Fundamentals Level – Skills Module

Taxation (Poland)

Tuesday 6 December 2011

Paper F6 (POL)

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

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) 2010

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 the blind	2,280
Competition prizes	760
Child deduction	1,112
Daily meal allowance (*dieta*)	24
Motor car allowance (per km)	1

Flat rate tax (*ryczalt*)

Revenue limit €1,200,000 (PLN 5,067,120)	
Free professions	20·0%
Services and rent	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 2007 to 2010 19%

Dividend withholding tax

Dividend withholding tax rate 19%

Tax depreciation rates

	%
Buildings – Residential	1·5
– Other	2·5
Heavy machinery (production facilities)	10·0
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 (*Ubezpieczenie*)		
Retirement pension	9·76%	9·76%
Disability pension	4·50%	1·50%
Sickness benefit	–	2·45%
Accident benefit	1·67%	–
Work fund (*Fundusz pracy*)	2·45%	–
Guaranteed workers' benefit (*Fundusz gwarantowanych swiadczen pracowniczych*)	0·10%	–
	18·48%	13·71%

Upper earnings limit	PLN 94,380
Minimum monthly wage	PLN 1,317

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 Forward Sp. z o.o. (Forward) is a Polish limited liability company producing and selling car parts. It has been operating for several years, using the standard calendar year as its tax year.

Forward's accounting books show the following for the year ended 31 December 2010:

	Notes	PLN	PLN
Sales revenue	1		40,485,200
Dividend received	2		2,500,000
Other revenue	3		14,500
Revenue total			42,999,700
Cost of sales	4	21,000,000	
Impaired receivables	5	173,000	
Depreciation	6	7,547,000	
Other expenses	7	1,562,400	
Bank interest	8	174,800	
Costs total		30,457,200	
Gross income			12,542,500
Tax charges	9		1,450,000

Notes:

(1) The sales figure includes a PLN 12,000 advance payment received from a client for car parts which will be produced and provided to the client in 2011.

(2) Forward operates as part of a larger capital group. It holds 100% of the shares in a Polish subsidiary Park Sp. z o.o., as well as 15% of the shares in a US based company Drive Inc. In 2010, Forward received gross dividends of PLN 1,500,000 from Park Sp. z o.o. and PLN 1,000,000 from Drive Inc. Tax of 5% was withheld in the USA from the dividend received from Drive Inc. The US basic corporate income tax rate is 35%.

(3) Other revenue comprises PLN 14,500 of interest received from the tax office due to a cash value added tax (VAT) refund being paid to Forward past the deadline set by VAT regulations.

(4) The cost of sales all comprise the standard, deductible costs of materials, energy and services used in connection with the sales made in 2010 other than IT support services. Forward uses the IT support services provided by another company owned by the same person who owns 100% of the shares in Forward. Since both companies belong to the same person, the owner has decided that there is no need to charge anything for these inter-company services, thus Forward has been receiving its IT support services for free. It has been estimated that the market value of the IT support services provided to Forward in 2010 was PLN 65,000.

(5) The impaired receivables (bad debt) account is as follows:

	PLN
Opening provision 1 January 2010	285,000
Loan to employee (written off)	3,000
Debt for which court collection ended with no result (bankrupt debtor)	75,000
Increase in general provision	115,000
Decrease in general provision	(20,000)
Closing provision 31 December 2010	458,000

In addition, in 2010 the receivable of PLN 14,800 due from Mr Jan Oszust expired (as per the respective civil law regulation). In 2009 the whole amount of this debt was written off as both an accounting and a tax cost after Forward received a postcard from Barbados sent by Mr Oszust, informing them that he was not planning to pay. No further action was taken by Forward to execute the receivable as the situation was considered hopeless.

(6) Depreciation costs charged comprise:

– depreciation write-offs on the plant and machinery used by Forward throughout the year 2010, all calculated according to the tax regulations; and
– depreciation of PLN 15,000 on a passenger car which cost PLN 130,000 when purchased on 1 June 2010. At the date of purchase the PLN:€ rate was PLN 4 for €1.

