

Fundamentals Level – Skills Module

# Taxation (Poland)

Monday 1 June 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)

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 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
Competition prizes	760
Child deduction	1,174
Daily meal allowance ( <i>dieta</i> )	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%
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### Dividend withholding tax

Dividend withholding tax rate	19%
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### 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 ( <i>Ubezpieczenie</i> )		
Retirement pension	9·76%	9·76%
Disability pension	4·50%	1·50%
Sickness benefit	–	2·45%
Accident benefit	1·80%	–
Work fund ( <i>Fundusz pracy</i> )	2·45%	–
Guaranteed workers' benefit ( <i>Fundusz gwarantowanych świadczeń pracowniczych</i> )	0·10%	–
	<hr/> 18·61%	<hr/> 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.

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Question 1 begins on page 5.**

**ALL FIVE questions are compulsory and MUST be attempted**

- 1 Nowomiejska Sp.z o.o. commenced activities on 1 August 2008 as the Polish franchise holder for Newtown Inc, an American chain of modern city centre restaurants. The company’s managers plan eventually to establish a large chain of restaurants across Poland, modelled on the successful American business. At 31 December 2008 Nowomiejska Sp.z o.o. has already set up its head office and had two restaurants operating.

Nowomiejska Sp.z o.o.’s profit and loss account for the five month period to 31 December 2008 is as follows:

	Note	PLN	PLN
<b>Revenue</b>			
Sales	1		485,000
<b>Costs</b>			
Restaurant operating costs	1	573,800	
Management charge	2	44,000	
Advertising, travel and entertaining	3	183,800	
Exceptional losses	4	152,100	
Rentals	5	95,400	
Depreciation (see below)	6	–	
Administrative expenses	7	217,200	
Provision for claims	8	9,700	
Interest	9	60,000	
			<u>1,336,000</u>
<b>Loss before taxation</b>			<u>(851,000)</u>

**Notes:**

- (1) The figure for sales represents taxable revenue, and the restaurant operating costs are all tax allowable.
- (2) The management charge was paid to another subsidiary of Newtown Inc. The relevant invoice and documentation do not specify the nature of the services being charged for, nor is there any agreement in place between the two companies.
- (3) Advertising, travel and entertaining comprise the following:

	PLN
Local radio and magazine advertising	106,600
Restaurant opening party	40,500
Entertaining local councillors ( <i>radni</i> )	16,120
Leaflets distributed in the street	10,580
Present to hygiene inspector ( <i>Sanepid</i> )	10,000
Total	<u>183,800</u>

- (4) The following were treated as ‘exceptional losses’:

	PLN
Loss of deposit paid in connection with planned premises purchase for new restaurant	37,000
Irrecoverable receivable from a Mr Deszczotworca, who claimed he could arrange for a necessary licence. He turned out to be inept and also bankrupt	20,000
Other small trading receivables, certified by the directors as uneconomical to execute	7,600
Abandoned expenditure on a proposed new restaurant, where planning consents were refused	87,500
Total	<u>152,100</u>

- (5) Rentals comprise PLN 45,400 paid for the rental up to 31 December 2008 of the head office and restaurant premises, and two quarterly rentals of PLN 25,000 each, paid on 1 September and 1 December 2008. Upon examination of the relevant contract it transpires that these quarterly rentals relate to a finance lease for kitchen equipment for a four-year term, with 16 payments due quarterly in advance. The original value of the equipment was PLN 300,000, and the appendix to the lease shows the following allocations of the first three payments:

Date due	Amount	Finance	Repayment
1 September 2008	25,000	12,400	12,600
1 December 2008	25,000	12,100	12,900
1 March 2009	25,000	11,780	13,220

The kitchen equipment was delivered and installed in early September 2008 and it has been agreed that Nowomiejska Sp.z o.o. will make the depreciation charges. Kitchen equipment is classed as 'general machinery' for depreciation purposes.

- (6) No depreciation has yet been charged. The directors want to claim the maximum write-downs for fixed assets but do not want to apply reducing balance depreciation. Fixed asset additions, apart from the kitchen equipment (as referred to in (5) above), comprise:

	PLN
3 August: office equipment	240,000
4 August: computers	96,000
1–15 September: many items of restaurant equipment, furniture and fittings, each below PLN 3,500	152,400
1 November: new passenger car for director	190,000

The PLN Euro exchange rate on 1 November 2008 was Euro 1 = PLN 3.60.

- (7) Administration expenses include the following:

	PLN
Public liability insurance premium paid on 1 August for the year to 31 July 2009	42,000
Motor car insurance for the director's car (note 6) paid on 1 November 2008 for the year to 31 October 2009	16,800

The car was insured for PLN 180,000.

