

Fundamentals Level – Skills Module

Taxation (Poland)

Monday 6 December 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 (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) 2009

Up to PLN 85,528	18% of the base minus PLN 556·02
Over PLN 85,528	PLN 14,839·02 plus 32% 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
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 the blind	2,280
Competition prizes	760
Child deduction	1,112
Daily meal allowance (<i>dieta</i>)	24
Motor car allowance (per km)	1

Flat rate tax (*ryczalt*)

Revenue limit €150,000 (PLN 506,250)	
Rent over €4,000 (PLN 13,510)	20·0%
Services and rent under €4,000 (PLN 13,510)	8·5%
Production	5·5%
Trade	3·0%

Health service contribution (HSC)

The rate of health service 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	1·67%	–
Work fund (<i>Fundusz pracy</i>)	2·45%	–
Guaranteed workers' benefit (<i>Fundusz gwarantowanych świadczeń pracowniczych</i>)	0·10%	–
	<hr/> 18·48%	<hr/> 13·71%
Upper earnings limit		PLN 95,790
Minimum monthly wage		PLN 1,276

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 Niecna S.A. (Niecna) was registered on 1 July 2009 as a 100% subsidiary of its parent company, with a subscribed share capital of PLN 100,000. Niecna's parent company increased the share capital on 1 September 2009 by paying in a further PLN 900,000. The activity of Niecna is manufacturing high quality machine components.

Niecna has chosen an accounting date of 30 November and it has recorded an accounting loss of PLN 600,000 for the five-month period to 30 November 2009. This loss is after taking into account all the costs and revenues listed below.

- (1) On 1 July 2009 Niecna received a loan from its parent company of PLN 5,000,000. The agreement states that repayments will commence in five years' time and that interest at the rate of 9.0% is payable to the parent quarterly in arrears. Interest was duly paid on 30 September 2009 and the total charge in the profit and loss account is PLN 187,500.
- (2) On 1 September 2009 Niecna entered into an agreement to rent an item of plant and machinery, which had an initial value of PLN 1,200,000. The agreement is for a 36-month period, after which ownership of the plant reverts to Niecna. The agreement required an initial payment of PLN 480,000, which was duly made and debited by Niecna to a deferred expenditure account, from which one-thirty sixth (1/36) has been charged to the profit and loss account each month as a rental expense. The agreement also stipulates that 35 monthly rentals of PLN 24,000 are to be made, commencing on 1 October 2009, and the first two payments were duly made, and also charged to rental expense in early October and November. It now transpires that the agreement is in fact a finance lease for taxation purposes, and that the invoices for the first two PLN 24,000 rental payments did specify PLN 6,440 and PLN 6,260 respectively as constituting finance charges. The initial payment of PLN 480,000 did not have any finance element.
- (3) Niecna acquired two investments from other companies also owned by the same parent company as Niecna. In 2009 Niecna received dividends from these investments as follows:
 - PLN 8,100 from a small investment in a Polish company; and
 - PLN 25,500 from a Chilean company: the PLN 25,500 was the amount actually received, after the deduction of Chilean withholding tax of 15%.
- (4) Niecna's expenditure includes PLN 240,000 paid on 15 November 2009 to acquire new technology. This sum, which qualifies for new technology relief, was charged in full to the profit and loss account.
- (5) On 10 August 2009 a new warehouse was acquired for a total cost of PLN 800,000, but Niecna received a large contribution to the expenditure from a government sponsored body, by way of a non-refundable special grant of PLN 480,000. No depreciation has been charged on the warehouse. Niecna charges depreciation at the normal rates on all of its assets.
- (6) A donation of PLN 22,000 was made in 2009 by Niecna to a Polish university in Torun, which is nonetheless a public benefit organisation.

Required:

- (a) Compute the tax loss of Niecna S.A. for the five-month period ended 30 November 2009. (14 marks)
- (b) State the criteria that determine whether the lease of an asset is a finance lease for tax purposes. (3 marks)
- (c) Explain the difference between tax allowable costs and tax reliefs. (3 marks)
- (d) Explain the treatment of:
- (i) the new technology expenditure, described in (4), above;
 - (ii) the withholding tax on both the Polish and Chilean dividends, described in (3), above; and
 - (iii) the donation to the university in Torun, described in (6), above. (4 marks)
- (e) Explain the relief that is available for the tax loss made by Niecna S.A., considering in particular the fact that the accounting period was only five months, and whether the company has any choice as to how and when to claim it. (4 marks)
- (f) State what the directors needed to do to establish a November accounting date and whether tax could have been accounted for a 17 month period to 30 November 2010, instead of the five month period to 30 November 2009. (2 marks)

(30 marks)

2 Andrzej and Aleksandra are married with three daughters: one is aged 18 and still at school, one is aged 20 and is studying full time at university, and the eldest, aged 21, is employed.

