Answers

Marks

1 Niecna S.A.

(a) Corporate income tax computation for the five month period to 30 November 2009

	PLN	PLN	Marks
Loss per accounts	600,000		
Accrued interest payable (W1)		75,000	1
Thin capital interest disallowed (W1)		45,000	2
Rental allocation (W2)		40,000	1
Rental charge (W2)		48,000	1
Finance charge (W2)	12,700		1
Depreciation on plant and machinery (W2)	28,000		1
Polish dividend (not subject to CIT)	8,100		1
Chilean withholding tax (W3)		4,500	1
New technology (no depreciation available)		240,000	2
Depreciation (W4)	2,000		2
Donation		22,000	1
	650,800	474,500	14
	474,500		
Tax loss for the period	176,300		

Workings

		PLN
W1:	Interest expense charged to profit and loss account: 5,000,000 x 9% x 5/12	187,500
	Less: accrued for two months to 30 November 5,000,000 x 9% x 2/12	(75,000)
	Actual interest paid for the quarter to 30 September 2009	112,500
	Thin capitalisation also applies:	
	Three times capital on 30 September 2009 (payment date) is: PLN 1,000,000 x 3	3,000,000
	Amount disallowed: 2,000,000/5,000,000 x 112,500	45,000

W2: The lease is a finance lease, so the rental charged to the profit and loss account must be reversed, and the finance cost, as per the agreement, charged as an allowable expense.

Rental allocation from deferred rent to be reversed: 480,000 x 3/36 = 40,000
Rental charges: 24,000 x 2 = 48,000
Finance charges: 6,440 + 6,260 = 12,700
Depreciation on capital cost at 14%: 1,200,000 x 14% x 2/12 = 28,000

W3: Chilean dividend gross up for tax withheld: 25,500 x 15/85 = 4,500

W4: The cost of the warehouse net of the government grant received qualifies for depreciation.

Amount to be depreciated: 800,000 – 480,000 = 320,000
Depreciation: 320,000 x 2·5% x 3/12 = 2,000

(b) A lease is a finance lease if the following three criteria are all simultaneously satisfied:

– the agreement is for a fixed term; 1
– the total net of value added tax (VAT) payments determined in the agreement exceed the initial value of the asset; 1
– the agreement states that the lessee will depreciate the asset. 1

3

(c) Tax allowable costs are expenses borne by a company that legitimately reduce the revenue to arrive at its taxable income. 1

Reliefs are allowances and deductions which also serve to reduce the final tax liability. Such deductions are often not directly associated with the earning of revenue, but have been given by the legislator to encourage certain activities. They may be deducted from income to arrive at the tax base on which tax is computed, or deducted directly from the actual tax liability. 2

3

	Marks
(d) The new technology relief available on the new technology expenditure can be carried forward and used to reduce income in the next three tax years: if there is insufficient income in those years, the remaining unclaimed relief will be lost.	1
The tax withheld on a Polish dividend from a small shareholding is the final tax, so there is no relief for the Polish dividend tax.	1
The tax credit for foreign withholding tax would normally reduce the Polish tax payable in the year the dividend is received, up to the Polish equivalent tax on the gross dividend revenue. Since there is no Polish tax due to losses having been made, it is of no value to Niecna in 2009.	1
No relief is available for the donation, since donations can only reduce income in the tax year, and there is no income in 2009.	1
	4
(e) The fact that the period is only five months in length does not alter the fact that it is still considered a 'tax year' under the corporate income tax law.	1
The loss for this 'tax year' like any other tax year is available to reduce the taxable income of any of the next five tax years (which need not necessarily be 12-month periods) until it has been exhausted. This offset will reduce the tax payable in the years of claim.	1
However, no more than half of the loss can be used in any particular year.	1
The company can choose in which tax years it will utilise the loss.	1
	4
(f) The company needed to notify an accounting date other than 31 December upon registration with the tax office.	1
In the event of choosing a non-December year end the first period of account cannot exceed 12 months, so the first tax year could not be 17 months long.	1
	2
	30

2 Andrzej and Aleksandra

(a) In order to claim joint taxation a couple:	
– must be married throughout the entire tax year;	1
– must have joint ownership of property; and	1
– must both sign the relevant tax return.	1
The 2009 tax return must be filed by 30 April 2010.	1
	4

Marks

(b) Taxable income and personal income tax payable for 2009

(1) **Andrzej:**

	PLN	PLN	Marks
Business activity revenue		116,000	½
Allowed motor cost 7,000 x 1		(7,000)	1
Income		109,000	
Relief for: own ZUS		(8,000)	1
Rehabilitation (mother-in-law earns below PLN 9,120)			
Medicines (3,700 – 1,200)	2,500		1
Clinic	3,650		½
Sanatoria	2,450		½
Conversion of home (relevant to disability)	6,120		½
Motor travel: maximum	2,280		1
		(17,000)	
Tax base		84,000	
Joint taxation: half tax base = PLN 42,000			½
Tax at 18%	7,560		
Less:	(556)		
	7,004		½
Liability 7,004 x 2	14,008		½
Less: child deduction for 2 children 1,112 x 2	(2,224)		1
Final tax liability	11,784		