- (8) In accordance with Newtown Inc's standard company policy, a provision amounting to 2% of revenue is set up against possible claims by customers suffering from food poisoning or obesity as a result of the company's activities. Fortunately no claims have yet been made.
- (9) The interest charge was paid on 31 December 2008 in respect of a PLN 4,000,000 loan advanced at a market rate of interest by Newtown Inc. At 31 December 2008 Newtown Inc held 70% of the PLN 1,000,000 issued share capital of Nowomiejska Sp.z o.o.
- (10) The directors are not concerned about what dates the company accounts are prepared to and have not informed the tax office of any choice of accounting date.

**Required:**

- (a) **Compute the tax loss of Nowomiejska Sp.z o.o. for the period to 31 December 2008, explaining the adjustments made to the accounting loss.** (15 marks)
- (b) (i) **Explain the effect of the company's failure to choose an accounting date (note 10) and the rules concerning the first tax year of Nowomiejska Sp.z o.o.** (2 marks)
- (ii) **Explain what the directors should have done in order to choose another accounting date upon commencement of activity, and what would then have been the first tax year.** (2 marks)

- (c) Each restaurant is expected to make losses for the first months after opening and Nowomiejska Sp.z o.o. is expected to continue making losses until 2013, while it carries out its business plan to open 200 restaurants around the country. In 2014 it will have achieved its planned critical mass and brand recognition and is then expected to commence generating significant and growing profits. The directors are concerned that the losses achieved to the end of 2013 will not be fully utilised. However, they are not interested in taking any action that is unethical or illegal, and do not want to buy or set up any other businesses.

**Required:**

**Identify the extent of any irrecoverable losses if no action is taken and suggest how the directors can legitimately arrange the affairs of Nowomiejska Sp.z o.o. in order to reduce the amount of the irrecoverable losses.** (6 marks)

**(25 marks)**

2 Dorota had been employed as a journalist specialising in social matters by Te Cząsy S.A. for several years. From 1 January 2008 her gross monthly salary was PLN 11,000. The salary was generous but she received no benefits in kind, and reimbursement of expenses was strictly in accordance with the taxation rules.

Unfortunately, in May 2008 her employer informed Dorota that as an economy measure she would be made redundant on 30 June 2008. Before that, in recognition of her service, she would be sent to the Caucasus to write a series of articles on social conditions there. She would also receive a termination payment (*odprawa*), equivalent to three months' salary in addition to her normal salary at the end of June.

**Additional information:**

- (1) Dorota's 20-day trip to the Caucasus in June was a success. Her hotel stays and travel were paid under the foreign travel limits, but since she had been unable to obtain proper invoices for meals, Te Cząsy S.A. agreed to pay her PLN 140 for every day. Under the Polish foreign travel allowance rules the meal allowance for all countries in the Caucasus is \$40 per day and the exchange rate at the time was PLN 2.25 to \$1.
- (2) On 30 June at her leaving party Dorota received flowers (which had cost the social fund of Te Cząsy S.A. PLN 300) and confirmation that the PLN 33,000 termination payment had been made.
- (3) During April Dorota wrote an article for another newspaper, *Dziennik Wybrany*, under an assignment contract (*umowa zlecenie*) for a gross fee of PLN 4,000. She kept author's rights to the article.
- (4) From July to September Dorota had planned to rest with her daughter. However, in August she wrote some articles for *Gazeta Nieprawna S.A.* on ethnic minority abuse in Georgia. Again these were under an assignment contract (*umowa zlecenie*) under which she kept author's rights. Since the topic was relevant she earned a large gross fee of PLN 10,000.
- (5) Following the success of the articles, Dorota registered for individual business activity on 1 October 2008. Her revenues and tax allowed costs for the three months to December were as follows:

	October PLN	November PLN	December PLN
Revenue	3,000	7,500	9,500
Costs	450	950	600

- (6) Since she is never ill, Dorota opted not to pay sickness insurance. She made the correct social security (ZUS) and health service (HSC) contribution payments and also payments on account (*zaliczki*) of PIT each month in respect of the business activity.
- (7) Dorota also made the following documented payments during 2008:

	PLN
Roman Catholic Church	300
Moslem Church	300
A political party	250
Human Rights Watch – a registered public benefit organisation	400
Driving lessons	950
Music lessons for her daughter	480

- (8) Dorota is unmarried, with one daughter whom she maintains. She had not asked Te Cząsy S.A. to reduce the rate at which the on account payments (*zaliczki*) deducted from her salary were computed.

