

Fundamentals Level – Skills Module

Taxation (Czech)

Tuesday 3 June 2014



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 2–5.

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 (CZE)

The ACCA logo, consisting of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need to be made to the nearest CZK if the law does not require otherwise.
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 for 2013 are to be used in answering the questions.

Corporate income tax rate

19%

Corporate income tax credits (CZK)

Disabled employees	18,000/60,000
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Personal income tax rate

Up to CZK 1,242,432	15%
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Over CZK 1,242,432	22%
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Personal income tax credits – annual amounts (CZK)

Personal tax credit	24,840
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Dependent spouse credit	24,840
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Child credit	13,404
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(maximum bonus CZK 60,300)

Student credit	4,020
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Disabled employees	18,000/60,000
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Social security and health care contributions

Cap for social security purposes CZK 1,242,432

Employment

Health care	Employee's contributions	4·5%
	Employer's contributions	9·0%
Social security	Employee's contributions	6·5%
	Employer's contributions	
	Pension scheme	21·5%
	Illness insurance	2·3%
	Unemployment insurance	1·2%
	Total	25·0%

Private entrepreneur

Health care contributions 13·5%
Minimum monthly assessment base CZK 12,942

Social security contributions

Pension scheme	28·0%
Illness insurance	2·3%
Unemployment insurance	1·2%
Total	31·5%

Minimum monthly assessment base for the main activity CZK 6,471

Minimum monthly assessment base for the secondary activity CZK 2,589

Threshold limit for obligatory participation in social security
in the case of the secondary activity CZK 62,121

Value added tax (VAT)

Standard rate	21%
Reduced rate	15%
Threshold registration limit	CZK 1,000,000

Repo interest rate

Applicable on 1 January 2013 0·05%

Minimum wage

CZK 8,000 per month or CZK 48·10 per hour

Tax Depreciation

Tax depreciation periods for tangible assets from 1999 to 2004

Group 1	4 years
Group 2	6 years
Group 3	12 years
Group 4	20 years
Group 5	30 years

Tax depreciation periods for tangible assets from 2005

Group 1	3 years
Group 1a	4 years (cancelled in 2008)
Group 2	5 years
Group 3	10 years
Group 4	20 years
Group 5	30 years
Group 6	50 years

Tax depreciation periods for intangible assets from 2005

Audiovisual work	18 months
Software and R&D results	36 months
Start-up costs	60 months
Other intangible assets	72 months

Depreciation rates under the straight-line method from 2005

	1st year	following years	for increased input price
Group 1	20	40	33·3
Group 1a	14·2	28·6	25 (cancelled in 2008)
Group 2	11	22·25	20
Group 3	5·5	10·5	10
Group 4	2·15	5·15	5·0
Group 5	1·4	3·4	3·4
Group 6	1·02	2·02	2

Where the depreciation rates for the first three groups are increased by 10% in the first year:

	1st year	following years	for increased input price
Group 1	30	35	33·3
Group 1a	24·1	25·3	25 (cancelled in 2008)
Group 2	21	19·75	20
Group 3	15·4	9·4	10

Depreciation rates under the accelerated method from 2005

	1st year	following years	for increased input price
Group 1	3	4	3
Group 1a	4	5	4 (cancelled in 2008)
Group 2	5	6	5
Group 3	10	11	10
Group 4	20	21	20
Group 5	30	31	30
Group 6	50	51	50

Tax deductible provisions limits

Due time after the maturity date of a qualifying provision

More than	
6 months	20%
12 months	33%
18 months	50%
24 months	66%
30 months	80%
36 months	100%

Tax reserves

Creation of tax reserves – maximum number of years for creation

Group 2	3 years
Group 3	6 years
Group 4	8 years
Group 5	10 years
Group 6	10 years

ALL FIVE questions are compulsory and MUST be attempted

1 Inspira GmbH is a company, tax resident in the Netherlands, which has a subsidiary, Inspira CZ, tax resident in the Czech Republic. Inspira CZ designs and produces glass equipment and decorations for administrative and residential buildings. Inspira CZ's registered address is Horská 21, Liberec and its fiscal year is the same as the calendar year.

