income from employment is PLN 111·25.

Various PIT limits

	PLN
Home building cost	189,000
Internet connection	760
Rehabilitation relief maximum earnings	9,120
Rehabilitation relief medicines – monthly limit	100
Rehabilitation relief motor car travel	2,280
Rehabilitation relief guide dog for blind	2,280
Competition prizes	760
Child deduction	1,174
Daily meal allowance (*dieta*)	24
Motor car allowance (per km.)	1

Flat rate tax (*ryczalt*)

Revenue limit €150,000 (PLN 565,200)	
Rent over €4,000 (PLN 15,072)	20·0%
Services and rent under €4,000 (PLN 15,072)	8·5%
Production	5.5%
Trade	3·0%

Health service contribution (HSC)

The rate of health insurance contribution is 9·00% of the base, and 7·75% of this is deductible for personal income tax purposes.

Corporation tax (CIT)

Corporate income tax rate	19%

Dividend withholding tax

Dividend withholding tax rate	19%

Tax depreciation rates

	%
Buildings – Residential	1·5
– Other	2·5
General machinery	14·0
Transport means	20·0
Computer equipment	30·0
Office equipment, furniture	14·0

Residential property is depreciated on a base value of PLN 988.

Social security contributions (ZUS)

	Employer	Employee
Insurance (*Ubezpieczenie*)		
Retirement pension	9·76%	9·76%
Disability pension	4·50%	1·50%
Sickness benefit	–	2·45%
Accident benefit	1·80%	–
Work fund (*Fundusz pracy*)	2·45%	–
Guaranteed workers' benefit (*Fundusz gwarantowanych swiadczen pracowniczych*)	0·10%	–
	18·61%	13·71%
Upper earnings limit		PLN 85,290

Value added tax (VAT)

Normal rate	22%
Registration limit	PLN 50,000

Note: certain other details are included in the relevant question for ease of reference.

ALL FIVE questions are compulsory and MUST be attempted

1 Formtex S.A. is mainly engaged in the production of plastic goods and components. The company was taken over by Plasto plc, a UK registered company, in January 2008 and a new British finance director was appointed.

(1) Following the takeover, Formtex S.A.'s accounting date was changed from 31 December to 30 April, to comply with Plasto plc's year end. The draft financial accounts for the 16-month period to 30 April 2009 showed a profit before taxation of PLN 4,260,000. These accounts were prepared under Polish accounting rules, except for the following two items, the treatment of which has not yet been finalised:

(i) At the time of the takeover, Formtex S.A. was in the course of acquiring the rights to a new invention. The rights to the invention were finally acquired in September 2008, and it was put into use immediately. The following costs have been recorded in the intangible assets account:

	PLN
Deposit of 10% to the inventor in August 2007	246,000
Internal costs in 2008, which relate to research	47,000
Market research costs in 2008	103,000
Final sum paid to inventor in September 2008	2,214,000
	2,610,000

The invention qualifies for new technology relief. As yet no amortisation has been charged in the accounts.

(ii) Machinery no longer required was disposed of for PLN 71,600. The original cost of the machinery was PLN 520,000 and accumulated depreciation on the day of disposal amounted to PLN 509,600. No entries in respect of this disposal have been made in arriving at the draft profit.

(2) Formtex S.A.'s taxable income/(loss) in each of the last four years was as follows:

	PLN
Year ended 31 December 2004: (loss)	(270,000)
Year ended 31 December 2005: income	255,000
Year ended 31 December 2006: income	24,000
Year ended 31 December 2007: income	66,000

The company has claimed the maximum loss relief and it has claimed no other reliefs in this period.

The new finance director is not clear on how the 16-month period will affect the available loss relief, nor how any legislative changes to corporate income tax which take effect on 1 January 2009 should be dealt with.

(3) Included in the revenues for the 16-month period are PLN 144,000 patent royalties received from Japan after deduction of 20% Japanese withholding tax.

(4) Formtex S.A. had a large general doubtful debt provision amounting to PLN 521,000 at 1 January 2008. The new finance director requires the company to follow the principles of International Financial Reporting Standards (IFRS) and has reduced this provision to PLN 77,000 at 30 April 2009. However, he has also set up a provision for slow-moving stock of PLN 165,000 at 30 April 2009.

(5) Some members of the supervisory board were replaced following the acquisition of Formtex S.A. by Plasto plc. Apart from their contractual compensation entitlement they were paid a total of PLN 660,000 in recognition of their service.