**Required:**

- (a) **Compute the total social security contributions (ZUS) and personal income tax (PIT) deductions before health service contributions that would have been deducted by the remitters in respect of:**
- (i) **Dorota's employment contract with Te Czasy S.A.** (8 marks)
  - (ii) **Dorota's assignment contract for Dziennik Wybrany S.A.** (2 marks)
  - (iii) **Dorota's assignment contract for Gazeta Nieprawna S.A.** (2 marks)
- (b) **Compute the amounts of health service contribution (HSC) deducted from the PIT payable by each of the three remitters, as listed in (a) above.** (3 marks)
- (c) (i) **Compute the ZUS and HSC payments that Dorota would have made for each month of her business activity.** (3 marks)
- (ii) **Compute the PIT payments on account, after deduction of HSC, that Dorota would have made in respect of her business activity.** (4 marks)
- (d) (i) **Calculate Dorota's PIT liability for the year 2008, making all beneficial claims, and the tax refund that she will receive.** (7 marks)
- (ii) **State by when Dorota may expect to receive the PIT refund calculated in (i) above.** (1 mark)

**Note:**

The average salary in Poland as computed by the General Statistical Office for both the economy and the enterprise sector is to be taken as:

	PLN
1st quarter 2008	3,000
2nd quarter 2008	3,080
3rd quarter 2008	3,245
4th quarter 2008	3,360

**(30 marks)**

- 3 (a) Edukon Sp.z o.o. provides educational and consulting services. For value added tax (VAT) purposes educational services are exempt and consulting services are taxable.

The totals of the company's sales invoices registered in recent periods are as follows:

	Educational services PLN	Consulting services PLN
Year ended 31 December 2007	7,300,000	27,700,000
Six months to June 2008	3,200,000	16,800,000
July 2008	400,000	3,600,000

Direct costs and most fixed asset acquisitions are allocated between the company's educational and consulting activities. Indirect costs and certain fixed asset expenditure cannot be allocated.

The totals of the company's expenditure invoices registered during July 2008 (net of VAT) are as follows:

	PLN
Direct costs – educational	143,700
Direct costs – consulting	514,000
Indirect costs	120,000
Market research fee (note 1)	227,273
Software package for consulting activity	150,000
Audio-visual equipment for educational activity	74,600
Telephone switchboard for the office	125,000
Various fixed assets below PLN 15,000 for the office	78,409

**Notes:**

- (1) The market research fee was invoiced by a UK company and is payable in sterling to the UK bank of that company.
- (2) All other items of expenditure are supported by invoices, including full normal rate VAT.

**Required:**

**Calculate the value added tax (VAT) payable by Edukon Sp.z o.o. for the month of July 2008. Your answer should list all of the items of revenue and expenditure for the month indicating by the use of '0' any items for which no output or input applies.** (7 marks)

- (b) Edukon Sp.z o.o.'s UK market research consultants (see (a) above) have discovered that the educational activity is not sustainable at its present level and have recommended that it should be reduced significantly. The directors of Edukon Sp.z o.o. have agreed, and intend to decrease the number of educational contracts from 2009.

**Required:**

- (i) **State and briefly explain the effect of the rule concerning taxable/exempt activity when a company's exempt activity proportion is small.** (2 marks)
- (ii) **Explain what additional VAT procedure Edukon Sp. z.o.o. will need to carry out in respect of 2008 after the end of that year and also for 2009 and subsequent years.** (3 marks)
- (iii) **List SIX items apart from the description 'FAKTURA VAT' that must appear on a valid VAT invoice for consulting services.** (3 marks)

**(15 marks)**

4 Polish taxation law has several areas where a taxpayer can make a choice which may significantly affect the amount of tax he pays or profit he makes. You have been asked to advise the three taxpayers below in respect of the potential choices available to them.

- (1) Adrian carries out repairs of electrical equipment and has never registered for value added tax (VAT). At first most of his activities were for individuals, but the amount of revenue earned from VAT registered traders has increased in recent years and now makes up 75% of his sales. He purchases parts and other materials for his repair work amounting to PLN 13,000 plus 22% VAT per annum, the cost of which he recovers in his sales invoices, which amount to PLN 40,000 per annum. He does not expect this amount to change in the next few years. Adrian is considering registering for VAT but tells you that he cannot charge his individual customers any more than he charges at present. He also informs you that he must replace old fixed assets at a cost of PLN 5,000 plus VAT in the near future.
- (2) Barbara earns PLN 180,000 per annum as a television presenter and she also earns rental revenue from an apartment of PLN 3,000 per month. The apartment has a floor area of 101 square metres. Allowable costs concerning the rental income, excluding depreciation, amount to PLN 4,503 per annum. At present Barbara accounts for personal income tax (PIT) on the rental income under the normal income rules.
- (3) Cyprian runs a small precision engineering business in Darlowo, a town with a population of 11,000. He pays PIT under the normal income rules. He employs his son Daniel, aged 24, who is a qualified precision engineer; another engineer, Edward; an administrative assistant, Frania; and an apprentice, Grzegorz. Cyprian's son lives in Cyprian's family home, but plans to marry on 1 September and to move out then. No staff changes are expected. The tax card table for precision engineering activity is given below.