The following information is applicable to Inspira CZ for the year 2013:

- (1) Sold goods and services for CZK 36,161,000 (including the chandeliers referred to in (8) below).
- (2) Purchased materials, goods, and services for CZK 7,588,250 (all tax deductible).
- (3) Paid management fees to Inspira GmbH's headquarters in the Netherlands in the equivalent of CZK 2,530,000.
- (4) Paid salaries and wages, inclusive of mandatory social security and health care insurance contributions of CZK 13,105,000. Inspira CZ paid all mandatory social security and health insurance contributions within the prescribed statutory limits. This figure only includes the social security and health care insurance contributions applicable to the salaries and wages referred to in this point.
- (5) Paid 2012 social security contributions for its employees of CZK 284,000 in May 2013, together with a fine for late payment of CZK 75,000.
- (6) Inspira CZ had 25 full-time employees for the whole of 2013. In addition to their salaries and wages, the employees were paid the following benefits all of which were agreed in their employment contracts:
 - (i) Contributions to the life insurance scheme of CZK 19,000 per employee annually.
 - (ii) Meal vouchers for CZK 80 per employee per working day, the total costs of which amounted to CZK 355,000.
 - (iii) Contributions for sports and social activities from the social and cultural fund of CZK 4,000 per employee annually. The total amount paid amounted to CZK 87,000.
- (7) Inspira CZ owns ten personal cars (depreciation group 2) which are used by employees from the sales department. These cars were all purchased in 2011 for CZK 515,000 each. The employees are allowed to use the cars for private purposes as well as for business. In accordance with the travel diary, the employees used petrol costing CZK 214,000 for business purposes and costing CZK 148,000 for private purposes. Neither of these amounts is included in the purchases figure given in (2) above.
- (8) In November 2013, Inspira CZ delivered and installed for its customer, Hotel Ida, some tailor made chandeliers for CZK 1,320,000. One of the chandeliers fell down two days after the installation and injured one of Hotel Ida's employees. The insurance company provided Hotel Ida with compensation of CZK 85,000 for the employee injury, but no compensation for the damaged equipment. Inspira CZ agreed to pay a contractual penalty amounting to CZK 245,000 to Hotel Ida for the potentially faulty installation. This penalty was due on 31 December 2013, however, it was not paid until February 2014.
- (9) Inspira CZ holds a patent for the production of glass products. This patent was acquired in 2009 for a period of 15 years for a fixed payment of CZK 150,000 and an annual fee of CZK 20,000.
- (10) Inspira CZ charges an accounting depreciation charge on its assets at the same rate as the tax depreciation charge. The depreciation charge relating to the assets other than those referred to in items (7) and (9) above amounted to CZK 320,000 in 2013. Inspira CZ uses the accelerated method for the depreciation of all its fixed assets where it is possible.
- (11) In June 2013, somebody broke into Inspira CZ's premises and stole products ready for distribution with a value of CZK 65,000 and a cash register with a value of CZK 124,000. The police initiated an investigation and charged Mr Novak, a former employee of Inspira CZ, with the robbery.
- (12) Inspira CZ made a charitable donation to Liberec ZOO of CZK 50,000 and to Liberec glass museum of CZK 15,000.
- (13) Inspira CZ paid 2013 corporate income tax advances of CZK 750,500 during the 2013 tax prepayment period.
- (14) Inspira CZ's books are subject to a review by a certified accountant.

- (15) Inspira CZ employed three designers during 2013: Mr Holan, Mr Nielsen and Ms Groves. Mr Holan is a Czech tax resident, and both Mr Nielsen and Ms Groves are Dutch tax residents. In accordance with their contracts, all three designers worked in the premises of Inspira CZ in Liberec. Each of the designers were entitled to receive a monthly gross salary of CZK 65,000 on the 5th day of each month and all three salaries were borne by Inspira CZ.
- (16) Mr Holan and Ms Groves worked for Inspira during the whole 2013; Mr Holan had a labour contract for an unlimited time, Ms Groves had a contract for work activity (*dohoda o pracovní činnosti*) from 1 January until 31 December 2013. Mr Nielsen worked under a labour contract for a limited time from 1 February until 30 June 2013. Mr Nielsen and Ms Groves had no income from any other sources in 2013 nor did they perform any other activity in the Czech Republic. None of the designers signed the declaration on allowances for the purposes of personal income tax with Inspira CZ.

