

Fundamentals Level – Skills Module

Taxation (Poland)

Thursday 10 December 2015

**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX questions are compulsory and MUST be attempted

Tax rates and allowances are on pages 2–3.

Do NOT open this question 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.

Do NOT record any of your answers on the question paper.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

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Paper F6

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 in Section B.

TAX RATES AND ALLOWANCES – JUNE AND DECEMBER 2015

The following tax rates and allowances and ZUS rates for 2014 are to be used in answering the questions.

Personal income tax (PIT)

	Tax amounts to
Up to PLN 85,528	18% of the base minus PLN 556·02
PLN 85,528 and above	PLN 14,839·02 plus 32% on the excess over PLN 85,528

Flat rate cost

Monthly deduction	Annual deduction	Employer no >1	Commuting
111·25	1,335	x	x
(150%)	2,002	v	x
139·06	1,668	x	v
(150%)	2,502	v	v

Various PIT limits

	PLN
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>)	30
Motor car allowance (per km)	1
Donation rate	6%

Flat rate tax (*ryczalt*)

Revenue limit	€150,000
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% of the base, and 7·75% of this is deductible for personal income tax purposes.

Corporation tax (CIT)

Corporate income tax rate 2014	19%
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Dividend withholding tax

Basic 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 and other equipment, furniture	20·0%
Licence/software	50·0%
Own R&D products	100·0%
Other intangibles	20·0%
Residential property deemed value	PLN 988

Social security contributions (ZUS)

	Employer	Employee
Insurance (<i>Ubezpieczenie</i>)		
Retirement pension	9·76%	9·76%
Disability pension	6·50%	1·50%
Sickness benefit	–	2·45%
Accident benefit	1·93%	–
Work fund (<i>Fundusz pracy</i>)	2·45%	–
Polish guaranteed workers' benefit (<i>Fundusz gwarantowanych świadczeń pracowniczych</i>)	0·10%	–
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	20·74%	13·71%

Upper earnings limit PLN 112,380

Average and minimum monthly salary

	PLN
Minimum salary	1,600
Average salary	3,500

Value added tax (VAT)

Normal rate	23%
Registration limit	PLN 150,000

Section A – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.
Each question is worth 2 marks.

1 Zdrowie i Uroda Sp. z o.o. (ZiU) runs a medical clinic (value added tax (VAT) exempt service) and a beauty spa (standard VAT rated service). In May 2014, ZiU bought cleaning supplies for PLN 16,000 (excluding VAT). These cleaning supplies will be used from 1 July onwards for cleaning both the medical clinic and beauty spa. ZiU's VATable sales to total sales ratio for 2013 was 80% and the current year to date (YTD) ratio as per March 2014 is 90%.

What is the amount of input value added tax (VAT) which can be claimed by Zdrowie i Uroda Sp. z o.o. on the purchase of the cleaning supplies in its May VAT return?

- A** PLN 0
- B** PLN 3,312
- C** PLN 2,944
- D** PLN 3,680

2 The Tax Office assessed an additional tax liability on Taxpayer A. Taxpayer A appealed to the Tax Chamber but it upheld the Tax Office's decision.

To which body should Taxpayer A appeal the Tax Chamber's decision?

- A** The Minister of Finance
- B** The Tax Inspection Office
- C** The Regional Administrative Court (WSA)
- D** The Supreme Administrative Court (NSA)

3 Martex Sp. z o.o. started its activity on 1 August 2011. The company's taxable base for corporate income tax (CIT) purposes has been as follows:

Taxable base

2011	PLN 150,000
2012	PLN (200,000) loss
2013	PLN 90,000
2014	PLN 45,000

What is the amount of tax instalment which Martex sp. z.o.o. should have paid for 2014 under the simplified instalments system?

- A** PLN 8,550
- B** PLN 17,100
- C** PLN 28,500
- D** PLN 68,400

4 Roman operates a tailor shop, which both crafts and sells its own produced suits and provides general tailoring services. Roman applies the flat rate of revenue taxation method, but based on his records cannot document the allocation of revenues between production and services.

In 2014 Roman's sales of own produced suits were PLN 70,000 and of general tailoring services were PLN 50,000. Due to cash shortages, Roman only paid PLN 4,000 of social security contributions on the due dates for 2014.

