
Answers

Marks

1 Trutka S.A.

(a) Base cost of factory and production line for depreciation purposes

Factory	PLN	
Architect	170,700	½
Building contractor	3,411,000	½
Site clearance	157,000	½
Insurance during construction 73,000 x 50/365*	10,000	1
Interest during construction: 2008	173,300	½
Interest during construction: 2009: 365,000 x 50/365	50,000	1
	<u>3,972,000</u>	

Include nothing else ½

*The insurance cost can also be treated as an allowed expense, according to recent 'interpretations' by some Tax Offices, and full marks are awarded for such an answer.

Production line	PLN	
Cost	1,572,000	
Engineer	27,500	½
Own labour	74,600	½
Testing	66,200	½
Technical permits	23,700	½
	<u>1,764,000</u>	

Include nothing else ½

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(b) Depreciation charges for 2009

	PLN	
Factory: 3,972,000 x 2.5% x 1.2 x 10/12	99,300	1
Production line 1,764,000 x 2 x 14% x 10/12	411,600	1
Old buildings 24,000,000 x 2.5% x 1.4	840,000	1
Machinery: December 2005 addition: cost PLN 240,000		
Depreciation in 2006 at 28% reducing balance:		
Book value at 1 January 2009: 0.72 x 0.72 x 0.72 = PLN 89,580		
This is below half of original cost, so take 14% straight-line		
– depreciation 2009: 14% x 240,000	33,600	2
Machinery: August 2008 addition: cost PLN 3,600,000		
Depreciation 2008: 28% x 4/12 = PLN 336,000		
28% x (3,600,000 – 336,000)	913,920	1½
Car: 20,000 x 4.58 x 20%	18,320	½
October 1999 general machinery, office equipment, and computer equipment are already fully depreciated	–	1
	<u>2,316,740</u>	
		<u>8</u>

(c) Corporate income tax for 2009

	PLN	PLN	
Profit before taxation (draft)	3,335,059		
Building insurance 73,000 x 315/365		63,000	½
Interest on bank loan 365,000 x 315/365		315,000	½
Notification to suppliers		11,400	½
Depreciation (ex part (b))		2,316,740	½
Receipt in advance		38,600	½
Polish dividend (exempt)		1,900	½
Interest not received: (750 – 8,440)	7,690		1
Provision increase	27,340		½
Bonus not paid	124,000		½
Prepaid insurance (W1)	5,700		½
Insurance disallowed (W1)	6,441		1
Repair cost disallowed (not insured)	34,820		½
Private rental	34,220		½
Lease payment: lorry	83,600		½
Finance charge (W2)		14,850	1½
Depreciation of lorry 275,000 x 20% x 9/12		41,250	1
Bad debt expense (40,000 + 7,400 – 25,000)	22,400		1½
Gifts and donations	221,470		1
	<u>3,902,740</u>	<u>2,802,740</u>	
	(2,802,740)		
Taxable income	1,100,000		
Relief for donations:	PLN		
	127,000		1
	<u>15,000</u>		
	<u>142,000</u>		
Maximum deduction (10% of income)	110,000		½
Tax base	<u>990,000</u>		
Tax at 19%	<u>188,100</u>		½
			<u>15</u>
W1 Total car insurance to 31 March 2010		22,800	
Prepaid 3/12 – disallowed		<u>(5,700)</u>	
Charge for 2009		17,100	
Allow only 20,000 x 3·74 = 74,800/120,000		<u>10,659</u>	
Disallowed as in excess of limit		<u>6,441</u>	
W2 Total rentals 83,600 x 4		334,400	
Market value		<u>275,000</u>	
Total finance charge		<u>59,400</u>	
Claim proportionately to payment: ¼		<u>14,850</u>	

