

Fundamentals Level – Skills Module

Taxation (Czech)

Tuesday 4 December 2012

**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 3–5.

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

F6 (CZE)
Paper

ACCA

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The question paper begins on page 3.**

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 2012 are to be used in answering the questions.

Corporate income tax rate

19%

Corporate income tax rate credits CZK

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

15%

Personal income tax credits – annual amounts (CZK)

Personal tax credit	24,840
Dependent spouse credit	24,840
Child credit	13,404
	(max bonus CZK 60,300)
Student credit	4,020
Disabled employees	18,000/60,000

Social security and health care contributions

Cap for social security purposes	CZK 1,206,576
Cap for health care insurance purposes	CZK 1,809,864

Employment

Health care	Employee's contributions	4·5%
	Employer's contributions	9·0%
Social security	Employee's contributions	6·5%
	Employer's contributions	
	Pension insurance	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 12,568·50

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 6,285
Minimum monthly assessment base for the secondary activity	CZK 2,514

Threshold limit for obligatory participation on social security in case of the secondary activity	CZK 60,329
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Value added tax (VAT)		
Standard rate	20%	
Reduced rate	14%	
Threshold registration limit	CZK 1,000,000	

Repo interest rate		
Applicable on 1 January 2012		0.75%

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 Companella, a. s. (Companella) is a Czech tax resident company rendering administration services and support, and unlicensed financial services. Companella's shares are 100% owned by Globanella, a Swedish tax resident. Globanella has two other 100% subsidiaries: Rusanella, a Russian tax resident and Suonella, a Finnish tax resident.

Companella has owned one 100% Czech tax resident subsidiary, Nella, s. r. o. (Nella), since 1996. In April 2012, Companella established another 100% Czech tax resident subsidiary, Alterella, a. s. (Alterella). Alterella was registered in the Commercial Register on 15 May 2012 and, according to the business licence issued on 5 May 2012, Alterella was allowed to start its business activity on 1 June 2012.

Companella uses the calendar year as its fiscal year. The following information is applicable to Companella for the year 2012:

(1) Companella received income as follows in 2012:

Proceeds from the sale of intra-group services of CZK 8,738,476

Interest on its current bank account of CZK 12,524

Interest on loans provided to related parties of CZK 4,200,000

Interest on a loan provided to an unrelated party of CZK 3,800,000

The loans provided to related parties were at the rate of 14% while those to unrelated parties were at the rate of 19%. The conditions of Companella and the respective related and unrelated borrowers should be considered comparable.

Management fees of CZK 630,000 from Nella

Dividends of CZK 2,975,000 from Nella

Royalties linked to know-how of CZK 420,000 gross from Rusanella

Tax at the rate of 10% was withheld from this royalty in Russia, which is in line with the respective tax treaty. The ordinary credit method is stipulated for the elimination of double taxation in the tax treaty concluded between the Czech Republic and Russia. Companella had acquired the rights to use and further provide the know-how from Globanella in 2010 for CZK 2,800,000 for a period of 20 years. Both the royalties and the acquisition price of the know-how should be considered to be at arm's length.

(2) Companella purchased goods and services for CZK 2,454,928 (all tax deductible expenses).

(3) Companella has three employees and each of them received a monthly gross salary of CZK 130,000, and travel allowances of CZK 5,000 per month within the statutory limit and CZK 25,000 per month above the statutory limit.

(4) On 25 September Companella paid a penalty for the late payment of its 2011 corporate income tax of CZK 35,210.

(5) Companella has been leasing offices in Prague 4 since February 2009 and paid a monthly rent of CZK 33,000 for these offices from February 2009 until October 2012. Companella made the last rental payment in October 2012 when this lease ended.

In March 2009, Companella had completed a general refurbishment of the offices, the overall costs of which amounted to CZK 540,000, and had moved into the offices in April 2009. The owner had agreed with the refurbishment on the conditions that Companella would bear all of the costs and that Companella would restore the premises to their original condition at the end of the lease. The costs of the restoration of the offices to their original state amounted to CZK 165,000. The owner of the building had agreed to Companella claiming tax depreciation charges on the refurbishment (depreciation group 6) based on the straight-line depreciation method.