Additionally, Forward completed significant investment projects in fixed assets in 2010 as follows:

(i) On 15 June 2010 it acquired several trucks for a total price of PLN 1,000,000.

(ii) On 20 August 2010 a new factory building was accepted for use. The total cost of construction was PLN 165,000,000. It has been certified that the building is used in conditions worse than normal (strong vibrations).

(iii) On 10 September 2010 the production line in the new building was accepted for use. The cost of completion of the production line was PLN 53,000,000.

The depreciation costs for items (i), (ii) and (iii) have not been calculated yet. Forward wants to claim the highest possible write-offs on these items in 2010.

(7) Other expenses include:

(i) A PLN 35,400 invoice for a dinner with a client who ordered expensive French cognac.

(ii) The cost of *auto-casco* insurance on the passenger car referred to in (6) above. The car was insured up to a value of PLN 120,000. The insurance cost was PLN 9,000 and covers the period to 1 June 2011. The whole expense of PLN 9,000 was booked as a cost when the invoice for insurance was paid.

(iii) The cost of PLN 25,000 for repayment of the owner's credit card balance. The balance was drawn during the owner's short vacation in Spain.

(iv) The cost of PLN 31,000 of input VAT which was not off-set against output VAT. The majority of Forward's sales are VATable, however it makes a small number of VAT exempt supplies, and this input VAT related to these exempt supplies.

(v) A donation of PLN 3,000 given to a Polish public benefit organisation.

(vi) Interest of PLN 12,158 paid to a supplier due to the late payment of an invoice for materials.

(8) The opening balance of the bank interest payable account on 1 January 2010 was PLN 420,000. The closing balance on 31 December 2010 was PLN 545,800.

(9) The tax charges account comprises the tax advances paid during the year, the US withholding tax on the Drive Inc dividend (referred to in (2) above), and an additional tax charge of PLN 240,520 paid in 2010 as a result of a tax inspection related to the financial year 2008.

Required:

(a) Calculate the corporate income tax (CIT) payable by or refundable to Forward Sp. z o.o. for the year 2010. (21 marks)

(b) State ANY THREE of the conditions required for an accounting provision for impaired receivables (bad debts) to be allowed as a tax deductible cost according to the Polish CIT Act. (3 marks)

(c) Assuming no changes in legislation, explain why a non-performing loan granted in the future by Forward Sp. z o.o. to another company, will not be a tax deductible cost even if later on it is officially certified that it is not recoverable. (2 marks)

(d) State ANY TWO types of one-off write-offs of fixed asset values that are allowed as tax deductible costs. (2 marks)

(e) State ANY TWO specific methods of depreciation allowed under the Polish CIT Act, other than straight line depreciation and one-off write-offs. (2 marks)

(30 marks)

2 Mr Roman has been employed for several years as a financial director of Progres Sp. z o.o. (Progres), under a standard labour law agreement. His monthly gross salary is PLN 15,000.

During 2010 Mr Roman received the following benefits, in addition to his salary, from Progres:

(1) In February he moved from Warsaw to Kraków to take over the finances of a newly established branch. He received PLN 35,000 extra as a relocation allowance.

(2) In October and November he went on several business trips to other cities to supervise local branches. In total he spent 16 days on these business trips and he received an extra PLN 3,000 as an allowance for these travels.

(3) His hotel bills for the trips referred to in (2) above were reimbursed and he received PLN 8,000 based on the invoices presented.

(4) In November, the management board made an award to Mr Roman for his hard work and brilliant tax optimising solutions which had saved millions for Progres. The award he received was a hand-made garden gnome purchased for PLN 900. Though not exactly to his taste Mr Roman accepted the gift.

(5) In December Mr Roman decided that he deserved a bit more for his efforts so he approved for himself a reimbursement of:

- a PLN 10,000 tuition fee for his accountancy post graduate studies; and
- a PLN 7,000 tuition fee for his deep water scuba diving training.