What is the amount of personal income tax due by Roman according to the flat rate method for 2014 (ignore health service contributions (HSC))?

- A PLN 10,200
- B PLN 9,860
- C PLN 8,100
- D PLN 7,830

5 Major Sp. z o.o. (Major) failed to pay the value added tax (VAT) due on a standard VATable sale invoice of PLN 100,000 (excluding VAT) issued on 31 March 2014. This error was noticed by Major itself and the tax was paid on 10 May 2014 and the required exculpatory notification 'czynny żal' was also filed on that date.

What is the amount of penalty interest due by Major Sp. z o.o. if the nominal penalty interest rate is 8% per annum?

- A PLN 202
- B PLN 76
- C PLN 101
- D PLN 0

6 In 2014 Wiesław had taxable income of PLN 45,000 from his individual business activity. Additionally, on 15 June 2014, he sold an apartment he had inherited from his grandmother on 10 January 2013 for PLN 200,000. Wiesław spent the money he received from the sale of the apartment to purchase a machine for his business activity.

What is the amount of personal income tax due by Wiesław for 2014 if no elections were made?

- A PLN 7,544
- B PLN 46,550
- C PLN 45,544
- D PLN 43,544

7 A Polish company based in Warsaw sells sunglasses to customers in Berlin. Domestic sales of sunglasses are a standard rated supply for value added tax (VAT) in both Poland and Germany.

Which of the following correctly describes the value added tax (VAT) treatment of these sales?

- A The standard Polish VAT rate should be applied
- B The standard German VAT rate should be applied
- C An effective zero VAT rate should be applied
- D All of the above could be correct depending on the circumstances of the sale

8 Apart from his salary from employment, Leon derived income from the following sources during 2014:

- (1) Bank interest
- (2) The sale of a car he had bought in August 2014
- (3) The sale of an apartment he had bought in 2012
- (4) Casino winnings

Which of the above items should be reported together with his employment income in Leon's personal income tax (PIT) return for 2014?

A 2 only
B 1, 2 and 4
C 2 and 3 only
D 1 and 4 only

9 Romex Sp. z o.o. purchased the following new fixed assets on 1 January 2013 and used them in its business activity:

Initial value	PLN
– a copier machine	2,000
– a scanner	1,000
– a passenger car	60,000

Where possible Romex recognises tax deductible costs (including the reducing balance method of tax depreciation) as early as possible.

What is the tax deductible cost Romex Sp. z.o.o. will claim in respect of the above assets in 2014?

A PLN 15,960
B PLN 15,200
C PLN 15,000
D PLN 12,000

10 In which of the following situations will the entities involved be considered as taxpayers for the purposes of Polish corporate income tax (CIT)?

- (1) A foreign company operating a factory in Poland
- (2) A foreign natural person receiving a dividend from a Polish company
- (3) A foreign company based in a jurisdiction with a standard double tax treaty (DTT) with Poland in place, which exports goods to Poland
- (4) A Polish limited liability company in a loss position

A 1 and 3 only
B 2 and 4
C 1 and 4 only
D 1, 3 and 4

11 Franek was employed full time throughout 2014. In addition to his employment, he has been running his own business activity on a part-time basis for several years. In 2014 Franek earned PLN 80,000 from his business activity.

What is the total amount of social security and health service (HSC) contributions payable by Franek in 2014 in relation to his business activity?

A PLN 2,835
B PLN 13,803
C PLN 11,097
D PLN 4,814

12 Which of the following statements referring to double tax treaties (DTTs) is correct?

- A** A DTT may impose an additional Polish income tax charge on a Polish taxpayer over that imposed by Polish domestic law
- B** The provisions of a DTT can override the provisions of the corporate income tax (CIT) Act
- C** A DTT eliminates double taxation for both CIT and value added tax (VAT)
- D** The provisions of a DTT can override the provisions of supporting decrees (*rozporządzenia*) but not the provisions of the CIT Act itself

13 Which of the following types of income will NOT result in the payment of social security contributions?

- A** Salary from employment
- B** Sale of a privately owned car within six months of its purchase
- C** Personal services income of a freelance consultant
- D** Business activity income taxed according to the tax card

14 Company A and Company B are both Polish companies registered for value added tax (VAT) in Poland. Company A bought goods from Company B on 12 March 2014 but did not pay the invoice until 20 June 2014.