- (1) Andrzej is a partner in two medical practices, which have allocated him a total profit share of PLN 116,000 for 2009. The practices do not pay his ZUS contribution, and he pays the minimum required contributions himself, which amounted to PLN 8,000 for 2009. The practices do not reimburse him for travel. He has documented motor travel by his private car to visit patients totalling 7,000 km in 2009. None of this travel was to get him to the clinics at which he works. He has always paid personal income tax under the normal rules.
- (2) Some years ago Aleksandra had inherited an apartment. The apartment has a floor area of 160 square metres, and has been rented throughout 2009 at a monthly rental of PLN 5,750. Aleksandra incurred the following expenditure during 2009:

	PLN
Service charges to the administrators of the building	7,244
Elegant clothes to 'look right' when visiting the tenant	5,493
Fitness centre membership for Aleksandra	3,660
Insurance of apartment contents for fire and theft	2,410
Private motor car insurance	3,130
Property taxes to local authority in respect of the apartment	174
New refrigerator and microwave cooker for the apartment	3,420
Perpetual usufruct charge for 2009 (<i>wieczyste uzytkowanie</i>)	1,220
Minor repairs in the apartment	2,161
Coffee mornings with other landlords to discuss difficulties with tenants (each landlady takes her turn to pay for the coffee and cakes); Aleksandra has paid	2,240
Decorating cost of Aleksandra's and Andrzej's own home	15,780

The tenant pays for all telephone, water and energy costs. The furniture in the apartment has been fully depreciated: Aleksandra has always applied the 20% allowed depreciation rate and made use of the PLN 3,500 limit whenever possible. However, in 2008 Aleksandra was advised to pay personal income tax on the apartment using the flat rate method and she intends to continue to use this method in 2009.

- (3) On 17 December 2009 Andrzej and Aleksandra sold their own home for PLN 1,250,000, and incurred notarial fees of PLN 30,000 on the sale. They had bought the house on 14 February 2009 for a total cost of PLN 1,130,000, but decided to sell in order to buy a house nearer to Aleksandra's mother who is an invalid. Their new house cost PLN 880,000, and the purchase was completed on 17 December 2009. The surplus money was invested to help pay for their youngest daughter's university education.
- (4) Aleksandra has an invalid mother who only received a state pension of PLN 8,400 in 2009. Andrzej maintains her and has incurred the following costs in respect of his mother-in-law during 2009:

	PLN
Medicines related to her disability	3,700
Visits to clinic for treatment	3,650
Food and clothing	4,450
Medical treatment at sanatoria	2,450
Conversion of her home to allow her to move around it adequately	6,120

Andrzej also drove his mother-in-law in his own motor car to the clinic and sanatoria, travelling a total of 4,352 kilometres for this purpose.

Required:

- (a) State the conditions Andrzej and Aleksandra must satisfy in order to claim joint taxation and the date by which their tax return for 2009 must be filed. (4 marks)
- (b) On the basis that Aleksandra continues to pay tax on her rental property using the flat rate method, compute the taxable income of the couple from each source, including the property sale, and the personal income tax (PIT) payable by the couple for the year 2009 after making all beneficial claims and deductions. (14 marks)
- (c) Compute the saving of tax that the couple will make if Aleksandra decides to pay tax on her rental property under the normal PIT method for the year 2009. (7 marks)

Note: Ignore health service contributions throughout this question.

(25 marks)

- 3 The management of a group are considering the valued added tax (VAT) consequences of combining the activities of two of the group's subsidiary companies: Pawel Sp. z o.o. (Pawel) and Gawel Sp. z o.o. (Gawel).

Pawel has significant VAT exempt activities. In 2008 its exempt revenue was PLN 8,500,000 and its taxable revenue was PLN 4,800,000. During the year 2008 Pawel had purchased a mainframe computer for its joint activities for PLN 2,100,000 plus VAT.

For 2009, it is estimated that the activities of Pawel will consist of the following:

	PLN
Exempt revenue	9,000,000
Taxable revenue	6,000,000
Machinery additions for exempt activity	211,000
Machinery additions for joint activities	1,244,000
Purchases of goods and services for exempt activity	93,000
Purchases of goods and services for joint activities	1,847,000
Purchases of goods and services for taxable activity	318,000

Gawel only has zero rated activity. For 2009 the estimated activities of Gawel are:

	PLN
Revenue (all zero rated)	21,000,000
Purchases	2,150,000

Notes:

1. All figures are stated excluding any applicable VAT and all items are subject to the full rate of VAT unless otherwise stated.
2. Machinery relates to fixed assets costing over PLN 15,000.
3. Joint activities relate to expenditure that cannot be directly allocated between taxable and exempt activities.

