
Answers

1 Companella, a. s. (Companella)		<i>Marks</i>
(a) 2012 corporate income tax		
	CZK	
Accounting income		
Proceeds from the sale of intra-group services	8,738,476	
Interest from current bank account	12,524	
Interest from related parties	4,200,000	
Interest from unrelated parties	3,800,000	
Management fees	630,000	
Dividend from Nella, s. r. o. (net)	2,975,000	
Royalties	420,000	
Invoices for representation	1,224,000	½
Total accounting income	22,000,000	1
Accounting expenses		
Goods and services purchased	2,454,928	
Salaries and wages 130,000*12*3	4,680,000	
Travel allowances within the statutory limit 5,000*12*3	180,000	
Travel allowances above the statutory limit 25,000*12*3	900,000	½
Mandatory social and health care insurance contributions at 34% up to the cap (Working 1) 464,532*3	1,393,596	1½
Penalty for the late payment of 2011 tax	35,210	
Rent of offices Prague 4 33,000*10	330,000	
Restoration of offices in Prague 4	165,000	
Rent of offices Prague 1 52,000*3	156,000	
Depreciation charge know-how (2,800,000/240)*12	140,000	1
Depreciation charge refurbishment (Working 2)	5,454	1
Residual price of the refurbishment (Working 2)	507,222	1
Promotional presents (850 + 150)*1,200	1,200,000	1
Contribution to registered capital of Alterella, a. s.	0	½
Interest on bank loan	1,047,090	
Provisions (Working 3)	55,000	2
Gift to political party	150,500	
Total accounting expenses	(13,400,000)	1½
Accounting profit	8,600,000	½
<i>Add:</i>		
Transfer pricing adjustment re related party interest (4,200,000/14)*19 – 4,200,000	1,500,000	1
Penalty for the late payment of 2011 tax	35,210	1
Interest on bank loan	1,047,090	½
Expenses related to exempt dividend 5% of 2,975,000	148,750	½
Gift to political party	150,500	1
Total add back	2,881,550	
<i>Less:</i>		
Dividend from Nella, s. r. o. (exempt)	(2,975,000)	1
Tax base	8,506,550	
Gift relief (maximum 5% of CZK 8,506,550)	(150,500)	1
Tax base after gift relief	8,356,050	
Tax base rounded	8,356,000	½
Tax at 19%	1,587,640	½
Foreign tax credit (Working 4)	(42,000)	2
Tax liability after the foreign tax credit	1,545,640	
2012 corporate income tax prepayment (15 December 2012)	(65,000)	1
Tax due	1,480,640	22

Workings:

1 Employer's social security and health care contributions up to the cap

Maximum social security insurance assessment base per employee per year	CZK 1,206,576
Maximum health care insurance assessment base per employee per year	CZK 1,809,864

Actual income per employee per year
 $(130,000 + 25,000) \times 12 = \text{CZK } 1,860,000$

Social security contributions per employee
 $(1,206,576 \times 0.25) = \text{CZK } 301,644$

Health care insurance per employee
 $(1,809,864 \times 0.09) = \text{CZK } 162,888$ (rounded up to the whole CZK)

Total mandatory insurance per employee $301,644 + 162,888 = \text{CZK } 464,532$

2 Tax residual price of the refurbishment of the offices in Prague 4

	CZK
2009 tax depreciation charge $540,000 \times 1.02/100$	5,508
2010 and 2011 tax depreciation charges $(540,000 \times 2.02/100) \times 2$	21,816
2012 tax depreciation charge $(540,000 \times 2.02/100) \times 0.5$	5,454
2012 tax residual price of the refurbishment $540,000 - 5,508 - 21,816 - 5,454$	<u>507,222</u>

3 Tax deductible unpaid receivables provisions

	CZK
2011 Management fees due by Nella, s. r. o.	
Tax deductible provision can be created as Nella, s. r. o. is a related party to Companella	0
2011 Interest due by ABC, s. r. o.	
The amount is below CZK 30,000 and due for more than 12 months	100% 25,000
2012 Interest due by ABC, s. r. o.	
The receivable is below CZK 200,000 and due for more than six months	20% <u>30,000</u>
Total tax deductible provisions	<u>55,000</u>

4 Foreign tax credit – royalties

	CZK
Foreign income	420,000
Related expenses (tax depreciation charge) $(2,800,000/240) \times 12$	<u>140,000</u>
Net foreign income	<u>280,000</u>
Maximum credit capacity coefficient $280,000/8,506,550$	3.29%
Maximum credit capacity $1,587,640 \times 3.29\%$	52,233
Tax paid abroad $420,000 \times 10\%$	42,000

Tutorial notes:

1. The contribution into the registered capital of a company affects neither the accounting profit nor the tax base.
2. The interest on the bank loan is not tax deductible as the loan was obtained less than six months prior to the acquisition of Alterella, a. s.
3. The costs of the promotional items are tax deductible as they have been re-invoiced and are directly connected with a taxable income.

