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# Answers

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Marks

1 Stratna S.A.

(a) Available losses at 1 January 2010

	Income (loss) PLN	Donation relief PLN	Utilisation of 2005 loss PLN	Utilisation of 2008 loss PLN	Tax base PLN	
2005	(1,000,000)	–	1,000,000	180,000	–	
2006	200,000	–	(200,000)	–	–	½
2007	150,000	(15,000)	(135,000)	–	–	1
2008	(180,000)	–	–	–	–	
2009	630,000	(4,000)	(500,000)	(90,000)	36,000	1½
Available			<u>(165,000)</u>	<u>(90,000)</u>		1

There is no relief for donations in loss-making years.

½

Donation relief, to a maximum of 10% of income, should be claimed before any loss relief since it cannot be used in future years.

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Losses can only be carried forward for five tax years.

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A maximum of 50% of the available loss can be claimed in any one year.

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(b) Corporate income tax for 2010

	PLN	PLN	
Profit per accounts	511,000		
Goods bartered	96,000		1
Depreciation of used Lexus 96,000 x 7/30		22,400	1
Rent received in advance (W1)		6,000	1
Contractual damages	34,000		½
Bonus not in directors' contracts	11,848		½
Rehabilitation fund payment	7,063		½
Provision increase	200,000		1
Redundancy payments not in profit and loss account		673,400	1
Employee advances written off	2,489		½
Bad debt provision decrease		15,000	1
No other bad debt movements		–	½
Donations	38,100		½
Taxation paid	26,300		½
	<u>926,800</u>	<u>716,800</u>	
	<u>(716,800)</u>		
Taxable income	210,000		
Relief for: Donations (W2)	(21,000)		1
Loss from 2005 (W3)	(165,000)		1
Loss from 2008 (maximum)	(24,000)		1
Tax base	<u>nil</u>		
Tax on tax base		<u>nil</u>	
Tax refundable		<u>26,300</u>	½

13

W1 Rent received in advance	
	PLN
Monthly rental = 72,000/12	6,000
Receivable for nine months to December = 9 x 6,000	54,000
Received	60,000
Received in advance for 2011	<u>6,000</u>

W2 Claim for relief for donations:	
	PLN
public benefit organisation	24,000
maximum: 10% of income	<u>21,000</u>

W3 The remaining 2005 loss must be claimed in 2010 before any other loss relief claims as otherwise it will be lost due to the five year time limit.

**(c) Excess advance payments of CIT**

Since tax is calculated on the cumulative tax base, the tax base of Stratna S.A. at some stage during the year must have been positive, possibly due to seasonality of profits. 1

No refund can be obtained during the year, since an 'overpayment' as defined in tax law only arises upon submission of the tax declaration for the year. 1

2

**(d) Alternative method for on account tax payments in 2011**

**(i)** The alternative method can only be applied if the annual tax declaration lodged during the previous year showed tax payable. 1

Stratna S.A.'s 2009 tax declaration, lodged in 2010, would have shown a tax base of PLN 36,000 (part (a)) and an annual tax liability at 19% of PLN 6,840. 1

So the monthly payments on account for 2011 will be 6,840/12 = PLN 570. 1

Stratna S.A. must apply to the tax office before the first tax payment for 2011 is due, that is before 20 February 2011. 1

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**(ii)** The alternative method will remain in force until:

- either Stratna S.A. informs the tax office otherwise (which it must do before 20 February of a tax year); 1
- or it fails to record tax payable in two successive years. 1

This method can thus be applied in 2012 also, since although the tax declaration for 2010, lodged in 2011, will show no tax payable, the declaration lodged in the previous year (for 2009) did have tax payable. 1

It seems beneficial for Stratna S.A. to continue this method in 2012, since payments on account for 2012 will also be calculated on a tax base of PLN 36,000. The profits are expected to be at 2010 levels, with no more losses to utilise, resulting in payments on account calculated on actual 2012 figures being considerably higher. A cash flow benefit will result. 1

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## 2 Romek

## (a) ZUS, HSC and tax in respect of the registered business activity

ZUS minimum basis is 60% of average wage:	$3,260 \times 60\% = \text{PLN } 1,956$		½	
Rate (no GWBF):	$18.48\% - 0.10\% + 13.71\% = 32.09\%$		1	
Contributions:	$1,956 \times 32.09\% = 627.68 \times 6 \text{ months} = \text{PLN } 3,766$		½	
HSC basis is 75% of monthly average wage:	$3,260 \times 75\% = \text{PLN } 2,445$		½	
Rate:	9.0%			
Contributions:	$2,445 \times 9.0\% \times 6 \text{ months} = \text{PLN } 1,320$		½	
Deductible amount for PIT:	$2,445 \times 7.75\% \times 6 = \text{PLN } 1,137$		½	
		<b>PLN</b>	<b>PLN</b>	
Income: per accounts to 30 June 2010			51,000	½
Profit on fixed asset disposal (21,000 – 7,360)			13,640	1
Taxable income			64,640	
Less: ZUS (as above)			(3,766)	½
Tax base			60,874	
Tax at 18%	10,957			
Less: free amount	556			
	10,401			1
Less: HSC deduction (as above)	(1,137)			½
PIT payable on business activity	9,264			
Additional tax on stock remaining on deregistration:				
Income in last three months: (51,000 – 26,000) = 25,000 + 13,640 = 38,640				1
Revenue in last three months: (84,000 – 44,000) = 40,000 + 21,000 = 61,000				1
PIT due on deregistration: $9,200 \times 38,640/61,000 \times 10\% = \text{PLN } 583$				1
				<u>10</u>