What is the deadline for Company A to obtain a cash refund of the value added tax (VAT) charged on this March purchase?

- A** 25 days
- B** 60 days
- C** 180 days
- D** None – the VAT can only be carried forward

15 On 10 February 2013, Yolo Sp. z o.o. (Yolo) drew a loan denominated in Euros on which interest was compounded monthly (at the last day of each month). On 20 June 2014, Yolo repaid both the principal amount of the loan together with all of the outstanding interest, also in Euros. This was the only loan Yolo had during the years 2013 and 2014.

Yolo's financial statements show the following profit or loss account entries in respect of the loan:

Year ended 31 December	2013	2014
	PLN	PLN
Interest	70,000 debit	45,000 debit
Forex	35,000 credit	65,000 debit

What is the total amount of the tax deductible costs in relation to the loan in 2014?

- A** PLN 75,000
- B** PLN 110,000
- C** PLN 145,000
- D** PLN 215,000

(30 marks)

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

1 Chwalimir imported a new passenger car from the USA for use in his accounting services business. He took delivery of the car and put it into use starting from 1 April 2014.

Chwalimir paid the following amounts in equivalent PLN (excluding any applicable value added tax (VAT)) associated with the purchase:

	PLN
Purchase price – paid on purchase on 2 February 2014	70,000
Customs duty – paid on import on 15 March 2014	7,000
Excise duty – paid on import on 15 March 2014	14,000
Dealer's commission – paid on purchase on 2 February 2014	1,500
Transport – paid on arrival on 26 February 2014	2,000
Insurance – paid on 10 February 2014	5,000
40% of the insurance cost related to the sea transport and 60% covered the auto-casco for the period to 31 December 2014; the insurance contract only covers the purchase price of the car of PLN 70,000.	
Fancy xenon lights and tinted windows – paid when installed on 10 May 2014	6,000
LPG installation – paid when installed on 10 May 2014	5,000

Chwalimir is a registered active VAT payer and his own business services are fully VATable. Chwalimir occasionally uses the car for private purposes.

Required:

(a) Calculate the total initial value (according to the personal income tax (PIT) regulations) of the new car, the total amount of expenses related to the purchase which will be recognised directly as tax deductible for 2014 and the non-deductible costs (if any) to be reported in Chwalimir's PIT calculation. (8 marks)

(b) Calculate the 2014 tax depreciation for the car.

Note: The relevant PLN/EUR exchange rate is 4:1.

(2 marks)

(10 marks)

2 Zależna Sp. z o.o. (Zależna) is a new company which has been operating since 1 December 2014. To start its business, Zależna needs to draw a loan of PLN 100,000,000 for ten years in December 2014. The full amount of the loan will be transferred to Zależna when the loan contract is signed and all of the capital will be repaid at the end of the ten years. Interest on the loan will be serviced regularly over the ten-year period. An arrangement fee of 3% of the loan is payable in full when the loan is drawn.

Zależna has two alternative options: either to draw the loan from its 100% parent company, Dominant SA, which is resident in Bulgaria or to draw the loan from a Bulgarian bank. Both options are equally acceptable from a business perspective and have a similar interest rate. Both loan agreements are also flexible with respect to the possibility of renegotiation of the terms by either of the parties.

The double tax treaty (DTT) between Poland and Bulgaria provides for a withholding tax (WHT) of 10% on interest. The DTT does not provide for any specific rules regarding banks. Neither Dominant SA nor the Bulgarian bank will accept a reduction in the interest paid by the amount of any applicable WHT (i.e. Zależna will need to pay any tax withheld).

Zależna is expected to be in a loss position for the next three years, to break even in 2018 and to start making profits of about PLN 10 million to PLN 15 million per year from 2019. Zależna's shareholding (i.e. its 100% ownership by Dominant SA) will not change during the ten-year period of the loan.

Required:

(a) **Set out the key differences in the tax treatment of the loan to Zależna Sp. z o.o. under parent company financing and bank financing.** (6 marks)

(b) (i) **Explain the effect of the issue of one-off versus over time recognition of the cost of the arrangement fee.** (2 marks)

(ii) **State, giving reasons and supporting calculations of the value of the tax asset at stake, which of the two treatments will be more beneficial to Zależna Sp. z o.o.** (2 marks)

(10 marks)

3 Wolfram lives in Gliwice and operates a furnace in a foundry located in Katowice.

His gross salary during 2014 was PLN 7,000 per month. In addition, he received the following benefits:

- PLN 6,500 per year for the purchase of a heat-protecting suit;
- isotonic drinks worth PLN 300 per month to cover water loss due to the high temperature; and
- PLN 100 per month to cover his costs of commuting to Katowice.

