Answers

1 (a) Niger, s. r. o.

	CZK	Marks
Accounting profit	12,500,000	
Salaries and mandatory insurance contributions (tax deductible)	0	½
Release of statutory reserves (taxed as accounted for)	0	½
Directors' fees (tax deductible)	0	½
Employees' pension plans (tax deductible)	0	½
Add back:		
Contribution for employees' holidays	145,000	1
Costs of the kindergarten	655,000	1
Total add back	800,000	
Less:		
2011 social security and health care contributions	64,300	1
Release of other reserve	335,700	1
Total deductions	(400,000)	
Tax base	12,900,000	
Research and development allowance	(5,412,300)	½
Reduced tax base	7,487,700	
Tax base rounded (down to '000)	7,487,000	½
		7

(b) Ruber, a. s.

	CZK	Marks
Accounting profit	3,125,000	
Costs of parties arranged for clients (tax deductible)	0	½
Directors' fees (tax deductible)	0	½
Add back:		
Costs of parties to entertain clients	245,000	1
Difference between the accounting and tax depreciation charge (345,000 – 215,000)	130,000	½
Gifts (Working)	31,000	1½
Total add back	406,000	
Tax base	3,531,000	
Tax loss relief	(185,400)	½
Reduced tax base	3,345,600	
Tax base rounded (down to '000)	3,345,000	½
		5

Working: Promotional gifts tax non-deductible expenses

	CZK
Chocolate boxes (tax deductible)	0
CDs (tax deductible)	0
Pens (all non-deductible – item cost higher than CZK 500 each) 50*620	31,000
Total non-deductible expenses	31,000

(c) Albus, a. s.

	CZK	Marks
Accounting profit	207,000	
Creation of statutory reserves (tax deductible)	0	½
Add back:		
Unpaid debt (Working)	758,000	1½
Non-statutory reserve	22,000	1
Costs related to the exempt dividend (5%*CZK 1,150,000)	57,500	1½
Total add back	837,500	
Less:		
Dividend	1,150,000	1
Total deductions	(1,150,000)	
Tax loss	(105,500)	½
		6

Working: Unpaid debts to be added back to taxable profits (due for more than 36 months)

	CZK
Purchase of blood from Topmedica	720,000
Purchase of transport services from Medicatransport	38,000
2007 dividend to Albena (not applicable – a dividend is not an expense)	0
Total	758,000

(d) Flavus, s. r. o.

	CZK	Marks
Accounting profit	94,000	
Add back:		
Loss on the sale of land (3,250,000 – 5,000,000)	1,750,000	1
Donation (gift)	19,000	1
Total add back	1,769,000	
Less:		
The difference between the net book value and the tax residual price of the building (Working 2) (3,863,250 – 3,785,000)	78,250	2
The difference between the tax depreciation charge and the accounting depreciation charge (Working 1) (45,450 – 41,000)	4,450	1
Total deductions	82,700	
Tax base	1,780,300	
Gift allowance (maximum 5% of CZK1,780,300)	19,000	1
Reduced tax base	1,761,300	
Rounded tax base (down to '000)	1,761,000	½
No adjustment for disabled employees credit		½
		7
		25

Working 1: 2012 depreciation charge of the sold building

(4,500,000*2·02/100)*50% CZK 45,450

Working 2: 2012 tax residual price of the sold building

	CZK
2005 depreciation charge 4,500,000*1·02/100	45,900
Depreciation charge for each year from 2006 to 2011 4,500,000*2·02/100	90,900
2012 tax depreciation charge (Working 1)	45,450
Tax residual price of the building: (4,500,000 – (45,900 + (6*90,900) + 45,450)	CZK 3,863,250

Tutorial note: *The disabled employees credit is available against the tax liability and it is not relevant when calculating the tax base.*

2 Jakub Dlouhy

(a) 2012 Personal income tax

	CZK	CZK	*Marks*
Employment income			
Remuneration from JBM, s. r. o. (12*41,000)	492,000		½
Pension plan contribution (228,000 – 24,000)	204,000		½
Social and health care insurance contributions (34%*(492,000 + 204,000))	236,640		½
Partial tax base		932,640	
Business income			
Income			
Proceeds from the sale of services	2,387,500		
Income from Mr Vondra (the assignment of the financial lease contract)	265,000		½
Total income		2,652,500	
Expenses			
Goods and services purchased	262,000		
Lunches with business partners	43,800		
Volvo finance lease 3*((189,000 + 36*22,000)/36)	81,750		1
Volvo finance lease clearing (Working 1)	63,000		1½
Passat finance lease 10*((162,000 + 48*15,000)/48)	183,750		1
Books	32,800		
'AssessMe' annual update	8,000		
'AssessMe' upgrade	38,000		½
'AssessMe' depreciation charge (124,200/36)*11	37,950		1
Depreciation charge of other assets	62,300		
Total expenses		(813,350)	
Net income		1,839,150	1
Add back:			
Costs of lunches with business partners	43,800		1
Partial tax base		1,882,950	
Capital income			
JBM 2011 profit share (subject to a withholding tax)	0		½
Interest from the bank account	12,300		½
Partial tax base		12,300	
Rental income			
Rents	612,000		½
Lump-sum expenses at 30% (higher than documented expenses of CZK 176,000)	183,600		1
Partial tax base		428,400	
Other income			
Proceeds from the sale of the house	4,500,000		½
Residual price of the house (Working 2)	3,664,234		3
	835,766		
Sale of the car	445,000		½
Purchase price of the car (up to the income)	445,000		1
	0		
Sale of books	exempt		1
Partial tax base		835,766	
Total tax base		4,092,056	
Pension insurance allowance (maximum)		(12,000)	1
Gift allowance (minimum 2%/maximum 10% of CZK 4,092,056)		(25,000)	1
Reduced tax base		4,055,056	