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2 (a) Patrycja Pracowita

(i) Deductions by Polish remitters

	PLN	
(1) Monthly salary	7,500	
ZUS 13·71%	(1,028)	1
Cost allowed	(111)	½
Income	<u>6,361</u>	
Tax at 18%	1,145	½
Less 556·02/12	(46)	1
PIT deduction each month	<u>1,099</u>	
(2) Director's fee	1,000	
Cost allowed	(111)	
Income	<u>889</u>	1
PIT at 18% each month	<u>160</u>	½
(3) Expert fee: individual activity	6,000	
Cost allowed 20%	(1,200)	1
Income	<u>4,800</u>	
PIT at 18%	<u>864</u>	½
(4) Gross interest	<u>1,653</u>	
PIT at 19%	<u>314</u>	1
(5) Prize above PLN 760	<u>5,000</u>	
PIT at 10%	<u>500</u>	1
		<u>8</u>

(ii) Annual PIT computation 2009

	Revenue PLN	Cost/deductions PLN	
Salary 7,500 x 12	90,000		½
Less: ZUS 13·71%		12,339	½
Director's fees 1,000 x 12	12,000		½
Cost allowance: maximum 111·25 x 18		2,002	1
Expert fee	6,000	1,200	½
Foreign dividend 2,340 x 100/80	2,925		1
	<u>110,925</u>	<u>15,541</u>	
	(15,541)		
Total income	<u>95,384</u>		
Tax on	85,528	14,839	
32% on excess of	9,856	<u>3,154</u>	
Total liability		17,993	½
Less: foreign tax credit: maximum 2,340 x 20/80 = 585			
Restricted to 17,993 x 2,925/95,384		(552)	1½
Tax liability		<u>17,441</u>	
Less: deducted:			
Salary 1,099 x 12	13,188		½
Director's fees 160 x 12	1,920		½
Individual activity	<u>864</u>		½
		<u>15,972</u>	
Final liability		<u>1,469</u>	
Neither the prize nor interest included			½
			<u>8</u>

(b) Nikodem Niezatrudniony

	PLN	PLN	PLN	
Rental: income 7 x 25,000		175,000		1/2
Costs:				
Loan interest 700,000 x 9% x 8/12	42,000			1
Depreciation 768,000 x 2.5% x 7/12	11,200			1
Rent 850 x 8	6,800			1/2
Insurance 8,400 x 8/12	5,600			1
		65,600		
Income		109,400		
Tax on		85,528	14,839	
32% on		23,872	7,639	
			22,478	1/2
Sale of immoveable property				
Revenue		900,000		
Less: notarial fees		(7,800)		1/2
		892,200		
Cost		768,000		1/2
Taxable income		124,200		
Exempt: reinvested proportion of revenue 200,000/900,000 x 124,200		(27,600)		2
Taxable		96,600		
Tax at 19%			18,354	1/2
Total tax for 2009			40,832	

The tax on the sale of the property is due on 30 April 2010.

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25**3 Tamara**

- (a)** (1) Taxable activity is the transfer of goods and services. In addition to transfers for consideration in Poland, it also includes the following common activities: 1/2
- Import of goods or services
Donations of goods or services
Taking goods for own or employee use
- Any two of these, or any further relevant examples at 1/2 each, maximum* 1
- In all cases output tax must be charged, even though it is not paid to the taxpayer, and it may become an additional cost to him. 1
- 2 1/2
- (2) Input tax is the VAT charged to a taxpayer by his supplier, or, in the case of imported goods, by the customs authorities. 1
- In the case of the import of services it must be self-charged by the taxpayer. 1/2
- Provided it is properly documented and does not relate to certain disallowed activities, it can be used to reduce the output tax payable and thus does not constitute a cost. 1
- 2 1/2
- (3) The VAT law envisages certain types of goods or services which are subject to special lower rates, generally 7%, 3% or 0%. 1/2
- There are social and political reasons for these reduced rates, which apply, *inter alia*, to many foods and medical products, and result in a lower cost to the consumer. 1
- 1 1/2