(6) The interest expense in the draft accounts comprises:

	PLN
Accrued at 1 January 2008	(1,300)
Interest paid to banks	74,300
Late payment interest on tax liability	3,900
Accrued at 30 April 2009	4,800
	81,700

(7) Costs for the 16-month period include:

	PLN
Travel expenses of Plasto plc executives visiting Formtex S.A.	84,700
Payment to the Rehabilitation Fund (PFRON) for not employing sufficient numbers of disabled staff	34,600
Environmental penalties	66,300

(8) The corporate tax charge for the year includes the setting up of a deferred taxation provision under IAS11 of PLN 217,000 and monthly payments on account of corporate income tax. Formtex S.A. uses the simplified (optional) method for on account payments.

The new finance director wants to apply IFRS in his preparation of financial statements for reporting to Plasto plc. He is pleased because, from what he has learned so far, it appears that the Polish taxation rules for charging the cost of fixed assets conform to IFRS. He explains that the basic principles of IFRS include concepts of materiality, consistency, accrual and matching of costs with associated revenue and that IAS16 requires the depreciable amount to be expensed systematically over the useful life of an asset.

Required:

(a) (i) Compute the loss relief that is available to Formtex S.A. for the 16-month period ended 30 April 2009; (2 marks)

(ii) State how any changes in corporate income tax rules and rates on 1 January 2009 will be dealt with in the case of a company whose accounting period runs over two or more calendar years. (1 mark)

(b) State the conditions that must be met for Formtex S.A. to claim new technology relief, explain how the relief is given, and the circumstances in which it might be withdrawn subsequently. (7 marks)

(c) Compute the taxable income of Formtex S.A. for the 16-month period to 30 April 2009, making the most beneficial claims available, and the amount of corporate income tax payable or repayable after the period end. (14 marks)

(d) Identify and explain FOUR matters where the application of the Polish taxation rules for claiming the costs of fixed asset expenditure may not comply with IFRS. (6 marks)

(30 marks)

2 Kazimierz, senior partner of a civil partnership of lawyers, has difficulty in coming to an agreement with his two partners, Ludwika and Maria, concerning the taxation of the partnership profits. The partners share profits: Kazimierz 50%, Ludwika and Maria 25% each.

With an annual partnership profit of around PLN 250,000 Kazimierz is paying a lot of personal income tax at 40%. He knows that Ludwika is married and her husband has no income, but as far as he is aware Maria, divorced with one child, does not qualify for 'double taxation with child' since the child lives with her ex-husband. Although he is a property law expert he estimates that Maria is paying tax at a marginal rate of 30%. Hence his surprise that at a recent meeting, neither of his partners wanted to change to the 19% flat rate of tax on income.

The final accounts of the partnership for 2008 are as follows:

	Note	PLN	PLN
Revenue	1		819,200
Salaries etc.	2	375,600	
Travel costs	3	60,551	
Office costs	4	142,853	
			579,004
			240,196

Notes:

(1) Revenue includes receipts in advance for work not yet commenced of PLN 17,000 and accrued interest receivable on the firm's deposit account of PLN 680.

(2) Salaries costs include PLN 46,250 of ZUS contributions for the partners. The two ladies pay the minimum ZUS contribution allowed, which amounts to PLN 7,500, but Kazimierz, who is a great believer in the reformed ZUS scheme, pays the maximum permitted contribution, which came to PLN 31,250. These costs also include a private pension contribution for Kazimierz of PLN 10,426.

(3) Travel costs include PLN 8,200 plus 7% VAT for hotel stays during business trips. The firm reimburses the partners PLN 100 for every evening meal, and there was a total reimbursement of PLN 2,900 during the year. Staff are only reimbursed the standard meal allowance of PLN 24. In addition the firm reimburses motor costs of partners at PLN 2·20 per kilometre, and the relevant records (*karty drogowe*) show that 12,400 km of travel were so reimbursed. The partnership has agreed that all tax disallowables will be borne in arriving at partnership taxable income, rather than charging each partner individually.

(4) The office costs include required subscriptions to legal bodies amounting to PLN 3,489; PLN 1,200 for entertaining; PLN 1,411 for texts and updates of laws; and PLN 1,705 for newspapers.

