

Fundamentals Level – Skills Module

Taxation (Poland)

Monday 7 June 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)

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) 2009

From PLN	To PLN	Tax amounts to
Nil	85,528	18% of the base minus PLN 556·02
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 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 (*ryczałt*)

Revenue limit €150,000 (PLN 506,250)	
Free professions and 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 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	1·67%	–
Work fund (<i>Fundusz pracy</i>)	2·45%	–
Guaranteed workers' benefit (<i>Fundusz gwarantowanych świadczeń pracowniczych</i>)	0·10%	–
	<u>18·48%</u>	<u>13·71%</u>
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 Trutka S.A., a producer of industrial chemicals, has been trading profitably for many years. It had the following transactions during the year ended 31 December 2009.

- (1) On 19 February 2009 it completed the construction of a new factory, which was put into use on the next day. The factory included a production line, which was put into use on 27 February 2009. The production line is classed as 'general machinery'. The factory is used in conditions classed as 'worse' (*pogorszone*). The following expenditure relating to the project has not yet been allocated into either the fixed assets or the expense accounts of Trutka S.A.:

	PLN
Land	2,470,000
Notarial fee on land purchase	61,400
Architect's fees	170,700
Engineer's fees for the production line design	27,500
Building contractor, who built the factory	3,411,000
Production line	1,572,000
Cost of own labour installing the production line	74,600
Opening day party	94,500
Site clearance before construction	157,000
Insurance of building site and building: calendar year 2009	73,000
Interest on investment loan 2008 (see below)	173,300
Interest on investment loan calendar year 2009	365,000
Testing of production line: 20 February 2009	66,200
Notifying suppliers about the new location	11,400
Technical permits to use the new production line	23,700
Penalties for cutting down trees on land	341,000

A credit facility up to PLN 5 million at an interest rate of 7.3% was obtained in early 2008 to help cover the cost of the new factory. The amounts drawn were always below the costs paid to date, and the full amount of PLN 5 million was drawn by 30 September 2008. Interest has been paid up to 31 December 2009 and no repayments of capital have been made.

- (2) Trutka S.A. also has other fixed assets and their original costs are as follows:

	PLN
Buildings acquired in September 1999, used in conditions classed as 'bad' (<i>złe</i>)	24,000,000
General machinery acquired in:	
October 1999	17,341,000
December 2005	240,000
August 2008	3,600,000
Office equipment acquired in September 1999	712,000
Passenger car acquired in October 2006	173,000
Computer equipment acquired in February 2004	1,413,400

The company always applies the reducing balance method of depreciation for general machinery and the straight-line method for all other assets. Depreciation charges for 2009 have not yet been computed. Euro exchange rates are given at the end of this question.

- (3) Trutka S.A.'s profit and loss account before taking account any of the matters described in notes (1) and (2) above, is as follows:

	Note	PLN	PLN
Revenue			
Sales	4		67,464,449
Dividends (net)	5		1,900
Bank interest	6		21,310
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			67,487,659
Cost of sales			
Materials and energy	7	47,649,795	
Wages and salaries	8	10,182,408	
Administrative costs	9	5,411,317	
Lease and rental costs	10	309,220	
Bad debts	11	122,140	
Sundry other costs	12	477,720	
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			64,152,600
			<hr/>
Draft profit			3,335,059

- (4) The figure for sales includes a receipt in advance of PLN 38,600 from a customer for goods to be supplied in January 2010.
- (5) The net dividend received is from a small shareholding in a Polish registered company.
- (6) Bank interest receivable of PLN 750 was accrued but not actually received at 31 December 2009. The equivalent accrued income at 31 December 2008 was PLN 8,440.
- (7) The materials and energy costs include an increase in the provision for slow moving stock of PLN 27,340.
- (8) The wages and salaries figure is after the transfer of the wages costs connected with the production line installation described in note (1), but includes a provision for bonuses of PLN 124,000.
- (9) Administrative costs include the voluntary 'autokasko' insurance of the passenger car purchased in October 2006 (as referred to in note (2)). The car was insured for the sum of PLN 120,000 on 1 April 2009 at an annual premium for the year to 31 March 2010 of PLN 22,800, all of which is included in administrative costs. This car had not been insured at any time before 1 April 2009, except for the compulsory 'civil liability' insurance.
- On 13 February 2009 an accident to the car had caused PLN 34,820 repair costs and these costs are also included in administrative costs.
- (10) Lease and rental costs include the rental of a helicopter used privately by a director of PLN 34,220 for the year to 30 June 2010. Also included is the first lease payment of PLN 83,600 made on 31 March 2009 in respect of a finance lease for a lorry, which is to be depreciated by the lessee. The lease is for a period of four years at an annual rental of PLN 83,600. The lorry, which had an initial value of PLN 275,000, was delivered on 31 March 2009
- (11) The bad debts expense comprises:

	PLN
Loan to a director written off	40,000
Irrecoverable staff advances	7,400
Companies in liquidation	91,330
Decrease in general doubtful debt provision	(25,000)
Small debts certified by the directors as uneconomical to recover	8,410
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	122,140

(12) Sundry other costs comprise:

	PLN
Public media advertising	143,744
Courses for staff	112,506
Gifts to customers	39,470
Donation to a political party	40,000
Donations to public benefit organisations	127,000
Donation to the Greek Orthodox Church	15,000
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	477,720

Required:

- (a) Calculate the basis for tax allowed depreciation purposes of the factory and the production line described in note (1). (7 marks)
- (b) Calculate the depreciation charges for the year ended 31 December 2009 for all of the fixed assets described in notes (1) and (2). (8 marks)
- (c) Compute the corporate income tax payable by Trutka S.A. for the year ended 31 December 2009. (15 marks)

Note: Euro exchange rates are:

1 October 2006	€1 = PLN 4.58
1 January 2009	€1 = PLN 4.37
1 April 2009	€1 = PLN 3.74

(30 marks)

2 (a) Patrycja Pracowita is unmarried and without children. She had the following earnings during 2009:

- (1) A monthly salary of PLN 7,500 throughout the year from Albin S.A.
- (2) Director's fees each month of PLN 1,000 from Bronek Sp.z o.o.
- (3) A court expert fee of PLN 6,000 gross, which she earned in April 2009 acting as a specialist in a patent infringement case.
- (4) Gross interest from a Polish bank of PLN 1,653.
- (5) A prize in the 'Worker of the Year' competition run by a newspaper of PLN 5,000 gross.
- (6) A net dividend from a shareholding in a company registered in a country outside the European Union equivalent to PLN 2,340 after the deduction of 20% foreign withholding tax. The country has no double tax agreement with Poland.

Required:

(i) Compute the remitters' personal income tax (PIT) deductions, if any, which would have been made from each of the individual payments made to Patrycja from Polish sources;

Note: ignore health service contributions (HSC). (8 marks)

(ii) Compute Patrycja's final Polish PIT liability for 2009. (8 marks)

(b) Nikodem Niezatrudniony took advantage of a speculative opportunity. On 15 March 2009 he took a bank loan of PLN 700,000 at 9% p.a. interest and bought a warehouse of 2,600 square metres floor area for PLN 768,000. The warehouse stands on land rented from the local authority for which Nikodem arranged a monthly rental of PLN 850. The warehouse does not contain any plant or machinery.

The warehouse was not used until Nikodem had negotiated with a potential lessee to rent it out for exactly seven months from 1 April to 31 October 2009, at a monthly rental of PLN 25,000. The lessee will pay all the costs relating to the property during the lease period except for insurance of the building, which had already been paid by Nikodem for the year from 15 March 2009 in the amount of PLN 8,400.

Nikodem sold the building on 15 November 2009 for PLN 900,000 and immediately paid off the loan. He paid notarial fees on the sale of PLN 7,800 and was mildly annoyed at not receiving a premium refund for the unexpired period of insurance.

With the proceeds of the warehouse sale, Nikodem bought his first, modest apartment on 1 December 2009 for PLN 200,000.

Nikodem was not registered for business activity and had no other income during the year 2009.

Required:

Compute the total personal income tax (PIT) that Nikodem will pay for 2009, assuming that he makes the most favourable elections possible, and state when any tax on the sale of the warehouse must be paid.

(9 marks)

(25 marks)

- 3** Tamara has just registered a business involving the buying of goods in Poland and abroad and selling them either in Poland or in other countries. She understands that she must add 22% value added tax (VAT) on to her sales invoices and pay this tax to the tax office. It all seemed very simple until she attended a tax seminar and heard the following six phrases, which she did not understand:

- (1) Taxable activity
- (2) Input tax
- (3) Reduced rate
- (4) Zero rated sales of goods
- (5) Intra-Community supply and acquisition
- (6) Exempt activity

To improve her humour she immediately entered into a leasing arrangement for a new luxury car with a value of PLN 180,000 plus VAT, under which she will pay an initial amount of PLN 18,000 plus VAT followed by 35 monthly instalments of PLN 6,000 plus VAT. The dealer persuaded her that this was a 'good deal' since she would be able to recover the VAT cost through her business.

