
Answers

	CZK	Marks
1 Ostravské strojírný a závody, a. s. (OSZ)		
(a) 2011 corporate income tax		
Accounting income		
Proceeds from the sale of goods	141,748,000	
Interest from current bank account	134,000	
Payments for meals from employees	630,000	½
Finis receivable	200,000	
Release of the accounting provision Finis	100,000	½
Aurelius receivable	1,250,000	
Release of the accounting provision Aurelius	1,050,000	½
Proceeds from the sale of the plot	1,250,000	
Total accounting income	146,362,000	½
Accounting expenses		
Goods and services purchased	87,865,790	
Salaries and wages	32,500,000	
Mandatory social and health care insurance contributions at 34%	11,050,000	½
Directors' fees	2,630,000	
Mandatory health care insurance contributions at 9%	236,700	½
Members of the supervisory board fees	1,125,000	
Mandatory health care insurance contributions at 9%	101,250	½
Grocery products for cafeteria	942,000	
Cafeteria operational costs	445,000	
Financial contribution for sports and health	209,000	
Mandatory social and health care insurance contributions at 34%	71,060	½
Employees pension scheme contributions (500*95)	47,500	
Directors' pension scheme	350,000	
Mandatory health care insurance contributions at 9% on the amount exceeding CZK 24,000 per director ((350,000/5) – 24,000)*5*0.09	20,700	1
Acquisition price Finis receivable	120,000	½
Acquisition price Aurelius receivable	1,800,000	½
Accounting depreciation charge	3,248,000	
Net book value of the burned plant	5,500,000	
Acquisition value of the plot	2,100,000	
Total accounting expenses	(150,362,000)	1½
Accounting loss	(4,000,000)	½
<i>Add back:</i>		
Loss on the sale of the plot (2,100,000 – 1,250,000)	850,000	1
Cost of groceries for cafeteria (942,000 – 630,000)	312,000	1
Directors' pension scheme	350,000	1
Unpaid debt (Working 1)	2,070,000	1
Directors' fees	2,630,000	1
Supervisory board fees	1,125,000	1
Aurelius receivable (1,800,000 – 1,250,000)	550,000	1
Total add back	7,887,000	
<i>Less:</i>		
The difference between the tax and accounting residual value of burned plant (Working 2) (10,575,000 – 5,500,000)	5,075,000	1
The difference between the tax and accounting depreciation charge (6,320,500 – 3,248,000)	3,072,500	1
Release of accounting provisions (100,000 + 1,050,000)	1,150,000	1
Total deductions	(9,297,500)	
Tax loss	(5,410,500)	

Working 1 – Unpaid debts to be added back to the accounting profit

The debts due by Electreng BV and Stavesi, a.s. both have a maturity period of more than 36 months. Contractual penalties are excluded from this regime.
250,000 + 1,820,000 = 2,070,000

Working 2– Tax residual value of the destroyed plant

2006 tax depreciation charge $25,000,000 \cdot 0.154$	3,850,000	½
2007 to 2010 tax depreciation charges $25,000,000 \cdot 0.094$	2,350,000	½
2011 tax depreciation charge $25,000,000 \cdot 0.094 \cdot 0.5$	1,175,000	½
Tax residual value $25,000,000 - (3,850,000 + 4 \cdot 2,350,000 + 1,175,000)$	10,575,000	½
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Tutorial note:

50% of the annual depreciation charge of the destroyed plant can be used in 2011 as the plant was taken out of the books in 2011.

(b) Loss carry forward

OSZ can carry the loss forward for a maximum of five fiscal years and offset it against future profits, earliest years first, i.e. the 2011 tax loss can be offset in the tax year 2016 at the latest. Tax losses cannot be carried back to previous tax years.

