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# Answers

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Marks

1 Financia, s. r. o.

(a) 2014 Corporate income tax

	CZK	CZK	
Sale of services		126,000,000	
Sale of shares		1,340,000	
Insurance reimbursement for stolen laptops		20,000	
Increase in value of Unilea, a. s. shares		200,000	
		<u>127,560,000</u>	2
Total accounting revenues			
Accounting expenses			
Purchased goods and services	23,400,000		
Management fees (intragroup)	8,000,000		0.5
Salaries and wages (including mandatory insurance)	65,000,000		
Employees pension insurance 19,000 * 50	950,000		1
Accounting depreciation:			
– building	410,000		
– other assets	650,000		
Stolen laptops accounting/ tax residual value (W2) 27,600 * 2	55,200		1
Liberec ZOO contribution	200,000		
Geneva animal shelter contribution	120,000		
Acquisition of shares sold	980,000		1
Creation of refurbishment reserve	1,000,000		1
Difference between accounting and tax depreciation – building (982,800 – 410,000) (W1)	572,800		1
Total accounting expenses	<u>101,338,000</u>		2
Accounting profit		<u>26,222,000</u>	0.5
Adjustments up			
Liberec ZOO contribution	200,000		0.5
Geneva animal shelter contribution	120,000		0.5
Adjustment of transfer price (services to Rufia) (2,750,000 – 1,542,000)	1,208,000		1
Refurbishment reserve contribution	1,000,000		1.5
Total tax non-deductible expenses	<u>2,528,000</u>		
Tax base		28,750,000	0.5
2013 tax loss	(1,250,000)		1
Reduced tax base		27,500,000	
Gift allowance (200,000 + 120,000) subject to maximum 10% of 28,645,600	(320,000)		1
Reduced tax base		<u>27,180,000</u>	
Rounded tax base (down to thousands)		<u>27,180,000</u>	0.5
Tax at 19%		<u>5,164,200</u>	0.5
Less: 2013 corporate income tax advances		<u>(0)</u>	0.5
Tax due		<u>5,164,200</u>	

## Workings:

## 1. Building tax depreciation charge

		CZK	
2013	24,000,000/50	480,000	
2014	$(2 * (24,000,000 - 480,000) + 2,100,000)/50$	982,800	2

## 2. Laptops tax depreciation charge

2013	46,000 * 20%	9,200	
2014	46,000 * 40% * 0.5	9,200	
Tax residual value (each)	46,000 – 9,200 – 9,200	27,600	1.5
			<u>21</u>

## Tutorial notes:

- The refurbishment reserve is tax non-deductible since it was not saved in a separate blocked bank account.
- No adjustment is required for the management fee for intra-group services as the price is set at arm's length.

(b) The tax return should be submitted and the tax due paid by 1 July 2015. 1

## (c) Withholding tax (WHT) on dividend paid

	Percentage holding	Dividend paid CZK	WHT CZK	WHT rate and legal basis	
Rufia (Russian parent company)	75%	2,400,000	240,000	10% DTT	1
Ms Molotova (Russian resident)	10%	320,000	48,000	15% DTT	1
Ms Sikorska (German resident)	10%	320,000	48,000	15% DTT	1
Sima (German company)	5%	160,000	24,000	15% DTT	1
		<u>3,200,000</u>	<u>360,000</u>		

The tax withheld should be paid over to the tax authority by 31 May 2014. 1

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## (d) 2015 Corporate income tax advances

Financia's 2014 corporate income tax liability is higher than CZK 150,000, therefore its 2015 tax advances will be payable on a quarterly basis.