In his spare time Wolfram makes additional money buying and repairing old cars. In 2014 his transactions in cars were as follows:

- On 10 January 2014, he bought two cars for PLN 20,000 each. He spent PLN 6,000 to renovate the first car and PLN 5,000 to renovate the second car.
- On 15 July 2014, he sold the first car for PLN 35,000 and on 2 August 2014, he sold the second car for PLN 32,000. He paid commission of PLN 500 to the car dealer on each sale.
- In addition, on 20 March 2014, he sold a third car at a loss of PLN 4,000. Wolfram had bought this car on 15 October 2013 with the intention of renovating it, but on assessing the damage he decided this was not possible.

Wolfram inherited an 80 square metre apartment from his grandmother in 2012. He rents out this apartment for PLN 2,000 a month. He pays PLN 650 per month for communal services and other fees related to the rented apartment. Wolfram's grandmother originally paid PLN 1,500 per square metre for the apartment.

During September 2014 Wolfram realised a loss of PLN 2,000 on the sale of investment fund units he had bought in August 2014.

Required:

Calculate the year end personal income tax (PIT) payable by Wolfram for 2014.

Notes:

1. Ignore the health service contribution (HSC).
2. Identify any item referred to in the question which does not give rise to an increase or decreases in taxable income by the use of '0'.

(10 marks)

4 ITMistrz.pl Sp. z o.o. (ITM) sells online notebook computers and also sells separately a theft insurance service for the notebook computers sold.

ITM sells its notebook computers in both Poland and Germany, but is only registered for value added tax (VAT) in Poland. ITM has made no notifications or registrations for German taxation and its sales in Germany are below the German mandatory VAT registration threshold. All ITM's sales are made to individuals, it only has premises in Poland and all its sales to German individuals are shipped by courier from Poland.

In April 2014 the following events took place:

1. ITM sold:

- notebook computers for PLN 730,000 to individuals in Poland;
- notebook computers for PLN 420,000 to individuals in Germany;
- insurance services for PLN 65,000 in Poland; and
- insurance services for PLN 35,000 in Germany.

2. Within its marketing and advertising actions, ITM

- sold ten notebook computers in Poland for 10 PLN each; and
- gave away three notebook computers completely for free to local celebrities.

The notebook computers which sold for PLN 10 and which were given away for free in its marketing activities were all bought in previous months for PLN 5,000 each and normally sell for PLN 6,000 each.

3. ITM granted a completely free insurance service worth PLN 800 in total for all 13 notebook computers sold and gifted as part of its promotional activities (as in (2)).

4. ITM imported notebook computers from China for PLN 450,000.

5. ITM paid salaries to its employees at a total amount of PLN 30,000.

6. ITM was invoiced PLN 70,000 by the bank for the provision of the insurance products it resold.

7. ITM was invoiced PLN 6,000 for office overheads.

8. On 1 April 2014, invoices for PLN 140,000 from a local supplier who maintains ITM's server, had remained unpaid for 145 days. The server is used by ITM for both the sale of products and the sale of insurance services.

Insurance services are VAT exempt. All other sales and supplies are subject to VAT at the standard rate. All amounts are stated excluding VAT where applicable.

ITM's ratio of VATable sales to total sales for 2013 was 92% and for 2014 year to date (YTD) is 94%.

Required:

Calculate the Polish value added tax (VAT) due by ITMistrz.pl Sp. z o.o. for the month of April 2014.

Note: The German VAT rate is 19%.

(10 marks)

5 Alfred is an IT specialist. He has received an offer of employment as an IT administrator from a tool manufacturing company, Młotex Sp. z o.o (Młotex) starting from 1 January 2014.

There is a budget of PLN 10,000 per month for the administrator position and Alfred can choose whether he wishes to be employed or to perform the services as an independent service provider invoicing Młotex.

Both IT services and tool manufacturing are activities VATable at the standard rate.

Alfred has run an individual business activity previously and can handle his own accounting, so the service option will result in no extra costs for him.