Required:

- (a) Briefly explain the relevance of each of the six phrases listed above for value added tax (VAT), giving examples where appropriate.** (12 marks)
- (b) Explain to Tamara the extent to which she can actually 'recover' VAT on the payments she will make under the luxury car lease, clearly identifying the payments from which recovery can be made.** (3 marks)

(15 marks)

- 4 (a) Teofil has carried on a registered business activity as a tailor, paying tax under the flat rate of revenue (*ryczałt ewidencjonowany*) method for some years. He employs seven skilled tailors and makes suits both using his own materials and using materials supplied by clients. His revenue in 2008 was PLN 494,000.

Most of his sales invoices are issued at month ends, and on 31 December 2009 he issued invoices totalling PLN 31,820, included in the revenue below.

Extracts from his records for 2009 show the following:

	PLN
Revenue – clients providing materials	384,300
Revenue – remaining clients	143,720
New sewing machines purchased	37,410
Salaries and other business costs	298,573
Teofil's own ZUS contributions	8,660
Sale of old sewing machines (cost PLN 14,300 in 2001)	4,380
Donation to Roman Catholic Church	6,720
Home internet connection	420

Required:

- (i) **Compute the personal income tax (PIT) payable by Teofil in 2009 under the flat rate method, after making all beneficial claims;** (6 marks)
 - (ii) **State what records Teofil must keep under the flat rate method;** (2 marks)
 - (iii) **State what returns Teofil must make under the flat rate method and when they are due.** (2 marks)
- (b) (1) Anna registered for business activity for the first time on 1 October 2009, and she wants to pay the minimum amount of ZUS possible.
- (2) Bronek earned a monthly salary of PLN 10,000 as an employee of Brokebank S.A. throughout 2009.
- (3) Cyryl, a computer consultant, entered into an assignment contract with Chalkhill S.A. for PLN 4,000 for programing, which Cyryl did at his home in October 2009.

Required:

Compute the total social security contributions (ZUS) to be paid for the month of October 2009 in each of the above cases, stating by when the contributions are due. Support your calculations with brief explanations.

Note: The average wage in the economy in the second quarter of 2009 is PLN 3,341. (5 marks)

(15 marks)

- 5 (a) Mylna Sp.z o.o., which does not use the simplified method for monthly tax payments, had a taxable loss in the year ended 31 December 2008 of PLN 644,000.

Due to a misunderstanding of the loss relief rules, the accountant of Mylna Sp.z o.o. made no corporation tax payments until advised to do so on 20 November 2009, when he estimated the liability at that date and paid tax of PLN 20,000.

The cumulative taxable income of Mylna Sp.z o.o. had risen steadily in 2009 and at 31 July 2009 was PLN 288,000. The taxable income/loss for the each of the following four months was as follows:

		PLN
August (alone)	Income	212,000
September (alone)	Loss	(79,000)
October (alone)	Loss	(43,000)
November (alone)	Income	233,000

The accountant wants to make a final payment of all arrears, including penalty interest, on 20 December 2009.

Required:

- (i) Calculate Mylna Sp.z o.o.'s corporate income tax (CIT) liabilities at each of the relevant due dates; (4 marks)
- (ii) Show how the PLN 20,000 payment made on 20 November 2009 will be allocated against the tax arrears and penalty interest; (2 marks)
- (iii) Calculate the amount of tax and penalty interest that must be paid on 20 December 2009.

Note: The penalty interest rate for tax arrears is to be taken as 6% pa. (2 marks)

- (b) Transfer pricing is a phrase used to describe the situation where a taxpayer takes advantage of a connection with another party to reduce a tax liability.

Required:

- (i) Explain the TWO types of connection given in the Polish Income Tax Laws and give ONE example of how each type of connection may be abused by a taxpayer; (3 marks)
- (ii) Describe any TWO of the methods available to the Polish Tax Offices to determine a fair price under the transfer pricing rules, indicating the circumstances in which each of the methods described may be applied. (4 marks)

(15 marks)

End of Question Paper