Tax advance amount	(5,378,330/4)	CZK 1,344,583	1
Tax advances of CZK 1,344,600 (rounded up to hundreds) will be due on:			1
15 September 2015			
15 December 2015			
15 March 2016			
15 June 2016			1

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## 2 Mr Prouza

## (a) 2014 individual income tax

		CZK	CZK	
<b>Employment income (Home)</b>				
Salary	45,000 * 12		540,000	0.5
Statutory representative fee	43,000 * 12		516,000	0.5
Travel allowances	within statutory limit – exempt		0	0.5
Rental of apartment	30,000 * 12	360,000		0.5
	Less: exempt 3,500 * 12	<u>(42,000)</u>		1
			318,000	
Annual theatre tickets	exempt		0	0.5
Life insurance premiums	exempt		<u>0</u>	0.5
Sub-total before social security and health care contributions			1,374,000	
Social security contributions	Capped at 1,245,216 * 25%	311,304		1
Health care contributions	1,374,000 * 9%	<u>123,660</u>		0.5
			434,964	
Partial tax base			<u>1,808,964</u>	
<b>Business income</b>				
Acting as court expert		68,000		0.5
Lump sum expenses at 40%		<u>(27,200)</u>		1
Partial tax base			40,800	
<b>Capital income</b>				
Profit distribution	subject to withholding tax		0	1
<b>Rental income</b>				
Rent of apartment		265,000		0.5
Lump sum expenses at 30%		<u>(79,500)</u>		1
Partial tax base			185,500	
<b>Other income</b>				
Sale of car	Owned for more than one year – exempt		<u>0</u>	1
Total tax base			2,035,264	
Rounded tax base (down to hundreds)			2,035,200	0.5
Tax:				
at 15% on CZK 2,035,200		305,280		
at 7% on CZK (1,374,000 + 40,800 – 1,245,216)		<u>11,871</u>		
			317,151	0.5
Tax credits:				
Personal credit		24,840		0.5
Spouse credit		24,840		1
Child credit		<u>13,404</u>		1
			(63,084)	
Tax after credits			254,067	
Tax prepayments by Home	Working		<u>(242,250)</u>	3
Tax due			<u>11,817</u>	
				<u>17</u>

## Working: Monthly payroll prepayments made by Home

		CZK
<b>January to October</b>		
Salary		45,000
Statutory representative fee		43,000
Rental (30,000 – 3,500)		26,500
Total		114,500
Social security and health care contributions at 34%		38,930
Super gross salary		153,430
Rounded tax base (up to hundreds)		153,500
Income tax prepayment:		
CZK 153,500 at 15%	23,025	
CZK (114,500 – 103,768) at 7%	751	
		23,776
Tax credits:		
Personal credit	2,070	
Child tax credit	1,117	
		(3,187)
		20,589
Payroll tax to be withheld (rounded up to crowns)		20,590
<b>November</b>		
Salary		45,000
Statutory representative fee		43,000
Rental (30,000 – 3,500)		26,500
Total		114,500
Social security (capped at 1,245,216)		
(1,245,216 – (10 * 114,500)) 100,216 * 34%		34,073
Health care contributions (114,500 – 100,216) * 9%		1,286
Super gross salary		149,859
Rounded tax base (up to hundreds)		149,900
Income tax prepayment:		
CZK 149,900 at 15%	22,485	
CZK (114,500 – 103,768) at 7%	751	
		23,236
Tax credits:		
Personal credit	2,070	
Child tax credit	1,117	
		(3,187)
		20,049
Payroll tax to be withheld (rounded up to crowns)		20,050

**Tutorial note:** Mr Prouza achieved cap for social security in November – monthly salary for 10 months:  $114,500 \times 10 = 1,145,000$ . The cap is CZK 1,245,216. This means that in November he should pay social security and health insurance of 34% on the amount of CZK 100,216 (the difference between 1,245,216 and 1,145,000). And then from the amount of  $114,500 - 100,216 = 14,284$  – only health insurance.

In December he pays only health insurance.

		CZK	
<b>December</b>			
Salary		45,000	
Statutory representative fee		43,000	
Rental (30,000 – 3,500)		26,500	
Total		<u>114,500</u>	
Health care contributions 114,500 * 9%		10,305	
Super gross salary		<u>124,805</u>	
Rounded tax base (up to hundreds)		124,900	
Income tax prepayment:			
CZK 124,900 at 15%	18,735		
CZK (114,500 – 103,768) at 7%	<u>751</u>		
		19,486	
Tax credits:			
Personal credit	2,070		
Child tax credit	<u>1,117</u>		
		(3,187)	
		<u>16,299</u>	
Payroll tax to be withheld (rounded up to crowns)		<u>16,300</u>	
Total tax repayments from Home			
10 * 20,590 + 20,050 + 16,300 = 242,250			

**(b) Social security and health care contributions on non-employment income**

Social security and health care contributions are payable on self-employed as well as employment income. Thus Mr Prouza is liable to pay such contributions on his business income.