Required:

- (a) **Prepare the 2013 corporate income tax return of Inspira CZ and state when the tax return is due and by when the tax must be paid.** (19 marks)
- (b) **Calculate Inspira CZ's corporate income tax advances for 2014 and state by when they are due.** (3 marks)
- (c) **Calculate the monthly payroll tax to be withheld by Inspira CZ for each of the designers, Mr Holan, Mr Nielsen and Ms Groves, in 2013 and state by when it is due.** (4 marks)
- (d) **Define the term 'permanent establishment' according to the Income Taxes Act, including the additional provisions which apply to the situation of construction sites and the provision of services.** (4 marks)

(30 marks)

- 2 Mr Vladimir Srb, a former executive director and owner of the travel agency Travela, a. s., retired in July 2012. Mr Srb has been living in a common household with Mrs Eva Wolfova and her 21-year-old daughter Jirina. Jirina is a full-time student at the faculty of mathematics and physics of the Charles University. Mrs Wolfova retired in 2010; her only income in 2013 was a monthly pension of CZK 12,300.

The following information is applicable to Mr Srb and the year 2013:

- (1) He received a monthly pension of CZK 18,400 from the public social security system.
 - (2) He received a monthly pension of CZK 1,800 from the private pension system with state subsidy. He had contributed to this pension between 2002 and 2012.
 - (3) He had sale transactions in securities and shares on 5 June 2013 as follows:
 - (i) 23 shares representing 11.5% of the registered capital of Travela, a. s. for CZK 100,000 per share. He had acquired these shares on 1 March 1995, when the company was established, for CZK 10,000 per share. All of his shares in Travela, a. s. were included in his business assets until June 2012.
 - (ii) Five shares in Londa, a. s. representing 0.25% of Londa, a. s.'s registered capital for CZK 72,000 per share. He had acquired these shares on 1 September 2001 for CZK 45,000 per share.
 - (iii) 50 shares in Gulliver, a. s. representing 0.5% of Gulliver, a. s.'s registered capital for CZK 1,205 per share. He had acquired these shares on 15 November 2010 for CZK 1,726 per share.
 - (iv) Ten shares in EMG, a. s. representing 0.02 of EMG, a. s.'s registered capital for CZK 510 per share. He had acquired these shares on 15 February 2013 for CZK 450 per share.
 - (v) 22 shares in Indiana, a. s. representing 22% of Indiana, a. s.'s registered capital for CZK 1,800 per share. He had acquired these shares for CZK 1,650 per share on 23 February 2012.
- He paid a fee of CZK 78,000 to his financial consultant in connection with the sale of all of these shares.
- (4) He owns a weekend summer house in Krkonose which he rents out. His annual rental proceeds in 2013 amounted to CZK 114,286 and the connected actual expenses were CZK 110,000.
 - (5) He also owns two flats in Petrska 20, Prague 1. He rented out both flats for the whole of 2013 and received a total monthly rent of CZK 35,000 for both flats. The connected actual expenses for both flats for the whole year were CZK 105,000.
 - (6) Following his retirement, he still occasionally works as a tourist guide for Travela, a. s. based on a contract on work done (*dohoda o provedení práce*). In 2013, he earned CZK 8,000 in March, CZK 2,000 in May, CZK 6,000 in June and CZK 4,000 in September from this activity.
 - (7) He paid mortgage interest of CZK 15,000. The mortgage was used to pay off a loan to purchase the two apartments in 2006, which he has been renting out since then.
 - (8) He paid no individual income tax advances for the tax period 2013.
 - (9) He prepares his tax return himself and is not represented in tax proceedings.

Required:

- (a) **Prepare Mr Vladimir Srb's 2013 personal income tax return and calculate the amount of tax payable/repayable.** (21 marks)
- (b) **State when Mr Srb's tax return is due and by when the tax due must be paid.** (2 marks)
- (c) **State whether any social security and health care insurance (exclusive of illness) should be paid by Mr Srb and if so, on which income.** (2 marks)

(25 marks)

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Question 3 begins on page 10.**

3 (a) Each of the transactions listed below were undertaken by one of the following companies in 2013:

- HULA, a company established, resident, and registered for value added tax (VAT) in Hungary;
 - Konstrukta, a. s., a company established, resident and registered for VAT in the Czech Republic; and
 - LILA, a company established and resident in China.
- (1) HULA sold goods to Premium, s. r. o., a Czech customer registered for VAT in the Czech Republic. The goods were not delivered by HULA, as Premium, s. r. o. collected the goods at HULA's premises and organised the transport to the Czech Republic themselves.
 - (2) HULA sold goods to Mr Kolbaba. Mr Kolbaba, in addition to being registered for VAT in the Czech Republic, is also registered for VAT in Hungary. Mr Kolbaba collected the goods at HULA's premises and brought them to the Czech Republic himself, where he sold them.
 - (3) HULA sold goods to Konstrukta, a. s. HULA delivered and installed the goods in Konstrukta, a. s.'s building situated in Slovakia. The transport and the installation were both done by HULA's employees.
 - (4) Konstrukta, a. s. sold the building situated in Slovakia to Mr Scholz. Mr Scholz is an Austrian state national and Austrian tax resident, not registered for VAT in any state. Mr Scholz is retired and he has no entrepreneurial activity at all.
 - (5) Konstrukta, a. s. refurbished a house situated in the Czech Republic for Ms Rochaska. Ms Rochaska is a Polish state national and Polish tax resident, not registered for VAT in any state.
 - (6) Konstrukta, a. s., acting as an intermediary, arranged the sale of a house situated in Poland to Ms Novakova and received remuneration for it. Ms Novakova is a Czech state national and tax resident, not registered for VAT in any state.
 - (7) Konstrukta, a. s. organised a conference in Bratislava (Slovakia) on real estate business in central Europe. The tickets for the event were all sold to Slovak persons who are registered for VAT in the Czech Republic, except for one ticket which was sold to Mr Vrba. Mr Vrba is a Czech state national and tax resident, not registered for VAT in any state.
 - (8) Konstrukta, a. s. sold goods to LILA's permanent establishment located in Detroit (USA).
 - (9) LILA sold goods to a Czech company registered for VAT in the Czech Republic. The goods were being delivered to the Czech Republic directly from LILA's permanent establishment in Detroit (USA), via boat and trucking.

Required:

In the case of each transaction, state the place(s) of taxable supply for value added tax (VAT) purposes.

(10 marks)

(b) Falka, a. s., a monthly VAT payer, submitted its February 2013 tax return on 15 March 2013. The return reported an excessive deduction for the period of CZK 350,000.

Required:

State how and by when Falka, a. s. will be entitled to receive a refund of the excessive deduction.

(2 marks)

- (c) The tax authority conducted an audit of the VAT returns submitted by NEVA, a. s. for the periods January to June 2012. The inspectors found no errors in the returns for the periods January to May, but they reassessed the VAT for the month of June 2012. NEVA, a. s. had submitted the June tax return on Friday, 20 July 2012 and reported a tax liability of CZK 140,000, which was paid on Monday, 23 July 2012. The tax authority reassessed the VAT for June 2012 at CZK 155,000. NEVA, a. s. agreed with this finding and signed the final report of the audit on Wednesday, 15 May 2013. The reassessment was issued on Monday, 20 May 2013 and entered into force on Thursday, 20 June 2013.

Required:

Calculate the amount of penalty to be paid by NEVA, a. s. due to the reassessment of its June 2012 VAT return and state when the amount owed and the penalty will be due. (3 marks)

(15 marks)

- 4 Trix, a. s., is a Czech tax resident company, which applies the calendar year as its fiscal year. Trix, a. s. has been holding the following financial assets in companies all of whose legal form is comparable to either a limited liability company (s. r. o.) or a joint stock company (a. s.).

Share/security	Acquisition date	Acquisition price (CZK)	Revaluation	Amount	Selling price (CZK)
Shares in company ABA, s. r. o. (a Czech tax resident)	15 April 2009	2,430,000	None	61% of the registered capital	2,500,000
Shares in ASTA, a. s. (a Czech tax resident)	15 August 2012	186,000	Through profit and loss account on 31 December 2012 at CZK 312,000	0.08% of the registered capital	305,000
Shares in company BEA Inc (a USA tax resident)	15 March 2013	32,000	Through profit and loss account on 31 December 2012 at CZK 27,000	0.5% of the registered capital	33,000
Shares in company CLEA (a Lichtenstein tax resident)	1 January 2013	15,600,000	None	100% of the registered capital	15,650,000
Shares in DONA (a Slovak tax resident)	1 June 2013	280,000	None	26% of the registered capital	352,000
Bonds issued by ESTA, a. s. (a Czech tax resident)	31 December 2000	60,000	None	n/a	65,000
Shares in FOCA (a tax resident of the Bahamas)	1 January 2008	5,400,000	None	15% of the registered capital	6,000,000
Shares in GALA (a tax resident of India)	31 December 2012	64,000,000	None	12% of the registered capital	75,000,000