Additional information:

(6) Apart from his work for Progres, in February Mr Roman performed additional services as an external consultant for a gross fee of PLN 10,000. As external consultant, he prepared a report on effective procedures for control of business expenses for Regres Sp. z o.o. (Regres), which acquired the copyright to the report. Regres withheld and remitted to the relevant authorities PLN 900 of health service contributions (HSC) and PLN 125 of personal income tax (PIT).

(7) Mr Roman owns an old 40 square metre apartment he had inherited in the 1980s. He rents out this apartment for PLN 10,000 per year. Annual maintenance costs of the apartment are PLN 6,000.

(8) On 16 March Mr Roman bought an interesting but wrecked sports car for PLN 30,000. He spent a further PLN 35,000 on the car's restoration and sold it on 20 July for PLN 100,000.

(9) During the year 2010 he earned PLN 25,000 gross in interest from his bank deposits.

(10) Since his divorce several years ago Mr Roman has been bringing up his two children (aged 14 and 16) on his own. He has selected joint taxation on his tax return, but not for the calculation of his tax advances.

Required:

(a) Calculate the personal income tax (PIT) advances withheld by Progres Sp. z o.o. on Mr Roman's salary in 2010. (12 marks)

(b) Calculate Mr Roman's PIT for the year 2010, and identify the amount due to or refundable from the tax office and the tax payable on any items taxed separately. (13 marks)

(25 marks)

3 Mediabazar Sp. z o.o. (Mediabazar) is a company running a store selling electronic products.

In addition to the selling of electronic products Mediabazar acts as a bank representative in the processes of granting consumer loans for the purchases of the electronic products, arranging for insurance services, and handling the utility payments of customers. Mediabazar earns a share of commissions for all the financial services rendered.

Where applicable, all figures provided are in PLN and include value added tax (VAT) at 22%. Financial services rendered are VAT exempt.

In June 2010 Mediabazar made the following sales:

		PLN
(1)	Electronic products domestic sales	1,580,000
(2)	Electronic products exported (sales made via Mediabazar's website, all shipments and documents in place in June)	500,000
(3)	Bank commission/financial services	540,000

Mediabazar ran an employee incentive programme in June 2010. In the course of this programme own goods worth PLN 120,000 (at gross sale price) were given free of charge to employees. The individual value of goods given ranged from PLN 1,000 to PLN 2,000.

Mediabazar made the following purchases in June 2010:

		PLN
(1)	Purchase of electronic products from Polish suppliers	800,000
(2)	Purchase of furniture for the store from Polish suppliers	150,000
(3)	Purchase of courier services from Polish suppliers (couriers deliver signed bank loan agreements)	15,000
(4)	Purchase of a computer server from a Polish supplier (the server is used for both website sales and handling the loan/financial services)	80,000
(5)	Intra Community purchase of electronic products from a German company (delivery, invoice receipt and payment all occurred in June)	700,000
(6)	Purchase of IT services rendered via internet (the supplier of these services is a company from India with no tax presence in Poland, and the IT system is used for both website sales and handling the loan/financial services)	200,000

During the previous year the proportion of Mediabazar's VATable sales to total sales was 80%. For the year to date the proportion to the end of June 2010 was 85%.

Required:

(a) Calculate the value added tax (VAT) due or refundable for June 2010. (9 marks)

(b) Assuming that the actual proportion of VATable to total sales for the year ended 31 December 2010 is 70%, calculate the input VAT adjustment to be made after the year end with respect to the June 2010 operations. (4 marks)

(c) Assuming that the server will be sold in February 2011 and the sale will be VATable, calculate the VAT adjustment to be made after the sale. (2 marks)

(15 marks)

4 Mr Jan Planer has run an individual business activity for a number of years. Each year, he earns net income of PLN 150,000 before financing costs and taxation, from this activity. He did not elect any special method of taxation of his business income.

Currently his financing costs are PLN 70,000 per year. However, during a recent discussion with the bank Mr Planer learned that the bank could decrease the interest rate and thus cut down the financing cost to PLN 55,000 per year, if the bank was given additional security over the business. In order to give such an additional security Mr Planer would need to run his activity via a limited liability company and give a pledge over its shares to the bank.