(b) 2013 Corporate income tax advances

Companella's 2012 corporate income tax liability exceeded CZK 150,000; therefore, Companella will pay corporate income tax prepayments quarterly in 2013. The amounts of CZK 386,500 $(1,545,640/4)$ will be due on 15 September 2013, 15 December 2013, 15 March 2014 and 15 June 2014.

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Tutorial note: Corporate income tax advances are rounded up to hundreds of CZK.

(c) Alterella, a. s.'s registration obligations

Alterella, a. s. was obliged to register with the competent tax authority within 30 days after the day when it was allowed to start its business activity, i.e. by 1 July 2012 at the latest.

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(d) Related parties definition

Related parties are defined as 'persons connected through capital' and 'persons connected otherwise'.

The term 'persons connected through capital' means a relationship between persons in which one has a direct or indirect share of at least 25% in the capital or voting rights of the other. If a person has such a shareholding in more than one person, all the persons involved are regarded as persons connected through capital.

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The term 'persons connected otherwise' means a relationship between:

- persons in which one participates in the management or control of the other; or
- the same persons or closely related individuals participate in the management or control of other persons; those other persons are then 'persons connected otherwise'. (Persons on supervisory boards of which the same person is a member are not considered as 'persons connected otherwise');
- controlled and controlling persons;
- persons controlled by the same controlling person or closely related individuals; or
- persons who have created a business relationship predominantly for the purpose of decreasing the tax base or increasing the tax loss.

1/2 mark each, maximum

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Based on the scenario, the following are persons related to Companella: Globanella, Nella, Alterella, Rusanella, Suonella.

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Note: Only TWO examples required.

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2 Investbanka, a. s.

(a) Mr Zouhar 2012 individual income tax

	CZK	
Employment income		
Monthly salary from Investbanka 12*60,000	720,000	½
Bonus from Investbanka	25,000	½
Use of the car 12*(420,000*1%)	50,400	1
Social security and health care insurance contributions at 34% on CZK 795,400	270,436	½
Monthly salary from PSE 12*4,500 is subject to a final WHT at 15%	0	1
Grant (exempt)	0	1
Remuneration from CNB	28,000	½
Social security and health care insurance contributions at 34% on CZK 28,000	9,520	½
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Partial tax base	1,103,356	
Capital income:		
Interest from savings account	71,000	1
Dividend income (subject to final withholding tax)	0	½
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Partial tax base	71,000	
Other income:		
Remuneration for the article (subject to final withholding tax)	0	1
Aqua, a. s. shares (exempt)	0	1
Terra, a. s. shares	2,580,000	
	(2,300,000)	1
Aerius, a. s. shares	71,000	
	(81,000)	1
Proportion of broker's fee linked to non-exempt income		
$7,500 * (2,580,000 + 71,000) / (345,000 + 2,580,000 + 71,000)$	(6,636)	1
2010 loss	(0)	½
Sale of canvases (exempt)	0	1
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Partial tax base	263,364	
Tax base	1,437,720	
Gift relief (maximum 10% of 1,437,720)	20,000	1
Life insurance (maximum)	12,000	1
Trade unions membership fees (maximum)	3,000	1
Reduced tax base	<hr/>	
	1,402,720	
Tax base rounded (down to '00)	1,402,700	½
Tax at 15%	210,405	½
Personal tax credit	(24,840)	½
Child's tax credit	(13,404)	½
Prepayments paid by Investbanka (Working 1)	(121,761)	2½
Prepayments paid by CNB (Working 2)	(5,640)	1
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Tax due	44,760	<hr/>

Workings:**1 Employer's prepayments – Investbanka**

Declaration of a taxpayer signed
January to May and July to December

	CZK	
Monthly salary	60,000	
Car use 420,000*1%	4,200	
Social security and health care insurance at 34% (60,000 + 4,200)*0.34	<hr/>	
	21,828	
Super gross monthly income	86,028	
Base (rounded up to '00)	86,100	
Prepayment at 15%	12,915	
Personal tax credit	(2,070)	
Child tax credit	<hr/>	
	(1,117)	
Monthly prepayment withheld	9,728	1½