**Required:**

- (a) **Assuming that Adrian cannot increase the gross amount including VAT that he invoices to his individual non-registered customers, advise him of the amount of the VAT saving or additional cost he would incur if he registered for VAT.** (4 marks)
- (b) **Compute the saving of PIT or additional PIT Barbara will pay if she decides to pay income tax on her rental income under the flat rate method.** (4 marks)
- (c) **Compute the PIT that Cyprian will pay if he registers to pay tax under the tax card method.** (4 marks)
- (d) **In the case of each of the three situations above, suggest ONE reason why the Polish legislation permits the departure from the universal principle that tax law should treat all taxpayers in a uniform manner.** (3 marks)

**Notes:**

1. Ignore any social security (ZUS) and health service (HSC) contributions that may apply.
2. The tax card table for precision engineering in a town of population 5,000 to 50,000 shows the following:

Number	Tax PLN	Percentage increase
0	218	40%
1	450	30%
2	567	20%
3	691	15%

**(15 marks)**

- 5 Drewniana S.A. is a Polish furniture manufacturer. It has a branch in Sweden and a 90% owned subsidiary company, Norskmoebel AS registered in Norway.

Drewniana S.A. began to take an interest in the possibilities of entering the Swedish market many years ago. It exhibited its products at trade fairs in Sweden commencing in 1992.

In 1996 Drewniana S.A. set up an agency agreement with a Swedish company which provided potential customers with details of prices, but sales contracts were completed with Drewniana S.A. in Poland. Due to the popularity of its products Drewniana S.A. carried out research into the Swedish market and from 2001 arranged for its Swedish agent to keep stocks of its products. In 2003 it started to rent a warehouse for storage of the furniture to be distributed to Swedish purchasers. From 2004 the Swedish agent was able to negotiate prices with potential customers on behalf of Drewniana S.A. and to sign sales contracts in the company's name. Finally in 2006 Drewniana S.A. registered a branch in Malmo in Sweden, with its own showroom, staff, storage and distribution facilities.

The income statement of the Polish operations ('head office') and Swedish branch of Drewniana S.A. for the year ended 31 December 2008 are as follows.

	Notes	Polish head office PLN	Swedish branch PLN
Sales	1	11,891,000	2,300,000
Dividend	2	90,000	
Interest received	3	19,000	
		<u>12,000,000</u>	<u>2,300,000</u>
Cost of goods sold	1	5,000,000	1,200,000
Depreciation	4	600,000	210,000
Salaries expense	5	1,300,000	390,000
Advertising expense	6	86,000	160,000
Interest paid	3		20,000
		<u>6,986,000</u>	<u>1,980,000</u>
Profit		<u>5,014,000</u>	<u>320,000</u>
Tax paid	7	<u>833,750</u>	<u>79,000</u>

**Notes:**

- (1) Sales and cost of goods sold include sales of furniture from the Polish head office to the Swedish branch at prices which have been determined as acceptable transfer prices by the Polish tax office.
- (2) The dividend was received from the Norwegian subsidiary and has been recorded net of 10% Norwegian withholding tax. The underlying corporate income tax of the Norwegian subsidiary company is agreed at 20% for the year.
- (3) Interest has been charged to the Swedish branch on financing by the Polish head office, and this was paid after deduction of 5% Swedish withholding tax.
- (4) Head office depreciation charges are made in accordance with Polish taxation rules, but the charge in the Swedish branch has been computed under Swedish income tax rules. Recalculation of the branch depreciation under Polish taxation rules gives an allowable charge of PLN 124,000.
- (5) The salaries expense in the head office books includes the PLN 100,000 gross cost of the branch manager of the Swedish branch. His duties entirely relate to managing the branch.
- (6) In the books of the Swedish branch, the advertising expense includes PLN 44,000 of entertaining costs.
- (7) The taxation paid constitutes payments on account in Poland and the Swedish profit tax paid by the branch in Sweden.

**Additional information:**

- (i) The double taxation treaty between Poland and Sweden provides that double taxation relief for profits is given by the proportional credit method.
- (ii) The Polish–Norwegian treaty anticipates proportional credit relief for dividends.

**Required:**

- (a) (i) **Explain the taxation consequences of a Polish company having a permanent establishment in another country.** (2 marks)
- (ii) **State which of the activities of Drowniana S.A. in Sweden would have resulted in it being regarded as having a permanent establishment there, and which activities would not.** (4 marks)
- (b) **Calculate the Polish corporate income tax payable by Drowniana S.A. for the year ended 31 December 2008.** (9 marks)

**(15 marks)**

**End of Question Paper**