The following additional information is relevant:

	Double taxation treaty (DTT) in force with the Czech Republic	DTT withholding tax limit on dividends	DTT limit on taxation of capital gains	Corporate income tax rate	Tax cooperation agreement in force with the Czech Republic
Bahamas	No	n/a	n/a	0%	Yes
India	Yes	10%	None	30%	No
Lichtenstein	No	n/a	n/a	12.5%	No
Slovakia	Yes	5% for participations above 10% 15% for the rest	None	19%	No
USA	Yes	5% for participations above 20% 10% for the rest	None	15–35%	No

Required:

- (a) In the case of each of Trix, a. s.'s financial assets, state, giving reasons, whether the income from the sale of the asset would be taxable or exempt from tax in the Czech Republic. (8 marks)
- (b) In the case of each transaction you determined as taxable in part (a), state the taxable (net) income assuming the whole asset is disposed of, together with the respective tax rate. (5 marks)
- (c) In February 2013 Trix, a. s. received 2012 profit distributions from BEA Inc, and CLEA.

State, giving reasons, whether these dividends will be taxable or exempt from tax in the Czech Republic, and if taxable, state the applicable tax rate. (2 marks)

(15 marks)

- 5 (a) Hana Vostra is an IT specialist employed with EXE, s. r. o. EXE, s. r. o. is tax resident in the Czech Republic based in Prague. Hana is divorced and she lives in a common household with her three sons, six-year-old Filip, 12-year-old Marek and 15-year-old David. Hana has signed the declaration on allowances for personal taxation with EXE, s.r. o.

Hana received the following income and benefits from EXE, s. r. o. in June 2013:

- (1) A gross salary of CZK 75,000.
- (2) A bonus for 2013 of CZK 45,000.
- (3) Meal vouchers with an overall value of CZK 1,600. Hana worked 16 days full time in June 2013 (exclusive of the days of the business trip – see (5) below).
- (4) A contribution to Hana's pension plan of CZK 500. The contract with the pension plan fulfils the conditions for state subsidy and tax deductibility.
- (5) Travel allowances of CZK 5,100 within the statutory limit and travel allowances of CZK 2,400 above the statutory limit.
- (6) A contribution of CZK 8,000 to David's school tuition.
- (7) Cinema tickets purchased from the cultural and social fund with a value of CZK 620.

Required:

- (i) Calculate the amount of social security and health care insurance contributions payable by Hana Vostra and by EXE, s. r. o. for the month of June 2013, and state by when the employer's share is due to be paid. (8 marks)
 - (ii) Calculate the payroll tax EXE, s. r. o. is obliged to withhold from Hana's June 2013 employment income. (3 marks)
- (b) In 2013 Hana had no income other than her employment income from EXE, s. r. o. She made the following payments in 2013:
- (1) A contribution to her pension plan with state subsidy of CZK 7,000.
 - (2) An annual membership fee for the international association of IT specialists of CZK 3,000. Membership of this association is voluntary and her job is not conditional upon it.
 - (3) School tuition fees of CZK 12,000 for her son David. The remaining CZK 8,000 was paid by her employer (as in part (a) above).
 - (4) Purchase of a new laptop for CZK 37,000. Hana uses the laptop for both private and work purposes.
 - (5) Mortgage interest on a loan for the flat in which she and her sons live of CZK 12,300.
 - (6) A donation of CZK 15,000 to her doctor, Karel Adamek, for treating her for psoriasis at his clinic at Prague 2.
 - (7) A donation of CZK 400 to the Catholic Church in Prague 1.
 - (8) A donation of CZK 5,000 to a German political party.

Required:

For each of the above items, state whether or not it is deductible when calculating Hana Vostra's 2013 tax base.

Note: You are not required to give reasons for your answers. (4 marks)

(15 marks)

End of Question Paper