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(c) Distribution of 2009 profit

	CZK	CZK	
Gross profit for distribution	2,500,000		
Mr Bugala $15\% \cdot 2,500,000$	375,000		
Subject to withholding tax (WHT) at 15%			
The participation exemption does not apply since Mr Bugala is an individual shareholder.			
Tax to be withheld from shareholder Bugala's dividend $375,000 \cdot 0.15$		56,250	1
Strojirny Finance, a. s. $8\% \cdot 2,500,000$	200,000		
Subject to WHT at 15%			
The participation exemption does not apply since Strojirny Finance's shareholding is below 10%.			
Tax to be withheld from shareholder Strojirny Finance's dividend $200,000 \cdot 0.15$		30,000	1
Electreng BV $77\% \cdot 2,500,000$	1,925,000		
Electreng BV qualifies for the participation exemption as its shareholding is higher than 10% and it is a company tax resident in an EU member state. The dividend is therefore exempt from WHT.			
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(d) Payroll tax documentation

OSZ is obliged to keep for each employee:

- a payroll sheet, 1
- a summary of the payroll tax withheld, and 1
- a summary of the withholding tax (for contracts on work done below CZK 5,000). 1

This documentation must be completed for each calendar month, as well as for the whole fiscal year. 1
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(e) Deadline for reconciliation

OSZ is obliged to submit the electronic reconciliation by 20 March 2012. 1
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2 Teresa Majerova

(a) 2011 Personal income tax computation

	CZK	CZK	
Employment income			
Salary from PSO (12*15,300)	183,600		½
Social and health care insurance contributions at 34%	62,424		½
Travel allowances over the statutory limit	77,500		½
Social and health care insurance contributions at 34%	<u>26,350</u>		½
Partial tax base		349,874	
Business income			
Income from concerts in Japan	158,000		½
Income from concerts in the Czech Republic	385,000		½
Royalty	31,800		½
Composition of 'The Lost World' music	<u>46,500</u>		½
Total business income	621,300		
Lump-sum expenses at 40% (higher than documented tax deductible expenses)	<u>(248,520)</u>		1
Partial tax base		372,780	
Rental income			
Rents (12*25,000)	300,000		½
Lump-sum expenses at 30%	<u>(90,000)</u>		1
Partial tax base		<u>210,000</u>	
Total tax base		932,654	
Pension insurance – no deduction		(0)	1
Reduced tax base		932,654	
Rounded tax base		932,600	½
Tax liability at 15%		139,890	½
Foreign tax credit (Working 1)		(14,213)	½
Tax credit – personal		(23,640)	½
Tax credit – child		<u>(11,604)</u>	½
Tax liability after credits		90,433	
<i>Less:</i>			
Tax prepayments made by PSO (Working 2) (153*11 + 15,723)		<u>(17,406)</u>	½
Tax due		73,027	

Working 1 – Foreign tax credit

Teresa is able to credit against her tax liability the lower of the tax paid in Japan and the maximum credit capacity.

	CZK	
Foreign income	158,000	
Related expenses (158,000*0.4)	<u>(63,200)</u>	
Tax base	94,800	½
Tax paid in Japan (158,000*20%)	31,600	½
Coefficient (94,800/932,654)	0.1016	½
Maximum credit capacity 0.1016*139,890	14,213	½

Working 2 – Prepayments made by PSO

January to July and September to December (11 months)

	CZK	CZK	
Salary	15,300		
Social security and health care insurance at 34%	5,202		
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Tax base	20,502		
Tax base rounded up to '00		20,600	½
Tax at 15%		3,090	½
Personal tax credit		(1,970)	½
Child tax credit		(967)	½
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Tax prepayment		153	
August			
Salary	15,300		
Social security and health care insurance at 34%	5,202		
Travel allowance above the statutory limit	77,500		
Social security and health care insurance at 34%	26,350		
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Tax base	124,352		
Tax base rounded		124,400	½
Tax at 15%		18,660	½
Personal tax credit		(1,970)	
Child tax credit		(967)	
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Prepayment		15,723	½
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Tutorial notes:

1. The deduction for pension scheme contributions is not possible as the insurance company is resident outside the European Union and the European Economic Area.
2. Prepayments need to be rounded up to '00.