## (b) ZUS, HSC and PIT in respect of employment

		<b>PLN</b>	
Gross salary 16,000 x 5		80,000	½
ZUS deducted: employee contribution at 13.71%		(10,968)	1
HSC base		69,032	
Cost allowed: monthly 111.25 x 5 months		(556)	1
Income		68,476	
Tax at 18%		12,326	½
Less: reduction: none given		–	1
		12,326	
Less HSC: deducted from salary $9.0\% \times 69,032 = \text{PLN } 6,213$			1
Deducted from PIT $7.75\% \times 69,032$		5,350	1
PIT paid		6,976	<u>6</u>

**Tutorial note:** An employer will reduce the PIT calculated by one twelfth of the 'free amount' of PLN 556.02 i.e. PLN 46.34 for every month of employment, only if the employee provides a declaration that he has no income in the year on which he is himself paying tax using the tax table (which automatically gives him the PLN 556.02 deduction from that source). Romek cannot provide such a declaration in 2010, so Pilny Sp. z o.o. will not give him the reduction.

**Marks**

**(c) Annual tax computation**

	PLN	PLN	
Business activity income less ZUS (from (a))		60,874	½
Income from employment less ZUS (from (b))		68,476	½
Sale of piano within six months: revenue	11,200		1
cost	<u>(8,000)</u>		½
		<u>3,200</u>	
Total income/tax base		<u>132,550</u>	
Tax on half tax base (single parent): 66,275 x 18%		11,929	
Less:		<u>(556)</u>	
		<u>11,373</u>	1
Liability 11,373 x 2		22,746	½
Less: HSC deduction, from (a) 1,137 + from (b) 5,350		<u>6,487</u>	½
		16,259	
Less: child deduction		<u>(1,112)</u>	1
Annual tax liability		15,147	
Less: paid on business activity (a)	9,264		
deduction from salary (b)	<u>6,976</u>		
		<u>16,240</u>	½
Tax repayable		<u>(1,093)</u>	<u>6</u>

**(d)** The PLN 16,000 monthly salary will clearly take him over the basic rate threshold of PLN 85,528 if tax is applied on the normal basis. Therefore Romek should inform his employer that he qualifies for treatment as a single parent, so the employer will deduct tax at 18% for every month. 1

The declaration to this effect can be lodged with his employer at any time, and will be applied from the next month. 1

The only condition is that the child has no income. 1

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## 3 A client company

## (a) Value added tax (VAT) for November 2010 transactions

	Input PLN	Output PLN	
(1) The agreed transaction value of the discounted goods is 80% x 100,000 = PLN 80,000 Output tax due is 22% x 80,000		17,600	1
The tax point can be up to seven days after despatch, so no VAT is due on 25 November sale		–	1
(2) Output tax on intra-Community transfers is at 0%		–	1
(3) Output tax must be accounted for sums received in advance The amount received is treated as inclusive of VAT: 10,000 x 22/122		1,803	1
(4) The Customs Office charges tax on the import value plus duties: Customs value is 200,000 x 3.22 = 644,000 plus 15% = PLN 740,600 Input tax is 740,600 x 22%	162,932		1½
(5) For imported services, output tax is payable, but an equal and opposite amount of input tax can be claimed. 18,000 x 22% = PLN 3,960 output and input	3,960	3,960	1½
(6) Tax on the value of the subject of a finance lease is paid on acceptance of the asset. No VAT arises on the lease payments. Input tax is 22% x 350,000	77,000		1
(7) Input tax recovery on passenger cars is limited to the lower of 60% and PLN 6,000. Input VAT recoverable is 32,000 x 22% x 60%	4,224		1
(8) No output tax is required to be charged on the distribution of small samples to the public		–	1
The gifts to staff were not for business purposes, so output tax due is 16,000 x 22%		3,520	1
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## (b) Bad debt relief

The debt must be documented as irrecoverable or be over 180 days overdue. 1

Six further conditions apply:

- the goods or services have been sold to the debtor, who at the time was an active VAT taxpayer;
- the sale had been included in a VAT declaration, and output tax accounted for;
- both the debtor and the creditor are active taxpayers at the time of the correction;
- the debt has not been sold;
- less than two years have elapsed since the end of the tax year in which the invoice was issued; and
- the creditor has informed the debtor of his intention to correct the VAT and the debtor has not settled the debt in full within 14 days of receiving this notification.

A half mark for each valid condition, maximum 2

The relief is given by reduction of the output tax due in the month/quarter when the 14 day notice time (as above) is passed, but not before confirmation is obtained that the debtor received the notification.