0.5

But, Mr Prouza will not have to pay any social security contributions on his business income because this is not from his main activity and the income is less than the limit for participation based on contracts on work done of CZK 62,261.

1.5

No such limit applies for health care contributions and the contributions payable on Mr Prouza's business income will be:

0.5

**Assessment base:**

		CZK	
50% of income less expenses (from part (a))	40,800/2	20,400	1
Health care insurance contributions	20,400 * 13.5%	2,754	0.5
			<u>4</u>

**(c) Cooperating person regime**

The cooperating person regime only applies to income from independent activities, i.e. business income.

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Any related expenses, including lump sum expenses, must also be allocated on a proportionate basis.

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Income can only be allocated to a spouse or other persons living in the same household as the taxpayer.

1

The maximum allocation of net income is:

50% or CZK 540,000 in the case of a spouse; and

0.5

30% or CZK 180,000 in the case of other cooperating persons.

0.5

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**Tutorial note:** Allocation of income to a cooperating person only makes sense if the cooperating person cannot fully use the personal tax credit against their own personal tax liability.

## 3 Sansa, s. r. o.

## Value added tax (VAT) for the first quarter of 2014

	Value of supply CZK	VAT CZK	
<b>Outputs</b>			
(1) Domestic transportation services to Czech customers	2,245,000	471,450	0.5
(2) International transportation services to a Polish customer registered for VAT in Poland	560,000	0	1
(3) Goods to Czech customers	450,000	94,500	0.5
(4) Goods to a French customer registered for VAT in the Czech Republic	790,000	165,900	1
(5) Advanced payment from Pandora, a. s.	340,000	71,400	1
(7) Rent of premises (exempt)	145,000	0	1
(8) Export of goods (exempt)	2,390,000	0	0.5
(10) Reverse charge in respect of EU supply of goods	380,000	79,800	1
(11) Reverse charge in respect of EU supply of services	450,000	94,500	1
Total output VAT		<u>977,550</u>	
<b>Inputs</b>			
(6) Credit note received for defective goods	(40,000)	(6,388)	1
(9) Goods from Czech suppliers	820,000	172,200	0.5
(10) Goods from EU suppliers not registered for VAT in the Czech Republic	380,000	79,800	0.5
(11) Services from EU suppliers not registered for VAT in the Czech Republic	450,000	94,500	0.5
(12) Credit note issued for a decrease in price	150,000	23,855	1
(13) Electric energy for business premises	14,000	2,940	0.5
(14) Electric energy in leased premises (not allowed)	25,000	0	1
Assets held at registration:			
Personal car acquired from a non-VAT payer	650,000	0	1
Stock of spare parts acquired from Czech VAT payers	660,000	<u>138,600</u>	1
Total input VAT		<u>505,507</u>	
VAT payable		<u>610,643</u>	<u>0.5</u>
			<u><b>15</b></u>

**Tutorial note:** *Input VAT cannot be claimed on the personal car held at registration since it was acquired more than 12 months before Sansa became a registered VAT payer. Credit was also awarded if no deduction was taken for the stock of spare parts if it was assumed that the whole value was attributable to the previous 12 months.*

## 4 Randa, a. s.

- (a) Randa should have pleaded that the tax inspector take account of the 2011 tax loss during the tax audit and decrease the reassessment by CZK 25,000 to CZK 362,000 (387,000 – 25,000). 1
- The justification for this plea is that:
- the tax loss can be carried forward for five tax years following the one in which it was incurred; 1
  - if Randa had calculated the tax depreciation charge correctly, they would also have claimed the tax loss allowance at the same time; and 0.5
  - the tax inspector should have taken the tax loss allowance into account in order to calculate the tax base correctly. 0.5
- 3