(2) **Aleksandra:**

	PLN	PLN	Marks
Rental 5,750 x 12	69,000		½
Flat rate tax at 8·5% on PLN 13,510		1,148	½
20% on balance of PLN 55,490		11,098	½
Tax liability		12,246	

(3) **Sale of house:**

	PLN	PLN	Marks
Revenue		1,250,000	½
Notarial fees		(30,000)	½
Net proceeds		1,220,000	
Original cost in 2009		(1,130,000)	½
Income		90,000	
Exempt: reinvested proportion of revenue: 90,000 x 880,000/1,250,000		63,360	2
Taxable income		26,640	
Tax at 19%		5,062	½
			14

(c) Tax saving if Aleksandra's rental income is taxed normally

	PLN	PLN	Marks
Revenue		69,000	½
Allowed costs:			
Depreciation of apartment 160 x 988 x 1·5%	2,371		1
Service charge	7,244		½
Insurance	2,410		½
Property taxes	174		½
Assets below PLN 3,500	3,420		½
Perpetual usufruct charge	1,220		½
Minor repairs	2,161		½
Remaining items not allowed	0		1
		19,000	
Taxable income		50,000	

			Marks
The joint tax base for Andrzej and Aleksandra will increase by PLN 50,000 to PLN 134,000.			
Under joint taxation half of tax base becomes PLN 67,000.			
Thus the rental income will be effectively taxed at 18% x 50,000	9,000		1
Flat rate tax (as in (b) above)	(12,246)		½
Saving	3,246		
			7
			25

3 Pawel Sp. z o.o.

(a) A zero rated activity has 0% output value added tax (VAT) charged. However, as it is a taxable activity, any input tax on the related supplies acquired can be recovered. 1

Exempt activity is not subject to VAT, so input tax cannot be recovered. 1

2

(b) Input tax on supplies that are identified as directly relating to taxable activity is fully recoverable, whilst input tax on supplies directly relating to exempt activity is not recoverable. ½

Where input VAT relates to supplies that cannot be directly allocated to either taxable or exempt activities the percentage of taxable to total activity, based on the revenue invoiced in the prior year, is calculated and used during the year. ½

The percentage to be used has to be rounded up to the nearest full percentage point. ½

After the year end the actual percentage for the year is calculated (rounded up as above) and an adjustment for the difference in input tax recoverable for the year made in the first VAT return of the next year. 1

However, if the difference between the two years' percentages is 2% or less, no such correction is made. ½

For plant and machinery purchases over PLN 15,000, an adjustment of one fifth of the difference is made each year for five years, using the actual percentage for the particular year compared to the original recovery. 1

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(c) (i) Input VAT NOT recoverable by Pawel Sp. z o.o. alone in 2009

Taxable/total activity for 2008 = 4,800,000/(4,800,000 + 8,500,000) = 36·09%, rounded up to 37%. ½

Taxable/total activity for 2009 = 6,000,000/(6,000,000 + 9,000,000) = 40% ½

As the difference from the 2008 percentage of 37% is greater than 2% an annual correction will be required and ultimately 60% of the unallocated input VAT will be irrecoverable. 1

Irrecoverable VAT for Pawel Sp. z o.o. alone:

	PLN	
Machinery used for exempt activity: 211,000 x 22%	46,420	½
Purchases for exempt activity: 93,000 x 22%	20,460	½
Machinery for joint activities: 1,244,000 x 22% x 60% x 1/5	32,842	1
Purchases for joint activities: 1,847,000 x 22% x 60%	243,804	1
Total irrecoverable VAT for 2009	343,526	
		5

		Marks

(ii) Additional VAT recoverable in 2009 if companies merge

If Pawel Sp. z o.o. and Gawel Sp. z o.o. merge, the proportion for 2009 becomes: (6,000,000 + 21,000,000)/(6,000,000 + 9,000,000 + 21,000,000) = 75%, so only 25% of the unallocated VAT is not recoverable, even though none of the joint costs apply to the activities of Gawel Sp. z o.o. 1

Saving of VAT as a result of merger:

	PLN	
On 2009 machinery additions: 1,244,000 x 22% x (60% – 25%) x 1/5	19,158	½
On other 2009 purchases: 1,847,000 x 22% x 35%	142,219	½
On 2008 machinery additions, additional saving: 2,100,000 x 22% x 35% x 1/5	32,340	1
Total input tax saved for 2009	193,717	
		3

Tutorial note: the merger will not affect the full recoverability of the input tax of Gawel Sp. z o.o. as long as these costs remain separately identified.