(b) Social security and health care insurance calculation

	CZK	CZK	
Income	621,300		
Expenses	(248,520)		
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Assessment base 50%*372,780		186,390	1
Social security insurance contributions at 31.5% (rounded up to the whole CZK)		58,713	½
Health care insurance contributions at 13.5% (rounded up to the whole CZK)		25,163	½
The settlement payment (the above figures decreased by any prepayments paid during 2011) is due in the case of health care insurance by eight days after the date of filing of the tax return or after the deadline for the filing of the tax return (whichever is the earlier date) and, in the case of social security contributions, by eight days after the date of filing of the annual statement for social security.			1
Teresa is represented by a tax adviser, therefore the health care insurance settlement payment should be paid at the latest by 9 July 2012 and the social security insurance contributions settlement payment should be paid by 9 August 2012.			<hr/>
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(c) Tax advances calculation

Teresa's tax liability is between CZK 30,000 and CZK 150,000, therefore she is obliged to pay individual income tax advances semi-annually. The first advance is due on 15 December 2012 and the second one on 15 June 2013.

The partial tax base from employment income creates 37.51% (less than 50% and more than 15%) of her total tax base, therefore she will calculate her advances as 20% of her tax liability, rounded up to hundreds CZK, i.e. CZK 18,100 ($90,433 \cdot 0.2 = 18,087$).

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(d) Scholarship

The scholarship received from the Northern University of Oregon will be exempt from tax.

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The scholarship received from the Oregon Symphony (a private entity) is taxable income and has to be included in Teresa's 2012 income tax return.

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25**3 (a) Ariana****(i) Calculation of VAT to be claimed back**

Item	Tax base CZK		Tax CZK	Refund CZK	
Beads	330,000	330,000*0.2	66,000	66,000	½
Laces	648,000	648,000*0.2	129,600	129,600	½
Car rental payment	63,600	63,600*0.2	12,720	not possible	½
Fuel	7,200	7,200*0.2	1,440	not possible	½
Shipping	32,700	32,700*0.2	6,540	6,540	½
Meals and accommodation	180,000		25,400	not possible	½
Total				202,140	<hr/> 3

Tutorial note:

The refund is not possible for any travel costs and/or costs of lodging, meals and fuel.

(ii) Application for a refund

Ariana may apply for the refund for the minimum period of three months, i.e. they were able to apply on 1 April 2011 for the period January to March 2011 and must submit their application by 30 June 2012.

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The competent tax authority is the financial authority for Prague 1, and it is obliged to refund VAT within six months of the submission of a completed application.

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2**(b) Mr Kralik****(i) Calculation of VAT due for April 2011**

Input supplies	Tax base CZK		Tax CZK	
Used cameras from Austria (not registered in CR)	245,000	245,000*0.2	49,000	½
Used photo equipment from Switzerland (not registered in CR)	163,000	163,000*0.2	32,600	½
Maintenance services	51,000	51,000*0.2	10,200	½
Used printers from Germany (registered in CR)	118,000	118,000*0.2	23,600	½
Inventory	12,000	12,000*0.2	2,400	½
Rent to a non-VAT payer	0	0	0	1
Total input tax			117,800	
Output supplies				
Used cameras from Austria (not registered in CR)	245,000	245,000*0.2	49,000	½
Used photo equipment from Switzerland (not registered in CR)	163,000	163,000*0.2	32,600	½
Used printers from Germany (registered in CR)	0	0	0	½
Sale of second-hand photo-equipment	465,000	465,000*0.2	93,000	½
Total			174,600	
VAT due (174,600 – 117,800)			56,800	½

6**(ii) Place of taxable supply**

Ingolstadt
Pardubice

½

½

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(c) Change of a taxable period

(i) Mr Kralik can change his taxable period from monthly to quarterly if his 2011 turnover does not exceed CZK 10,000,000. The change can be made on 1 January 2012 at the earliest.