Additional information:

(i) Ludwika is indeed married with no children. Her husband has no income. She paid PLN 900 for home internet in 2008 to keep him occupied;

(ii) It transpires that Maria's child is severely disabled, and in fact lives with her for four months of the year. She has agreed that her ex-husband claims 'double taxation' in respect of the child, but she alone drives him to necessary medical and rehabilitation sessions. She calculates that she drove 4,850 kilometres for this purpose in 2008. She has paid for the following additional costs for the child:

	PLN
Prescribed medicines connected to the disability	2,930
Child's stays at rehabilitation centres	5,160
Maria's holiday stay near such a centre	2,680
Home nursing care	3,350
Maintenance of rehabilitation equipment	480
	14,600

Required:

(a) Compute the taxable income of the partnership for the year ended 31 December 2008 and apportion it between the partners. (8 marks)

(b) Compute the personal income tax (PIT) payable by each of the three partners for 2008, making the most favourable claims available. (10 marks)

(c) Calculate the PIT that would be payable by each partner under the 19% straight-line method and the saving/additional tax that would result compared to (b) above. (2 marks)

(d) As a tax advisor you have considered the possibility that instead of charging partners' ZUS contributions as costs, each partner claims his own contribution as a personal relief. Kazimierz is very excited by this idea.

Required:

(i) State whether this proposal is permitted and briefly explain its effect; (2 marks)

(ii) Calculate the PIT under normal rules that would be saved and/or any additional PIT that would be paid by the each of the partners if this proposal were adopted as an alternative to the 19% straight-line tax. (3 marks)

Note: Ignore health service contributions.

(25 marks)

3 **(a)** During June 2008 Walgron S.A., which is registered for value added tax (VAT) and has an EU VAT number, had the following transactions:

(1) Import of goods from outside the EU, where the customs value declared was US$120,000. Customs duties amounted to PLN 29,760. The customs exchange rate on the day of import was US$1 = PLN 3·10.

(2) Purchase of a delivery vehicle, with one row of seats and a substantial load carrying area, for PLN 85,400 including VAT.

(3) Management charge from a foreign group company for €20,000. The charge is adequately documented for corporate income tax purposes. The relevant exchange rate was €1 = PLN 3·45.

(4) A new operating lease for a passenger car worth PLN 160,000 plus VAT was signed. The lease stipulates an initial fee of PLN 42,000 plus VAT followed by 36 monthly payments of PLN 4,000 plus VAT. The initial fee was paid as a condition for the car to be delivered.

(5) Entertaining of clients in restaurants amounted to PLN 9,743 plus PLN 1,740 VAT (some costs were charged at the 7% VAT rate).

(6) Air tickets for staff travel within Poland, including 7% VAT, came to PLN 8,132. No invoices were received, but the tickets include the VAT number of the airline.

(7) Small samples of one of Walgron S.A.'s products were distributed 'free' with a magazine. Supplier invoices for packing, despatch and attaching of 85,300 samples came to PLN 35,000 plus VAT, and the cost of the actual product taken from stock for this promotion amounted to PLN 8,260, excluding VAT.

(8) Pleased with the effects of the marketing exercise (see (7) above) Walgron S.A. prepared special gift packages of its products for distribution to individuals with whom it has dealings, none of whom is a customer of Walgron S.A. In total 300 such packages at a cost of PLN 40 each and 50 'deluxe' packages at a cost of PLN 120 each were produced. Details of the recipients were recorded. When the campaign finished there were 20 of the PLN 40 packages left, and these were given to Walgron S.A.'s own staff.

(9) The first of the 36 monthly payments under the operating lease described in (4) above was made.

(10) On 5 May 2008 the credit controller of Walgron S.A. notified a bad debtor who owed an invoice of PLN 30,300 plus VAT that the debt was being written off. No money has been received from this debtor in May or June 2008.

Required:

Calculate the amounts of input VAT and output VAT for the month of June 2008 in respect of the items listed. Support your calculations with brief explanations. (10 marks)

(b) A taxpayer has the following transactions in July 2008:

(1) An export of goods outside the European Community, where documentation confirming export ('SAD') was not received until the 18th day of the following month.

(2) A receipt in advance of PLN 10,000 from a customer in respect of goods worth PLN 40,000 which are to be delivered in three months time.

(3) A despatch of goods from the company premises by road to Wroclaw to be put into a container, which will go by rail to Rotterdam, crossing the German border at Zgorzelec. From Rotterdam it will be shipped to Argentina.

(4) The delivery of goods to two customers: one of them requires an invoice, the other does not.

(5) An intra-Community supply of goods to a customer in France.