		Marks
(4)	'Zero rated' is a phrase applied generally to the export of goods (and in some cases, services). Zero tax is charged, but by treating the items as 'taxable', the relevant input tax on buying or producing the goods can still be recovered.	$\frac{1}{2}$ <u>1</u> <u>1\frac{1}{2}</u>
(5)	An intra-Community supply or acquisition is a transfer of goods. If the traders have appropriate registration the supplier does not charge VAT but the recipient of the goods must 'self-charge' output tax on the declared value simultaneously booking the identical amount into his input tax. This appears neutral, unless the recipient has exempt activity, when an additional VAT cost may result	$\frac{1}{2}$ $\frac{1}{2}$ $\frac{1}{2}$ <u>1</u> <u>2\frac{1}{2}</u>
(6)	Certain activities, for example education, finance and medical care, are classified by the VAT law as exempt from VAT. Thus no tax is charged in supply of such goods or services, but equally, no input tax in relation to their purchase can be recovered, and it thus becomes a cost.	$\frac{1}{2}$ <u>1</u> <u>1\frac{1}{2}</u>
Total		<u>12</u>
(b)	The amount of input VAT that can be recovered in the case of a motor car is restricted to 60% of the VAT charged on the invoices, up to a maximum of PLN 6,000. Thus the amounts recoverable will be:	$\frac{1}{2}$ $\frac{1}{2}$
		PLN
Initial payment $18,000 \times 22\% = 3,960 \times 60\%$		2,376 $\frac{1}{2}$
Instalments $6,000 \times 22\% = 1,320 \times 60\% = 792$		$\frac{1}{2}$
Therefore:		
First 4 instalments at PLN 792 each		3,168 $\frac{1}{2}$
5th instalment (balance)		456 $\frac{1}{2}$
		<u>6,000</u>
There will be no further recoveries of VAT		<u>3</u> <u>15</u>

4 (a) Teofil

(i) Personal income tax 2009 under the flat rate method

Reliefs available:	PLN				
Own ZUS contribution		8,660			$\frac{1}{2}$
Donation to the church		6,720			$\frac{1}{2}$
Home internet connection		420			$\frac{1}{2}$
		<u>15,800</u>			
	Services PLN	Production PLN	Fixed assets PLN	Total PLN	
Revenue	384,300	143,720	4,380	532,400	$1\frac{1}{2}$
Relief (in proportion)	(11,405)	(4,265)	(130)	15,800	$1\frac{1}{2}$
Taxable	<u>372,895</u>	<u>139,455</u>	<u>4,250</u>		
Rate	8.5%	5.5%	3.0%		
Tax	31,696	7,670	128	<u>39,494</u>	$1\frac{1}{2}$
					<u>6</u>

(ii) He must keep the following records:

- a sales register with sequential invoices;
- the sales register must be analysed between different rate of tax, as he has both services and production, and even a fixed asset sale;

- a purchase register/records, since he buys materials;
- a fixed asset register, since he has equipment;
- wages and tax records, since he has employees;
- an annual inventory count, since he has materials.

Any four items at a $\frac{1}{2}$ mark each, maximum

2

- (iii) He must make monthly returns of revenue by the 20th of the following month
Also an annual return by 31 January of the following year

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- (b) (1) As an individual entrepreneur, Anna will pay on the basis of 30% of the minimum wage;
and also she need not pay sickness benefit insurance.

$\frac{1}{2}$

$\frac{1}{2}$

Contributions due are PLN 383 x 29.64% (retirement, disability, accident and work fund) = PLN 113

$\frac{1}{2}$

The due date is 10 November 2009

$\frac{1}{2}$

2

- (2) Bronek crosses the upper earnings limit of PLN 95,790 in October, having earned PLN 90,000 gross to 30 September 2009.

$\frac{1}{2}$

Retirement and disability (19.52% + 6%)

25.52%

Remaining contributions

6.67%

Contribution due:

PLN

10,000 x 6.67%

667

$\frac{1}{2}$

5,790 x 25.52%

1,478

$\frac{1}{2}$

2,145

1½

- (3) Cyryl's contract will not include accident benefit insurance and he need not pay for sickness benefit
Contributions due: 4,000 x 28.07% = 1,123

$\frac{1}{2}$

$\frac{1}{2}$

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Both Bronek's and Cyryl's contributions are due on 15 November

$\frac{1}{2}$

Total

5

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5 (a) Mylna sp.z.o.o.