	CZK	Marks
June		$\frac{1}{2}$
Monthly salary	60,000	
Car use 420,000*1%	4,200	
Bonus	25,000	
Social security and health care insurance at 34% (60,000 + 4,200+ 25,000)*0.34	30,328	
Super gross monthly income	119,528	
Base (rounded up to '00)	119,600	
Prepayment at 15%	17,940	
Personal tax credit	(2,070)	
Child tax credit	(1,117)	
Monthly prepayment withheld	14,753	$\frac{1}{2}$
Total withheld 11*9,728 + 14,753	121,761	<u>$\frac{2}{2}$</u>
2 Employer's prepayments – CNB		
Declaration of a taxpayer not signed		
	CZK	
Remuneration paid in September	28,000	
Social security and health care insurance at 34%	9,520	
Super gross income	37,520	
Base (rounded up to '00)	37,600	
Prepayment withheld at 15%	5,640	

Tutorial notes:

1. *Mr Zouhar did not reach the maximum assessment base of CZK 1,206,576/1,809,864 as regards his employment income for the purposes of calculating the employer's social security and health care insurance contribution per employee per year.*
2. *Aqua shares are exempt as they were held for more than six months and the holding was lower than 5%.*
3. *Terra shares are not exempt as the holding exceeds 5%, so the five-year holding limit for exemption applies, but it is not met.*
4. *Aerius shares are not exempt as they were held for less than six months.*
5. *A loss realised on the sale of securities cannot be carried forward to future tax years, it can only be compensated against the income from the sale of securities earned in the same fiscal year.*
6. *The part of the broker's fee which is related to the exempt income is not tax deductible.*

(b) Dismissed employees' reconciliation

- (i) If the employees did not have any other taxable income exceeding CZK 6,000, they were not obliged to submit their 2012 individual income tax return and they can apply to Investbanka, a. s. for an annual reconciliation.
- (ii) The employees must apply by 15 February 2013.

Investbanka must complete the reconciliation by 31 March 2013.

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3 Mrs Marcova

(a) 2012 value added tax (VAT)

(i) Coefficient calculation

$(1,520,300)/(1,520,300 + 195,000 + 82,000) =$	0.8459	1½
Coefficient rounded (up to the whole %)	85%	½
		<u>2</u>

(ii) Input and output supplies

Input supplies	Tax base CZK			Tax CZK	
Groceries purchased in the Czech Republic	543,000	Full recovery	$543,000 \cdot 0.14$	76,020	½
Groceries purchased in Germany	713,000	Full recovery	$713,000 \cdot 0.14$	99,820	½
Cleaning services of the common areas	27,400	Partial recovery	$27,400 \cdot 0.14 \cdot 0.85$	3,261	½
Electricity supply	18,200	Full recovery	$18,200 \cdot 0.2$	3,640	½
Supply of water	11,800	Full recovery	$11,800 \cdot 0.14$	1,652	½
Purchase of a new register	92,000	Full recovery	$92,000 \cdot 0.2$	18,400	½
Repair of the broken heating (used for exempt output supply)	9,300	No recovery		0	½
Purchase of a new camera surveillance system	145,000	Partial recovery	$145,000 \cdot 0.2 \cdot 0.85$	24,650	½
Purchase of painting services for florist shop (used for exempt output supply)	5,200	No recovery		0	½
Fees to MasterCard operator for credit card payments in the grocery shop (exempt, financial services)	14,320	No VAT		0	½
Liquidation of expired products	4,100	Full recovery	$4,100 \cdot 0.14$	574	½
Output supplies					
Groceries purchased in Germany	713,000	Reverse charge	$713,000 \cdot 0.14$	99,820	½
Sale of groceries	1,520,300	Taxable supply	$1,520,300 \cdot 0.14$	212,842	½
Unsold groceries expired and liquidated	n/a	Not a taxable supply		0	½
Rental payments for the flats	195,000	Exempt supply		0	½
Rental payment for the florist shop	82,000	Exempt supply		0	½
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(b) Advance coefficient reconciliation

Ms Marcova is obliged to calculate the difference between the partial recovery based on the advance coefficient and the amount calculated when applying the actual coefficient at the end of the calendar year. ½

Ms Marcova was obliged to state the difference in her VAT return for the fourth quarter and settle it within the VAT return and VAT due for the fourth quarter, i.e. by 25 January 2013. 1½

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(c) Sanctions for late compliance

The VAT return for the second quarter 2012 (April to June) was due on Wednesday 25 July.