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## 4 Agata Krzyska

## (a) Tax computation for 2010

	PLN	PLN	
Polish sources			
Salary: gross 12 x 7,500		90,000	½
Allowed cost 111.25 x 12		(1,335)	½
Employment income		<u>88,665</u>	
Copyright royalties: gross	32,000		½
Less: creative activity allowed cost 50% (actual costs are lower)	<u>(16,000)</u>		1
Income		<u>16,000</u>	
Total from Polish sources		104,665	
Non-Polish source (Bermuda)			
Bermuda: gross royalties 18,000 x 100/90	20,000		1
Costs: actual relevant costs:	PLN		
Agent's fee	3,200		
Translation costs	8,200		
Book launching party	0		
Courier, etc	600		
	<u>12,000</u>		1
Claim (since exceed the 50% allowance)	<u>(12,000)</u>		1
Income from Bermuda		<u>8,000</u>	
World income		112,665	
Relief for ZUS: gross salary 90,000 x 13.71%		<u>(12,339)</u>	1
Tax base		<u>100,326</u>	
Tax on first PLN 85,528		14,839	
32% on remaining PLN 14,798		<u>4,735</u>	
		19,574	½
Less: Credit for Bermudan tax:			
Actual tax withheld 20,000 x 10% = PLN 2,000			½
Restricted to the proportion of Polish tax on that income: 19,574 x 8,000/112,665		<u>(1,390)</u>	1½
Final PIT liability		<u>18,184</u>	
			<u>9</u>

**Note to markers:** An alternative calculation treating the ZUS as a cost against salary revenue, rather than as a relief (i.e. salary income of PLN 76,326, and world income of PLN 100,326), resulting in the same total tax on world income but a slightly different credit for Bermudan tax, will be given equal marks.

- (b) Under the exclusion of foreign income with cumulation method, tax is first computed on world income (as in (a) above) and then the effective overall tax rate is applied to the Polish sources. 1
- The effective tax rate is 19,574/112,665 17.37% 1
- Tax liability on Polish income of PLN 104,665 at 17.37% becomes PLN 18,180 1
- 3

**Tutorial note:** the final liability is in fact identical to the credit method in this instance, give or take a small difference due to rounding the % to 2 decimals, because the above effective rate was used in limiting the Bermudan tax credit, but this will not usually be the case.

- (c) To be deductible a cost must be necessarily incurred in achieving a particular revenue. Agata has no revenue yet from 'Kto Pali Kota?' so she cannot claim these costs in 2010. 1½
- Even when she commences to earn copyright royalties from this book it is unlikely that these costs can be directly applied against the revenue, since they do not appear to relate exclusively to the novel. 1½

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5 Zaradna Sp. z o.o.

(a) Thin capitalisation

(i) Companies are related where:

- one is the owner of at least 25% of the shares in the other; or 1
- two or more companies have one common shareholder with a shareholding of at least 25% in each of them. 1

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(ii) Interest paid on each of 30 June and 31 December: 5 million x 8% x  $\frac{6}{12}$  = PLN 200,000 ½

	PLN	PLN	
Share capital at 30 June 2010	500,000		
3 x share capital	1,500,000		1
Disallowed interest is (5,000,000 – 1,500,000)/5,000,000 x 200,000		140,000	1
Share capital at 31 December 2010	1,500,000		
3 x share capital	4,500,000		1
Disallowed interest is (5,000,000 – 4,500,000)/5,000,000 x 200,000		<u>20,000</u>	<u>½</u>
		<u>160,000</u>	<u>4</u>

(b) Harmful tax competition

Countries or territories applying harmful tax competition are those which have low tax rates or other conditions favourable to tax reduction, in particular in multi-national groups, commonly referred to as 'tax havens'. 1

Zaradna Sp. z o.o. is not forbidden to trade with bodies registered in such a country but if the total amounts of transactions entered into or paid exceed Euro 20,000 in a year it must have suitable documentation of the transaction in place. ½

This must include:

- (i) The functions carried out by each party
- (ii) The anticipated costs and form and method of payment
- (iii) Price and profit calculations
- (iv) The business strategy if it affects the transaction value
- (v) An indication of any other factors
- (vi) For intangible services, the benefits expected to be received

A half mark for each valid item, maximum 2

If requested by the tax office such documentation must be provided within seven days. ½

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(c) Transfer pricing

(i) The following connections are given in the tax laws:

- A Polish company participates in managing or controlling a foreign company (directly or indirectly)
- A foreign company participates in managing or controlling a Polish company (directly or indirectly)
- An entity manages both a Polish and foreign company
- An entity has shares in both a Polish and foreign company

**Tutorial note:** *participation means direct or indirect control of 5% or more of the shares.*

THREE examples only required at one mark each, maximum 3

(ii) Possible arguments available to Zaradna Sp. z o.o.:

- The prices in the Polish market have been reduced because of, say, competition or entry strategy.
- Failure to achieve volume targets which may have earned a (retrospective) discount from the supplier.
- Start-up costs being absorbed in early trade.
- Unforeseen exchange losses on purchases.
- Any other plausible reason.

TWO examples only required at one mark each, maximum 2

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