Required:

- (a) Explain the difference between zero rated and exempt activities. (2 marks)
- (b) Explain the treatment of input value added tax (VAT) in the case of a taxpayer, such as Pawel Sp. z o.o., who has both exempt and taxable activities. (4 marks)
- (c) (i) Compute the final amount of input VAT that Pawel Sp. z o.o. will NOT be able to recover during 2009 in respect of its 2009 activities if it continues to trade alone; (5 marks)
- (ii) Compute the additional VAT that Pawel Sp. z o.o. will be able to recover during 2009, if the proposed merger with Gawel Sp. z o.o. goes ahead on 1 January 2009. (3 marks)
- (d) Apart from the additional VAT recovery computed in (c)(ii) above, give ONE other advantage as regards VAT which would arise from the proposed merger. (1 mark)

(15 marks)

- 4 Donald Cameron was appointed director of Mosiezny Nos Sp. z o.o. on 1 June 2009. The company is located in Lublin and employs about 30 general staff, whose salaries are processed by a competent accounting bureau. For reasons of confidentiality Cameron must prepare the necessary computations for management, specialists and himself. He was surprised to see from the return form that his assistant gave him that there are seven social security, health and similar contributions in addition to personal income tax deductions. Fortunately he has only three computations to complete for June 2009 in respect of the following gross monthly fees and salaries:
- (1) His own director's fee of PLN 25,000. He is resident in Poland and at the same time employed under an employment contract by a fellow subsidiary, Brass Nose S.A.
 - (2) A fee of PLN 4,000 under an assignment contract to Julia Brazier for market research work, which she performed away from the company's premises. Julia is resident in England.
 - (3) A salary of PLN 18,000 to Stefania Dorel, the general manager. Her salary has been at this level since January 2009. Stefania lives in Zyrzyn outside Lublin.

Required:

- (a) **Compute the social security (ZUS) and health service (HSC) contributions and personal income tax (PIT) deductions that Mosiezny Nos Sp. z o.o. must pay over in the case of each of Donald Cameron, Julia Brazier and Stefania Dorel for the month of June 2009, together with the net amount payable to each of them.**
(13 marks)
- (b) **State the dates by which any necessary returns must be lodged, and by which payment of the contributions and tax deducted must be made.**
(2 marks)

(15 marks)

- 5 Miron Zawilski, who runs a small precision engineering business, has come to you for advice on choosing a more beneficial personal taxation method for the year 2009. Miron used to account for his personal income tax under the normal method, and the business recorded a loss of PLN 64,000 in 2007, but since he employed some excellent administrative staff profitability has improved. As a result, the tax based on income has increased and he therefore wishes to consider both the tax card and the flat rate on revenue methods.

For 2009 Miron's revenues and costs are expected to be as follows:

	PLN
Sales of items produced by the business	300,000
Repair services on items supplied by customers (excluding parts)	65,000
Sale of bought in parts (including parts installed during repair services)	35,000
Purchases	80,000
Labour costs and administrative costs including employer social security (ZUS)	280,000
Miron's own ZUS	8,000

The labour costs relate to the following workers:

Adam: Miron's son, a qualified engineer, who does not live with Miron.

Pawel: also a qualified engineer, who is partially disabled.

Marcin: a newly qualified engineer, who completed his apprenticeship on 30 June 2008; the appropriate qualification documentation was received on 1 July 2008.

Tomasz: an apprentice engineer.

Helena: a marketing expert.

Malgosia: a job costing clerk.

Joasia: an accountant.

Required:

- (a) (i) **State ANY THREE of the conditions that must be satisfied in order to use the tax card method;** (3 marks)
- (ii) **Calculate Miron's annual tax liability if he were to choose the tax card method for 2009.** (5 marks)
- (b) **Calculate Miron's annual tax liability under the flat rate on revenue method for 2009.** (4 marks)

Notes:

- Ignore any health service (HSC) contributions that may apply.
- The tax card table for precision engineering in Miron's town shows the following:

Number	Tax PLN	Percentage increase
0	242	40%
1	475	30%
2	602	20%
3	740	15%

- (c) Miron is considering the following actions depending on which method is chosen:
- if he chooses the flat rate method, not to record all of his sales; and
 - if he chooses the tax card method, to pretend that one of the engineers is a cleaner.

Required:

Apart from penalty interest, state what action the tax office will take against Miron should he undertake each of the above evasion methods. (3 marks)

(15 marks)

End of Question Paper