(6) Companella moved to new offices in Prague 1 in October 2012 and has been paying a monthly rent of CZK 52,000 for these offices from 1 October 2012.

(7) Companella organised promotional presents for the customers of the other five companies in the group (Nella, Alterella, Globanella, Rusanella, Suonella). Companella purchased 1,200 art books for CZK 850 each and

spent an additional CZK 150 per item for the customisation of the books (company logo print, etc). Companella issued invoices for the overall costs of CZK 1,200,000 plus a 2% mark-up (total CZK 1,224,000) to the respective companies in the group in accordance with the number of client presents delivered to them.

- (8) Companella contributed CZK 12,000,000 into the registered capital of Alterella.
- (9) Companella obtained a loan of CZK 9,000,000 from an unrelated Czech tax resident bank in May 2012. In 2012 Companella paid interest of CZK 1,047,090 on this loan.
- (10) As of 31 December 2012, Companella had unpaid receivables as follows:

Amount CZK	Debtor	Due on	Title
1,000,000	Nella, s. r. o.	10 January 2011	Management fees
25,000	ABC, s. r. o.	10 November 2011	Interest
150,000	ABC, s. r. o.	10 May 2012	Interest

ABC, s. r. o. is a Czech tax resident company unrelated to Companella.

Companella has not initiated any court or similar proceedings in respect of any of the above receivables. Companella has not yet created any provisions, either accounting or tax, in respect of the above receivables.

- (11) Companella has no depreciable assets other than those referred to in items (1) and (5) above. Companella uses the tax depreciation charge for the purposes of its statutory accounting.
- (12) Companella made a gift of CZK 150,500 to the political party 'New Democrats'.
- (13) Companella paid corporate income tax advances of CZK 65,000 semi annually, on 15 December 2012 and on 15 June 2013 respectively. Companella had paid no corporate income tax advances before 15 December 2012.
- (14) Companella's tax return is submitted by a certified tax adviser.

Required:

- (a) **Calculate the 2012 corporate income tax due by Companella, a. s., assuming that the company wishes to apply the maximum allowable tax deductible items.** (22 marks)
- (b) **Calculate the 2013 corporate income tax advances of Companella, a. s. and state by when they are due.** (2 marks)
- (c) **State, giving reasons, by when the registration obligation must be fulfilled as regards the new company Alterella, a. s.** (1 mark)
- (d) **Define the term 'related parties' for corporate income tax purposes and give TWO examples of persons who are related to Companella, a. s. based on the above scenario.** (5 marks)

(30 marks)

2 (a) Alexander Zouhar is a financial analyst employed with Investbanka, a. s. (Investbanka) since February 2002. Mr Zouhar signed the declaration of the taxpayer with Investbanka. Mr Zouhar is divorced and he has a 12-year-old son, Adam. Adam lives part of each week with one of his parents, and part with the other. Adam's mother has agreed that Mr Zouhar will claim the child tax credit.

The following information is applicable to Mr Zouhar for the year 2012:

- (1) Mr Zouhar earned a monthly gross salary of CZK 60,000 from Investbanka during the whole of the year. In addition to his salary, in June 2012 he received a bonus of CZK 25,000.
- (2) Investbanka provided Mr Zouhar with a car that he was allowed to use for private purposes as well as for business. Investbanka had acquired the car in 2005 for CZK 420,000. Mr Zouhar used the car throughout the year.
- (3) Mr Zouhar is a member of Investbanka's trade union. He paid the annual membership fee of CZK 3,200.
- (4) In addition to his employment with Investbanka, Mr Zouhar taught statistical modelling at the Prague School of Economy (PSE) in 2012. He concluded a contract of work activity (*Dohoda o pracovní cinnosti*) with PSE valid from 1 January to 31 December 2012, based on which he received CZK 4,500 per month during the whole year.
- (5) In March, he also received a grant from the Ministry of Culture, Sports and Education of CZK 64,000 to finance his research work on the valuation of hedging instruments in the recession. In October, Mr Zouhar published the results of his research in the magazine *Financial Modelling* and was paid gross remuneration of CZK 3,200.
- (6) Ceska Narodni Banka (CNB) asked Mr Zouhar to create a specific bond valuation model and concluded a contract of work done (*Dohoda o provedení práce*) with him. Mr Zouhar completed this work in September and received remuneration of CZK 28,000.
- (7) Mr Zouhar has a savings account with a Belgian bank from which he received interest in the equivalent of CZK 71,000. No tax was withheld in Belgium.
- (8) Mr Zouhar received net dividend income totalling CZK 138,125 from Czech companies.
- (9) Mr Zouhar sold shares as follows:

Issued by	Date of acquisition	Acquisition price in CZK	Date of alienation	Selling price in CZK	Percentage holding of the company's share capital
Aqua, a. s.	5 January 2009	360,000	10 September 2012	345,000	0·04%
Terra, a. s.	15 March 2010	2,300,000	25 September 2012	2,580,000	6·5%
Aerius, a. s.	12 July 2012	81,000	12 October 2012	71,000	0·012%

Mr Zouhar paid fees of CZK 7,500 to his broker in connection with all of the share sales made in 2012.

In April 2011, Mr Zouhar incurred a loss of CZK 165,000 on the sale of shares representing 0·4% of the registered capital of the company Ignis, a. s., which he had acquired in December 2009. He was not able to use this loss against any 2011 profits.

- (10) As a private hobby Mr Zouhar collects art, namely paintings and graphic prints. In 2012, he purchased items for CZK 240,000 and sold two canvases for CZK 280,000.
- (11) Mr Zouhar has concluded two contracts of life insurance, both of which met the conditions for income tax deductibility. He paid premiums of CZK 4,000 according to the first contract and CZK 9,000 according to the second contract.
- (12) Mr Zouhar donated CZK 20,000 to a local school.

Required:

Prepare the 2012 individual income tax return for Mr Zouhar, clearly identifying any items of income which are either exempt or subject to final withholding tax. Calculate the tax liability, tax prepayments and tax payable. (22 marks)

(b) In April 2012, Investbanka reorganised its financial analysis department and dismissed five of its analysts from the employment as of 1 June 2012. In 2012 the dismissed employees received from Investbanka their salaries for five months from January until May, plus a dismissal compensation amounting to two months' salary. Some of the dismissed employees did not start a new employment before the end of 2012.

Required:

In relation to the dismissed employees who neither found another employer nor started a business activity until after the end of year 2012:

(i) State under what circumstances they can apply for an annual reconciliation at Investbanka, s. a.;
(1 mark)

(ii) State by when the employees have to apply for the reconciliation and by when Investbanka, a. s. is obliged to complete it.
(2 marks)

(25 marks)

3 Mrs Marcova owns a house in Domazlice. She runs a grocery store in 75 m² of the ground floor of the house, and she lives in a flat of 130 m² on the second floor. She rents the rest of the premises out on a continuous basis. All her lessees are non value added tax (VAT) payers. The rented area comprises two other flats of 65 m² each on the first floor, and a florist shop of 55 m² on the ground floor.

Mrs Marcova is a quarterly VAT payer. All the items sold by Mrs Marcova in her shop are subject to the reduced rate of VAT. During the year 2012, Mrs Marcova claimed recoverable VAT on supplies by applying the partial recovery advanced coefficient of 92%.

In 2012 Mrs Marcova made supplies and purchases as follows.

All figures are exclusive of VAT, where applicable.