However, he is unsure which of the two options will be more beneficial in terms of the total net cash he will retain after considering personal income tax, social security contributions, health service contributions and VAT combined.

Required:

(a) **Explain the value added tax (VAT) implications for Alfred of his work for Młotex Sp. z o.o. (Młotex) under each of the two options (employment and an independent service provider). Assume that Alfred would voluntarily register for VAT.** (3 marks)

(b) **Calculate the annual cash amount which will be retained by Alfred if he chooses to be:**

(i) **employed by Młotex;** (5 marks)

(ii) **an independent service provider invoicing Młotex for his services.** (7 marks)

Note: You should assume that Alfred will adopt the most tax efficient methods available to him.

(15 marks)

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Question 6 begins on page 14.**

6 Lutownica Sp. z o.o. (Lutownica) is a Polish company offering business to business (B2B) machinery maintenance services. Lutownica operates in Poland and via branches in Italy and Germany.

Lutownica's 2014 accounts show the following:

	PLN
Trade and service revenues	9,500,000
Financial revenue	340,000
Other income	2,500,000
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Total revenue	<u>12,340,000</u>
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Costs	
Operating costs	6,400,000
Financial costs	450,000
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Total costs	<u>6,850,000</u>
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Gross income	5,490,000
Taxation	1,500,000
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Net income	<u>3,990,000</u>

The following additional information is available:

A. Relating to the overseas branches:

- (1) The gross income figure includes PLN 1,200,000 of income attributable to the Italian branch and PLN 1,400,000 attributable to the German branch.
- (2) The calculation of the income of the two foreign branches includes:
 - a charge for the costs of dinners with clients of PLN 350,000 for the Italian branch and PLN 20,000 for the German branch;
 - a charge for environmental penalties of PLN 260,000 for the Italian branch and PLN 370,000 for the German branch; and
 - a credit for forex valuation gains on payments not yet received of PLN 380,000 for the Italian branch and PLN 160,000 for the German branch.
- (3) The Polish–Italian double tax treaty (DTT) provides for the credit method of elimination of double taxation; while the Polish–German DTT provides for the exemption method. The corporate tax rates in Italy and Germany are 31·4% and 29·58% respectively.

B. Relating to the company's Polish operations:

- (4) On 1 January 2014, Lutownica started and performed a contract for the maintenance of the production line of a Polish company. The contract provides for a periodical fee of PLN 150,000 per year. The first invoice for this service was not issued until 10 January 2015 and no service revenue was accounted for this contract in 2014.
- (5) Trade revenues include PLN 45,000 expected to be received from Lutownica's insurance company as compensation for a set of tools stolen in May 2014.
- (6) Financial revenue represents the interest income received by Lutownica on a loan granted to another (unrelated) company. The interest receivable account balance on 1 January 2014 was PLN 70,000 and on 31 December 2014 was PLN 190,000.
- (7) Other income includes a dividend received from another Polish company in which Lutownica holds 6% of the shares of PLN 200,000 (gross).
- (8) For accounting purposes Lutownica depreciates all of its fixed assets according to the straight line method using the CIT Act depreciation rates. This method was also applied for accounting purposes to a set of mechanised tools (classified as machinery) acquired on 30 July 2014 for PLN 800,000. However, for tax purposes Lutownica has decided to depreciate this piece of equipment using the reducing balance method.

(9) Operating costs include PN 240,000 for December 2014 salaries paid on 15 January 2015. According to Lutownica's template labour agreement, salaries are paid by the tenth day of the following month. The social security contributions payable by Lutownica related to these December salaries of PLN 85,000 were paid to the tax office on 25 January 2015.

(10) Other costs include a donation of PLN 300,000 made to an Italian public benefit organisation.

C. Items relating to taxation

(11) Lutownica accounted for a tax loss of PLN 1,200,000 in 2013.

(12) The taxation charge in the financial statements comprises: the tax instalments paid on account of the 2014 Polish corporate income tax (CIT); the withholding tax on the dividend received (item 7); and the corporate tax paid by the foreign branches in Italy and Germany respectively of PLN 376,800 and PLN 414,120.

Required:

Calculate the Polish corporate income tax (CIT) payable by or refundable to Lutownica Sp. z o.o. after the filing of its CIT return for 2014.

(15 marks)

End of Question Paper