Mrs Marcova will be subject to a fine for the late submission of the tax return based on the number of working days delay. 1

The first five working days of the delay do not count, therefore the fine is $13,800 \cdot 0.01 \cdot 0.05 \cdot 6 \text{ days} = \text{CZK } 41.40$ 1

As this amount is lower than CZK 500, Ms Marcova will be asked to pay a fine of CZK 500 for the late submission of her VAT return for the second quarter 2012. 1

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4 Pavel Houdek

(a) 2012 individual income tax

	CZK	
Business income		
Income	5,475,800	
Expenses (Working 2)	4,390,800	
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Partial tax base	1,085,000	½
Tax base	1,085,000	
Mortgage interest allowance	72,920	1
Pension insurance allowance (maximum)	12,000	1
Reduced tax base	1,000,080	
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Tax base rounded (down to '00)	1,000,000	½
Tax at 15%	150,000	½
Personal tax credit	(24,840)	½
Child's tax credits 3*13,404	(40,212)	½
Spouse credit (Jana's annual income is below 68,000) (Working 3)	(24,840)	1
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Total credits	(89,892)	
Prepayments 2*29,300	(58,600)	½
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Tax due	1,508	

Workings:**1 Tax depreciation charge**

	CZK	
Detector		
2011 depreciation charge $63,000/3 + 63,000 \cdot 0.1$	27,300	
2012 depreciation charge $2 \cdot (63,000 - 27,300)/4 - 1$	23,800	1
Van		
2008 depreciation charge $312,000/5$	62,400	
2009 depreciation charge $2 \cdot (312,000 - 62,400)/6 - 1$	99,840	
2010 depreciation charge $2 \cdot (312,000 - 62,400 - 99,840)/6 - 2$	74,880	
2011 depreciation charge $2 \cdot (312,000 - 62,400 - 99,840 - 74,880)/6 - 3$	49,920	
2012 depreciation charge $2 \cdot (312,000 - 62,400 - 99,840 - 74,880 - 49,920)/6 - 4$	24,960	2
Software $(54,000/36) \cdot 12$	18,000	1
Total tax depreciation charge $23,800 + 24,960 + 18,000$	66,760	

2 Tax deductible expenses calculation

	CZK	
Actual expenses:		
Goods and services	4,095,080	
Ms Novakova's wages $12 \cdot 12,000$	144,000	
Social security and health care insurance at 34%	48,960	
Software upgrade	12,000	
Depreciation charge (Working 1)	66,760	
Pension insurance for Ms Novakova	24,000	
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Total	4,390,800	2

3 Calculation of Jana's annual income

(for the purpose of the eligibility of a spouse credit)

	CZK	
Employment income exclusive of employer's social security and health care insurance $85,224/134 \cdot 100$	63,600	½
Parental subsidy not included	0	½
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Total	63,600	

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(b) 2012 social security and health care insurance contributions

2012 Social security insurance			
Assessment base (5,475,800 – 4,390,800)*50%		542,500	½
Social security insurance at 29·2%	542,500*0·292	158,410	½
2012 Health care insurance			
Assessment base (5,475,800 – 4,390,800)*50%		542,500	½
Health care insurance contributions at 13·5%	542,500*0·135	73,238	½
			<u>2</u>
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5 (a) Ms Ratajova

- (i) Ms Ratajova was obliged to submit her 2012 tax return by 1 July 2013. 1
- (ii) Ms Ratajova had to notify the competent tax authority of the fact that her business activity was suspended within 15 days. 1
- Ms Ratajova was obliged to notify the competent social security insurance authority and health care insurance authority of the fact that her business activity was suspended within eight days. 1
- (iii) Ms Ratajova is not obliged to pay income tax advances or social security and health care insurance contributions while her business activity is suspended. 1
- Therefore, she will not be obliged to pay individual income tax advances as of 15 June 2012, nor will she pay advances of social security and health care insurance contributions from the month of May 2012 onwards. 1

(b) Mr Pokorny and Mrs Pokorna

- Mr Pokorna was obliged to submit Mr Pokorny's tax return for the fiscal year 2012 within six months from his death, i.e. by 8 November 2012. 1
- Mrs Pokorna was also obliged to submit her own tax return for the fiscal year 2012 by 1 April 2013. 1

(c) Lina, s. r. o.

- Lina, s. r. o. was obliged to submit a tax return for the period from 1 January to 30 September 2012 by 31 October 2012. 1

(d) Ms Treglova**(i) Actions of the tax auditor**

- Yes, he complied. 1
 - No, he did not comply. The taxpayer has the right to attend any meeting with her employee or any other cooperating person. 1½
 - Yes, he complied. 1
 - Yes, he complied. 1
- Note:** *The tax auditor was obliged to issue a receipt for the laptop.*
- No, he did not comply. The tax auditor should have set an appropriate time limit so that Ms Treglova would be able to express her views on the report. 1½

- (ii) Non-compliance with the law and breach of the taxpayer's rights during an audit would be a reason for repealing the respective re-assessment. 1

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