Supply	CZK
Purchase of groceries in Makro Plzen for further sale	543,000
Purchase of groceries in Cash and Carry Regensburg (Germany) for further sale.	
The supplier is registered for VAT in Germany.	713,000
Purchase of cleaning services (reduced VAT rate) of the common areas on the ground and first floors of the house	27,400
Electricity supply for the grocery store (standard VAT rate)	18,200
Note: The tenants all pay for their electricity and water directly to the suppliers.	
Supply of water (reduced VAT rate) for the grocery store	11,800
Purchase of a new cash register for the grocery store (standard VAT rate)	92,000
Repair of the broken heating in one of the rented flats	9,300
Purchase of a new camera surveillance system to monitor the grocery store and the florist shop (standard VAT rate)	145,000
Purchase of painting services for the florist shop	5,200
Fees to MasterCard operator for credit card payments in the grocery shop	14,320
Payment for the liquidation of unsold expired products (reduced VAT rate)	4,100
Sale of groceries	1,520,300
Unsold groceries expired and liquidated	15,400
Rental payments received for flats	195,000
Rental payment received for the florist shop	82,000

Required:

(a) (i) Calculate the actual coefficient to be applied by Mrs Marcova when calculating the VAT recoverable in 2012; (2 marks)

(ii) State for each individual supply (as listed above) whether it is taxable/recoverable or exempt, and calculate the relevant amount of output VAT/recoverable input VAT using the actual 2012 coefficient.

Note: You are NOT required to calculate the net VAT liability/refund due. (8 marks)

(b) State when Mrs Marcova should reconcile the difference between the partial recoveries calculated based on the advance coefficient and the actual amount recoverable, and whether, and if so by when, she is obliged to settle it.

Note: You are not required to calculate the difference. (2 marks)

(c) Mrs Marcova submitted her VAT tax return and paid the VAT due of CZK 13,800 for the second quarter of 2012 on Tuesday 7 August 2012.

Required:

State the date by which Mrs Marcova should have submitted her VAT tax return for the second quarter of 2012 and determine how much more, in addition to the VAT due, Mrs Marcova will be asked to pay by the competent tax authority as a result of the late submission. (3 marks)

(15 marks)

4 Pavel Houdek is a plumber, who works as a self-employed entrepreneur. He is married to Jana and they have three children, ten-year-old Alice, seven-year-old Andrea and two-year-old Jan. They live in their house in Beroun. Both Pavel and Jana are tax resident in the Czech Republic.

Jana is employed part-time with Moda, s. r. o., where she works as a shop assistant. Jana's super-gross employment income (inclusive of the employer's social security insurance) amounted to CZK 85,224 in 2012. Jana also received a parental subsidy for her son of CZK 8,400 for seven months in 2012. She did not earn any income other than her employment income from Moda, s. r. o. in 2012. She did not apply the child allowances during the year in her payroll.

Pavel has one employee, Ms Novakova, who takes care of the general administration and the keeping of tax evidence for his business. The following information is applicable to Pavel and the business for the year 2012:

- (1) He received income of CZK 5,475,800 for services rendered to customers.
- (2) He purchased goods and services (all tax deductible) for CZK 4,095,080.
- (3) He owns and uses the following business assets:
 - a digital multi detector for plumbing and cables (depreciation group 1) purchased new in November 2011 for CZK 63,000;
 - a van (depreciation group 2) purchased second-hand in 2008 for CZK 312,000. The previous owner had claimed depreciation charges of CZK 215,000 over two fiscal years (2006 and 2007).
 - a basic version of planning software purchased new in December 2010 for CZK 54,000 with a free annual update for five years. In 2012, he purchased an upgrade to the premium version of the software for CZK 12,000.
- (4) He paid Ms Novakova a salary of CZK 12,000 per month for the whole year.
- (5) He paid mortgage interest on a loan he took out for the reconstruction of the house in Beroun of CZK 72,920.
- (6) He contributed CZK 24,000 to his private pension insurance scheme and another CZK 24,000 to the private pension insurance scheme of Ms Novakova based on her work contract. Both insurance contracts meet the conditions required by the Income Taxes Act.
- (7) He made prepayments of tax of CZK 29,300 on 15 June and CZK 29,300 on 15 December 2012.

Pavel wishes to claim the maximum possible deductions in his 2012 individual income tax liability calculation. He also wishes to apply the accelerated method for the tax depreciation of all of his assets where possible. He is not represented by either a tax adviser or an attorney.