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(ii) Mr Kralik must notify his competent financial office of the change by 31 January 2012 at the latest.

115**4 (a) Mr Resl**

The income from the sale of the flat is taxable. It is not exempt as the flat was part of Mr Resl's business assets less than two years before the sale.

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Calculation of the taxable net income:

	CZK	
Income from the sale	7,400,000	½
Tax residual value of the flat (Working)	(3,947,400)	
Taxable net income	<u>3,452,600</u>	½

Working – Calculation of the tax residual value of the flat

		CZK	
Acquisition value			
(increased by the technical improvement)	(2,500,000 + 1,800,000)	4,300,000	½
2007 tax depreciation charge	4,300,000*1·4/100	60,200	½
2008 and 2009 tax depreciation charges	4,300,000*3·4/100	146,200	½
Tax residual value	4,300,000 – 60,200 – 2*146,200 =	3,947,400	½
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(b) Spouses Novakovi

The income of CZK 1,500,000 will be exempt for Mr Novak as he used the money received for his share of the house to purchase another flat to fulfil his housing needs.

2**(c) Ms Boudova**

The income from the sale of the house will be exempt for Ms Boudova. Ms Boudova meets the condition of a minimum of five years' ownership as she can count the period when her mother owned the house as well as the post-inheritance period.

2**(d) Mr Trojan**

The income from the sale of the house will be exempt for Mr Trojan as he owned the house for more than five years.

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The income from rents is taxable as follows:

	CZK	
Rental income	720,000	
Related costs		
(Repairs and maintenance costs are higher than lump-sum expenses at 30%)	220,000	1
2011 Tax depreciation charge $19,000,000 \cdot 0.034 \cdot 0.5$	323,000	1
Partial tax base from rental income	<u>177,000</u>	3

(e) Ms Davidova

The employment income of CZK 5,000 per month is subject to withholding tax (WHT) at 15%, i.e. CZK 750 at the payment date.

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The regular retirement pension is exempt as it is lower than 36 times the minimum wage of CZK 8,000.

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Income from the private pension scheme is taxable and subject to WHT at 15% at the payment date as follows: $8,000 - (2,150,000/25/12) \cdot 15\% = \text{CZK } 125$

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5 Marshall Media s.r.o. – 2011 tax depreciation charge

	CZK	
(1) Projector		
The projector was fully written off in 2009		1
2011 tax depreciation charge of the improved projector (325,000 + 48,000)*0.333 up to a maximum of CZK 48,000	48,000	1
(2) Camera		
MM will continue the tax depreciation as commenced by Mr Sedivy.		
2009 tax depreciation charge $216,000/3 + 216,000*10\% = 93,600$		1
2010 tax depreciation charge $2*122,400/(4 - 1) = 81,600$		1
2011 tax depreciation charge $2*40,800/(4 - 2)*0.5$	20,400	1
(3) Van		
2011 tax depreciation charge $1,340,000*0.2225*0.5$	149,075	1
Ford Transit		
2011 tax depreciation charge $860,000*0.11$	94,600	1
(4) 'Lost Beauty' movie		
2010 tax depreciation charge $7,740,000/18*11 = 4,730,000$		1
2011 January to May – tax depreciation charge $7,740,000/18*5$	2,150,000	1
2011 June to December tax depreciation charge: $(7,740,000 - 4,730,000 - 2,150,000 + 418,000)/9*7$	994,000	2
(5) 'Menace' movie		
2011 tax depreciation charge $(1,260,000/72)*12$	210,000	1
(6) 'Green Universe' documentary		
2011 tax depreciation charge $12,240,000/18*10$	6,800,000	1
(7) Theatre		
MM is able to claim tax depreciation charges on the technical improvement, but not on the premises as a whole.		
2011 tax depreciation charge $3,700,000*0.0202$	74,740	2
Total 2011 tax depreciation charge	10,540,815	<u>15</u>

Tutorial note:

The increased acquisition value of an audio visual work is depreciated over the remainder of the depreciation period, but not less than nine months.