	<b>Marks</b>
<b>(b)</b> Randa should submit an appeal within 30 days of the date of delivery of the reassessment, i.e. by 22 March 2014.	1
The appeal should be delivered to the authority issuing the reassessment and must include the following:	1
– Identification of the authority who issued the respective assessment.	0·5
– Identification of the taxpayer.	0·5
– Clear identification of the decision against which the appeal is being submitted, e.g. the reference number of the reassessment.	0·5
– The reasoning why the taxpayer finds the reassessment incorrect and/or illegal.	0·5
– Proposal of supporting evidence.	0·5
– Proposal of the changed or repealed decision.	0·5
The submission of an appeal does not postpone the liability to pay the due amount as reassessed, i.e. Randa is still obliged to pay the amount due.	1
	<u>6</u>
 <b>(c)</b> Randa will be subject to the following sanctions:	
	<b>CZK</b>
– a penalty of 20% of the difference of CZK 34,500,	6,900
– to pay interest on this amount for the period between 6 July 2013 (the due date of payment of the 2012 corporate tax liability) and 1 April 2014 (the actual date of payment of the additional amount) inclusive, i.e. 270 days.	1
The interest due will amount to $(270 * \{(0·05 + 0·14) * 34,500\}/365)$	4,849
Total sanctions	<u>11,749</u>
	<u>3</u>
 <b>(d)</b> Randa will be entitled to interest on the amount of CZK 25,000.	0·5
The interest will be calculated for the period between 1 April 2014 (the day the additional reassessed tax was paid) and 15 September 2014 (the day when the tax authority repaid the respective amount) at the same rate as was paid on the overdue tax, i.e. the repo rate increased by 14% points.	1·5
The interest must be paid to Randa within 15 days from the entry into force of the decision which changed the original reassessment, i.e. by 20 September 2014.	1
	<u>3</u>
	<b><u>15</u></b>



## 5 Mrs Sixtova

**(a) (i) Deductibility by employer for income tax purposes**

(1) Weekly wages (gross)	Tax deductible	0·5
(2) Dungaree, boot and hat sets which workers are allowed to keep if they work four weeks or more	Tax deductible	0·5
(3) Sun cream provided to workers	Tax deductible	0·5
(4) Accident insurance premiums for workers	Tax deductible	0·5
Additional medical costs for the hospital treatment of an injured worker who did not have mandatory health insurance	Tax deductible	0·5
(5) Daily meal vouchers for workers up to the statutory limit	Tax deductible	0·5
(6) Acquisition of an additional water cooling tank and cost of water for workers	Tax deductible	0·5
(7) 'Strawberry garden party' for workers and their families at the end of the season	Non-tax deductible	0·5
		<u>4</u>

**(ii) Taxability for the employee**

(1) Weekly wages (gross)	Taxable	0·5
(2) Dungaree, boot and hat sets which workers are allowed to keep if they work for four weeks or more	Tax exempt	0·5
(3) Sun cream provided to workers	Tax exempt	0·5
(4) Accident insurance premiums for workers	Taxable	0·5
Additional medical costs for the hospital treatment of an injured worker who did not have mandatory health insurance	Taxable	0·5
(5) Daily meal vouchers for workers	Tax exempt	0·5
(6) Acquisition of an additional water cooling tank and cost of water for workers	Tax exempt	0·5
(7) 'Strawberry garden party' for workers and their families at the end of the season	Not taxable	0·5
		<u>4</u>

**(iii) Liability for employers social security and health care contributions**

(1) Weekly wages (gross)	Yes	0·5
(2) Dungaree, boot and hat sets which workers are allowed to keep if they work for four weeks or more	No	0·5
(3) Sun cream provided to workers	No	0·5
(4) Accident insurance premiums for workers	Yes	0·5
Additional medical costs for the hospital treatment of an injured worker who did not have mandatory health insurance	Yes	0·5
(5) Daily meal vouchers for workers	No	0·5
(6) Acquisition of an additional water cooling tank and cost of water for workers	No	0·5
(7) 'Strawberry garden party' for workers and their families at the end of the season	No	0·5
		<u>4</u>

**(b) (i)** The payroll tax withheld from workers in June 2014 should be sent to the competent authority by 20 June 2014.

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**(ii)** The annual payroll tax reconciliation for 2014 should be submitted by:

- 1 March 2015 if submitted in paper form; and 1
- 20 March 2015 if submitted electronically. 1

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