After transferring the business into a limited liability company, Mr Planer would employ himself in the company for a minimum salary of PLN 1,300 per month. This would enable him to maintain his social insurance but possibly reduce the amount of social security contributions paid.

Mr Planer does not intend that any cash will be retained in the company. The cash outstanding in the company at the end of each year would be transferred to Mr Planer as a dividend. If necessary he might pay to himself partial advances during the year on account of the expected dividend.

Required:

Prepare calculations of the total tax and social security burden payable by Mr Planer and, where applicable, his company, and advise him which of these two options is the most financially attractive:

Option 1: He runs his business in the form of a limited liability company with reduced financing costs.
(10 marks)

Option 2: He continues to operate as an individual business activity without a reduction in financing costs.
(5 marks)

Notes:
1. Average salary as announced by the statistical office for the period relevant to calculation is PLN 3,600 per month.
2. Ignore health service contributions.

(15 marks)

5 Matejko Sp. z o.o. (Matejko) is a Polish company. Matejko finances its activities with loans granted by companies from its capital group.

The group structure is as follows:

El Greco S.A. (El Greco) a Greek company, which holds 100% of the shares in Matejko.

El Greco also controls 30% of the shares in a German company, Durer GmbH (Durer).

Durer in turn controls 80% of the shares in a Spanish company, Zurbaran S.A. (Zurbaran).

Zurbaran controls 100% of the shares in a Polish company, Kossak Sp. z o.o. (Kossak).

Matejko is the debtor under the following loans:

(1) PLN 9,000,000 from El Greco at an interest rate of 5% per annum. This loan was drawn on 1 January 2009. No interest was serviced until 31 December 2010 when the full amount of interest accrued to date was paid.
(2) PLN 3,000,000 from Durer at an interest rate of 10% per annum. This loan was drawn on 1 October 2010. On 31 December 2010 the full amount of interest accrued to date was paid.
(3) PLN 20,000,000 from Zurbaran at an interest rate of 30% per annum. This loan was drawn on 1 January 2010. On 31 December 2010 the full amount of interest accrued to date was paid.
(4) PLN 8,000,000 from Kossak at an interest rate of 10% per annum. This loan was drawn on 1 January 2010. On 31 December 2010 the full amount of interest accrued to date was paid.

The maximum loan interest level that may be accepted for Matejko for transfer pricing purposes is 10% per annum.

Matejko's equity account is as follows:

	PLN
Registered share capital	10,000,000
Share premium	2,000,000
Retained earnings	12,000,000
Total	24,000,000

The registered share capital comprises the following:

(i) PLN 2,000,000 cash contribution (with additional cash transferred to share premium);
(ii) PLN 1,000,000 in kind contribution of know-how; and
(iii) PLN 7,000,000 debt to equity swap of loans drawn in past years, effected via an in kind contribution of a loan receivable.

Poland has concluded double tax treaties (DTT) with all the creditors' countries of residence.

The Polish statutory withholding tax rate for qualifying interest paid to non-residents is 20%.

The DTT between Poland and Greece provides for a 10% withholding tax on qualifying interest.

The DTT between Poland and Germany provides for a 5% withholding tax on qualifying interest.

The DTT between Poland and Spain provides for a 0% withholding tax on qualifying interest.

Matejko possesses valid certificates of tax residency for all of its foreign creditors.

Required:

(a) Calculate the amount of interest that may be recognised by Matejko Sp. z o.o. as a tax deductible cost in 2010. Briefly explain the basis for any exclusions of given amounts from deductible costs. (8 marks)

(b) Calculate the amount of withholding tax (if any) to be remitted by Matejko Sp. z o.o. on each of the interest payments made on 31 December 2010, explaining the basis for the application of a given withholding tax rate or exemption. (5 marks)

(c) Explain the difference between a taxpayer and a tax remitter. (2 marks)

(15 marks)

End of Question Paper