(d) Since Gawel Sp. z o.o. has no output tax, it will be able to recover its input tax by offset against the output tax that Pawel Sp. z o.o. pays, leading to immediate recovery, as opposed to the need for refund claims. 1

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4 Mosiezny Nos Sp. z o.o.

(a) Donald Cameron

No social security (ZUS) or health service (HSC) contributions as he is employed elsewhere ½

	PLN	
Fee	25,000	
Allowed cost (flat rate)	111	½
Taxable Income	24,889	
PIT at 18%	4,480	½
Net fee (25,000 – 4,480)	20,520	½

Julia Brazier

No ZUS or HSC since not resident ½

	PLN	
Contract gross fee	4,000	
Cost allowed 20%	800	½
Taxable Income	3,200	
PIT at 18%	576	½
Net fee (4,000 – 576)	3,424	½

Marks

Stefania Dorel

Cumulative salary to the end of May is PLN 90,000 (18,000 x 5), thus she will only pay retirement and disability contributions on PLN 5,790 in June (i.e. up to the upper limit of PLN 95,790 only). 1

		Employee PLN	Employer PLN	Total PLN	
ZUS contributions					
Retirement	(9·76% x 5,790)	565	565	1,130	½
Disability	(1·5%, 4·5% x 5,790)	87	261	348	½
Sickness	(2·45% x 18,000)	441		441	½
Accident	(1·67% x 18,000)		301	301	½
Work Fund	(2·45% x 18,000)		441	441	½
Workers benefit	(0·10% x 18,000)		18	18	½
ZUS deduction from salary		1,093	1,586		
Gross pay		18,000			
HSC base		16,907			½
Cost allowed	111·25 x 1·25	(139)			1
Taxable income		16,768			
Cumulative taxable pay to end May		90,000			
less ZUS at 13·71%		(12,339)			
less cost allowed	139 x 5	(695)			
		76,966			1
This is below PLN 85,528, thus PIT is payable at the rate of 18%					
PLN 16,768 at 18%		3,018			½
less 556·02/12		(46)			½
		2,972			
HSC deduction	7·75% x 16,907	(1,310)			½
PIT payable		1,662			
HSC payable	16,907 x 9%	1,522			½
Stefania's net pay 18,000 – 1,093 – 1,662 – 1,522 =		13,723			½
					13

(b) A return of all ZUS and HSC contributions is due by 15 July ½
All ZUS and HSC is payable by 15 July ½
No return of PIT is required ½
PIT deducted must be paid by 20 July ½

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5 Miron Zawilski

(a) (i) Tax card conditions

The taxpayer must apply to use the method before the first tax payment is due, that is 20 February in the year.

The taxpayer must only carry out the listed trade or profession for which he has registered.

All staff must be employed only under employment contracts, except for occasional specialist services.

The taxpayer's spouse cannot carry out the same trade.

The maximum number of 'professional' employees in the tax card table cannot be exceeded.

There must be no production of products subject to excise duty.

Any THREE at 1 mark each: maximum 3

Marks

(ii) Tax payable under the tax card method

Months to June:			
Adam, Pawel, engineers = 2			½
plus 3 ancillaries (Helena, Malgosia, Joasia) + 60% (3 x 20%)			½
Apprentices Marcin and Tomasz, up to 12 months after qualification, are ignored			½
less 10% for 1 disabled engineer			½
	PLN		
Tax = 602 + 60%, but limited to maximum table rate for 3 employees	740		1
less 10%	(74)		½
	666		
For 6 months		3,996	
Months from July:			
Marcin included, thus engineers = 3			½
plus 3 ancillaries + 45% (3 x 15%)			½
	PLN		
Tax = 740 + 45%	1,073		
less 10%	(107)		
	966		½
For 6 months		5,796	
Total annual tax		9,796	
			5

(b) Tax payable under the flat rate method

Revenue is reduced proportionately for:

	PLN	
50% loss from 2007: 64,000 x 50%	32,000	1
Miron's own ZUS cost	8,000	1
	40,000	

	Services (8·5%)	Production (5·5%)	Trade (3·0%)	Total	
Revenue	65,000	300,000	35,000	400,000	
less relief (as above)	(6,500)	(30,000)	(3,500)	(40,000)	1
Taxable amount	58,500	270,000	31,500		
Tax at respective rates	4,973	14,850	945	20,768	1
					4

(c) Omission of revenue will result in a tax charge of five times the usual rate, up to a maximum 75% of the revenue omitted. 1

Miron will also not be allowed to use the flat rate method and will have to pay tax using the normal personal tax system. 1

Misstating any relevant fact on a tax card application, or failing to report an employment change will cause the use of the tax card method to be withdrawn. 1

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