(i) Corporate income tax liabilities

	PLN	Tax due PLN	Due date	
2008 loss available for set off 644,000/2	(322,000)			
Income to July	288,000			
August income	212,000			
Tax base 31 August 2009	178,000 x 19%	33,820		1½
September loss	(79,000)		20 September 2009	$\frac{1}{2}$
October loss	(43,000)			
November income	233,000			
Tax base 30 November 2009	289,000			
Tax due on 289,000 – 178,000	111,000			
x 2 (for December)*	222,000 x 19%	42,180	20 December 2009	<u>2</u>
				<u>4</u>

* The alternative strict interpretation by tax offices that the total payment due on 20 December relates to a PLN 344,000 (111,000 + 233,000) tax base, and thus PLN 65,360 tax payable, is also acceptable. The explanation (by the tax authorities) is that the 'tax due' for November is really PLN 233,000 but has been reduced for November (only) by losses, but not for December ('equal to the November liability') is tortuous in its logic, but enforced.

				Marks
(ii)		PLN	PLN	PLN
	Arrears at 20 November	33,820		
	Interest 6% x 61/365		339	1
	Total arrears			34,159
	Allocate 20,000 x 33,820/34,159	19,802	198	20,000
				1
				2
(iii)	Remaining arrears	14,018	141	14,159
	Interest 6% x 30/365 x 14,018		69	69
	Tax due 20 December 2009	42,180		42,180
		56,198	210	56,408
				2
(b) (i)	(1) Using a foreign connection whereby profits are transferred out of Poland			1
	Examples of circumstances in which this type of connection may be abused are:			
	– purchasing goods at an inflated price from a connected company or group in another tax jurisdiction with a lower tax rate;			
	– management charges levied by a connected company or group which are not justified by the true costs;			
	– not charging a realistic market price for goods sold abroad; or			
	Any valid example			1/2
	(2) Using a domestic connection by which less overall tax is paid in Poland than if the connection were not abused.			1
	Examples of abuse include:			
	– purchasing goods at an inflated price from a Polish taxpayer who has an exemption from income tax or is a tax card payer;			
	– invoicing at an artificially low price to a local taxpayer who has an exemption from income tax or is a tax card or flat rate taxpayer.			
	Any valid example			1/2
				3
(ii)	Methods used to determine a fair price			
	(1) Using a non-controlled price, if necessary adjusting to take into account minor dissimilarities.			
	It is only possible to use this method if identical or similar goods are supplied in the Polish market. This occurs if the investigated company undertakes such transactions with other bodies that are not connected (internal comparison), or if other unconnected bodies undertake such transactions to enable an external comparison to be made.			
	(2) The 'resale minus margin' method, based on the 'onward sale price'. The onward sale price to the unconnected customer is deemed to be fair. This method involves reducing the selling price charged to the unconnected customer using market profit margins to give a 'fair' market cost of the goods or services originally purchased, as opposed to the 'cost' charged to it by the connected company.			
	This method can only be used when the investigated company purchases a good or service from a connected body and sells it on to an unconnected customer.			
	(3) Fair margin, also called 'cost plus'. A fair margin to cover indirect costs and profit is added to the direct costs of purchase of the good or service from unconnected bodies, or of its production, to arrive at the calculated fair margin price. This profit margin is that applied by the company in unconnected transactions or used by unconnected bodies.			
	This method can only be used if the company undertakes such transactions with unconnected bodies or if such transactions occur in Poland.			

Marks

- (4) Transaction profit calculation. The tax office will examine the entire transaction involving two or more connected bodies, effectively apportioning the overall profit made. This involves a detailed investigation of the structure and organisation of all bodies, and will generally require cooperation of tax authorities in different countries.

This method is only used if none of the other three methods is capable of application.

Any TWO methods at 2 marks each (1 mark for the description of the method; 1 mark for the circumstances of use) maximum (2 x 2)

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