Required:

State the tax point for each transaction, and in the case of item (2) the amount of any input tax or output tax. (5 marks)

(15 marks)

4 (a) (i) State the three major sources of income that require social security (ZUS) contributions to be paid, and explain what happens if a taxpayer has more than one such type of source at the same time; (3 marks)

(ii) In circumstance where ZUS applies, explain any variations in rates, maximum amounts of contribution or circumstances in which contributions need not be paid for the following charges:

- **disability pension;**
- **accident benefit; and**
- **guaranteed workers' benefit fund.** (3 marks)

(b) Grzegorz Dziki returned to Poland on 25 May 2008 after living nearly 20 years in South Africa. Grzegorz intends to live in Poland permanently although he has both Polish and South African citizenship. From 1 June 2008 he was appointed professor at an educational institution in Torun, Poland at a monthly salary of PLN 4,000.

The Torun institution allowed Grzegorz to accept an invitation from his former university in Bloemfontein, South Africa to deliver a series of seminars during the summer vacation. This was arranged by the Bloemfontein University as an employment contract for 60 days from 22 June to 20 August, with a gross salary equivalent to PLN 40,000. No South African social security taxes applied, but South African income tax equivalent to Polish PLN 8,800 was deducted from his earnings. Grzegorz continued to earn his full salary from the Torun institution through the summer vacation.

Although unhappy that ZUS is deducted from his Polish salary, Grzegorz believes that the monthly PIT deducted by his employer will result in there being no further tax to pay, since he understands that South African earnings are excluded from Polish income tax.

Required:

(i) State why Grzegorz will be treated as resident in Poland for 2008; (1 mark)

(ii) Compute the personal income tax (PIT) deducted from Grzegorz's salary by his Polish employer for 2008 and compute the additional PIT he must pay with his tax declaration. (8 marks)

Notes:

1. The meal allowance (*dieta*) for South Africa is equivalent to PLN 110 per day.
2. You are to assume that the Polish–South African double tax avoidance treaty stipulates exclusion with progression in the case of employment.

(15 marks)

5 As a tax advisor, you have been asked to advise the three taxpayers below in respect of plans they have to save tax.

(1) Nieplynna Sp. z.o.o. has share capital of PLN 1 million and is fully owned by Liquid Resources Ltd, a company registered in the UK. Due to economic misfortunes, Nieplynna Sp. z.o.o. is short of cash and it has been agreed that the parent company will advance a loan of PLN 8 million at a commercial rate of interest of 5% per annum.

The parent company's finance director is suggesting instead that Liquid Resources Ltd deposit PLN 8 million at 4·5% interest with its UK bank, and the Polish branch of the bank lends the identical amount at 5% to Nieplynna Sp. z.o.o. The bank will charge an arrangement fee of PLN 20,000 for the transactions.

(2) Zyskowna Sp. z.o.o. is a highly profitable direct subsidiary of a Dutch company. The Dutch parent company is also profitable and pays tax in the Netherlands of 12% on its profits. The Dutch parent has another subsidiary company, XB, registered in a country where identification of shareholders is not possible.

Zyskowna Sp. z.o.o. currently buys goods for resale from its parent company at agreed fair market prices, and these annual purchases of Zyskowna Sp. z.o.o. amount to PLN 10 million. The accountant tells you that the Dutch parent is now planning to sell these goods for PLN 15 million to XB, who will sell them on to Zyskowna Sp. z.o.o. at the same price of PLN 15 million per annum.

(3) Helena has been employed by Dobra S.A. throughout 2008 at a monthly salary of PLN 5,500. The company has been doing well in 2008 and in addition to her salary, in June 2008 she received a bonus of PLN 20,000. Her employer has told her that she will receive a further bonus of PLN 10,000 in December 2008. However, Dobra S.A. expects a big drop in profits and will not offer staff any pay rises or bonuses in 2009.

Helena has heard that from 2009 the basic rate of personal income tax (PIT) will drop to 18% and that this rate will apply to income up to PLN 85,528, with only 32% payable on income above this threshold. She plans to ask Dobra S.A. to delay payment of her PLN 10,000 bonus to January 2009.

Required:

(a) Explain the purpose of the plan and compute the overall saving or additional cost that will result in the following:

(i) Situation (1) (4 marks)

(ii) Situation (2) (3 marks)

(iii) Situation (3) (5 marks)

Note: In (1) ignore any tax effects in countries other than Poland.

(b) In your role as tax advisor, briefly comment on the ethical aspects of each of the three plans. (3 marks)

(15 marks)

End of Question Paper