Required:

- (a) **Prepare the 2012 individual income tax return for Pavel Houdek.** (13 marks)
- (b) **Calculate the 2012 social security insurance and health care insurance contributions for Pavel Houdek, if he does not participate in the illness insurance.** (2 marks)

(15 marks)

5 (a) Ms Ratajova was a self-employed economic adviser in 2011 and 2012. She had no income other than business income in 2011. In March 2012, she was offered the post of deputy minister in the Ministry of Social Affairs. She decided to accept the offer and was appointed and became an employee of the Ministry of Social Affairs on 15 April 2012, when she also signed the declaration of a taxpayer with the Ministry. As the labour contract with the Ministry did not allow her to conduct any business activity during her appointment, she suspended her business licence as of 15 April 2012.

Ms Ratajova's 2011 individual income tax liability amounted to CZK 74,000. Ms Ratajova is represented by a certified tax adviser in all her tax proceedings.

Required:

- (i) **State by when Ms Ratajova was obliged to submit her 2012 individual income tax return;** (1 mark)
- (ii) **State what obligations Ms Ratajova had towards the competent tax authority, social security authority and health care insurance authority in connection with the suspension of her business activity, and by when the obligations should be fulfilled.** (2 marks)
- (iii) **State until when Ms Ratajova was obliged to pay 2012 individual income tax, social security contribution and health care insurance contribution advances.** (2 marks)

(b) Mr Pokorny, who was married and had two daughters, died on 7 May 2012. Mr Pokorny had run a bookshop as a self-employed person and was a quarterly value added tax (VAT) payer.

His wife and daughters agreed on the estate on 15 June and the agreement was confirmed by a public notary and the inheritance procedure closed on 5 July. Mrs Pokorna decided to take over the bookshop and to continue her husband's business. Neither Mr Pokorny nor Mrs Pokorna is represented by a certified tax adviser.

Neither Mr Pokorny nor Mrs Pokorna had any income in 2012 other than that from the bookshop.

Required:

State who was obliged to submit a 2012 individual income tax return as regards the business income realised in the bookshop and by when. (2 marks)

(c) In 2012, the company Lina, s. r. o. changed its fiscal year from the calendar year to an economic year (1 October to 30 September) as of 1 October 2012. Lina, s. r. o.'s statutory accounts are subject to a review by an auditor.

Required:

State by when Lina, s. r. o. was obliged to submit its tax return for the period starting on 1 January 2012. (1 mark)

(d) The financial authority for Prague 5 conducted a tax audit of individual income tax of Ms Treglova in respect of fiscal years 2009 and 2010 in June 2012. Ms Treglova is concerned about the practices used during the tax audit and seeks advice on whether her rights were fully preserved.

Required:

(i) State for each situation below whether the tax auditor complied with the law or whether Ms Treglova's rights were breached. Where the tax auditor did not comply with the law, state why;

1. The tax auditor initiated the tax audit and came to Ms Treglova's premises on the agreed date. He asked for an appropriate place where he could gather and analyse relevant documentation.
2. The tax auditor questioned Ms Treglova's assistant, Lisa. He asked Ms Treglova to leave the room during the meeting as he felt that Ms Treglova's presence may have affected Lisa's responses.
3. In the process of the audit, the tax auditor disclosed detailed information about Ms Treglova's 2009 income to the competent social security insurance authority for the purpose of checking the correct fulfilment of her liabilities, despite the fact that Ms Treglova specifically said to him that she did not agree to the disclosure of any information obtained during the audit.
4. The tax auditor requested to take Ms Treglova's laptop for an external expert opinion as he wanted to check whether the depreciation charges claimed on a technical appreciation of the laptop were justified.
5. Five weeks after having initiated the audit, the auditor told Ms Treglova that the audit was completed. He presented her with the final audit report and asked her to sign it. Ms Treglova requested some time to study the report in detail and to prepare amendments. The tax auditor insisted that the audit must be completed on that day.

The total marks will be split equally between each part.

(6 marks)

(ii) State whether the tax auditor's non-compliance (as identified in part (i)) will affect the results of the tax audit.

(1 mark)

(15 marks)

End of Question Paper