	CZK	Marks
Rounded tax base down to ’00	4,055,000	½
Tax liability at 15%	608,250	½
Personal tax credit	(24,840)	½
Child tax credit – Petr	(0)	½
Child tax credit – Josef (13,404/12)*7	(7,819)	½
Tax liability after credits	575,591	
Less:		
Tax prepayments made by JBM (Working 3) 49,245 + 11*8,250	(139,995)	3
Prepayments paid by Jakub 2*136,000	(272,000)	1
Tax due	163,596	
		26

Working 1: Volvo finance lease clearing

	CZK
Advance payment and instalments actually paid 189,000 + (24*22,000)	717,000
Instalments claimed in previous fiscal years (189,000 + (36*22,000))/36*24	654,000
Difference (tax deductible up to the amount paid by Mr Vondra)	63,000

Working 2: Tax residual price of the sold house

	CZK
Input price	2,800,000
2006 depreciation charge 2,800,000/50	56,000
Increased residual price (2,800,000 – 56,000 + 1,320,000) = 4,064,000	
2007 depreciation charge 2*4,064,000/50	162,560
2008 depreciation charge 2*(4,064,000 – 162,560)/50 – 1	159,243
2009 depreciation charge 2*(4,064,000 – (162,560 + 159,243))/50 – 2)*50%	77,963
Tax residual price (2,800,000 + 1,320,000 – (56,000 +162,560 + 159,243 + 77,963))	3,664,234

Working 3: Prepayments made by JBM

	CZK
January	
Salary	41,000
Pension plan contributions (228,000 – 24,000)	204,000
Social security and health care insurance at 34%	83,300
Tax base	328,300
Tax base rounded up to ’00	328,300
Tax prepayment at 15%	49,245
February to December	
Salary	41,000
Social security and health care insurance at 34%	13,940
Tax base	54,940
Tax base rounded up to ’00	55,000
Tax prepayment at 15%	8,250

Tutorial notes:

1. *Jakub keeps tax documentation, therefore he only includes in his business income amounts received, not all the invoices issued.*
2. *The proceeds from the sale of the house must be included in Jakub’s income as the house was part of his business assets less than five years prior to the sale.*
3. *Tax depreciation charges need to be rounded up to the whole CZK.*
4. *Jakub cannot claim the child tax credit for Petr although he is a full-time student because Petr is older than 26 years.*

			Marks
(b) Social security and health care insurance advances 2013			
		CZK	
Monthly assessment base (50%*1,882,950)/12		78,456	1
Social security insurance advances			
Monthly advance at 31·5%		24,714	½
Social security insurance advances are due by the 20th day of the following month.			1
Health care insurance advances			
Monthly advance at 13·5%		10,592	½
Health care insurance advances are due by the 8th day of the following month.			1
			4
			30

3 Korbel & syn, s. r. o.

(a) (i) Value added tax (VAT) due for May 2012

Input supplies	**Tax base CZK**		**Tax CZK**	
Goods and services from Czech suppliers	356,000	356,000*0·2	71,200	½
Goods from Austrian suppliers	57,000	57,000*0·2	11,400	½
Competition horse	83,000	No deduction	0	½
Total input tax			82,600	
Output supplies				
Goods from Austrian suppliers	57,000	57,000*0·2	11,400	½
Cows to a Czech customer	275,000	275,000*0·14	38,500	½
Wheat to Slovak customers	265,000	Exempt	0	½
Dairy products to a Russian customer (export)	435,000	Exempt	0	½
Shop sales	74,500	74,500*0·14	10,430	½
Advance payment	241,000	241,000*0·14	33,740	½
Total			94,070	
VAT due (94,070 – 82,600)			11,470	½
The May 2012 VAT return must be submitted by 25 June 2012.				1
				6

(ii) Change in the VAT taxable period

A VAT taxable period can be changed from monthly to quarterly as of 1 January if the turnover in the previous calendar year did not exceed CZK 10,000,000. 2

The competent tax authority must be notified of the change by 31 January of the respective year. 1

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(b) Correction of errors

(1) The January 2008 taxable period became subject to the statutes of limitation as of 25 February 2011, so nothing needs to be done as the tax liability assessed for this period cannot be changed. 1

(2) As the VAT due was lower than the amount paid, Korbel is eligible (but not obliged) to file a supplementary VAT return. If Korbel does wish to file a supplementary return, it must issue a correcting VAT invoice and send it to the client, and only after confirmation that this invoice has been accepted can the supplementary tax return for the period May 2010 be filed, but no later than by the end of July 2012. 2

Tutorial note: *If the correcting invoice is accepted, the customer is also obliged to file a supplementary VAT return no later than one month after it learnt about the mistake. The tax office will then impose interest on the late payment of VAT made by the customer.*

	Marks
(3) Korbel can claim the VAT on the equipment in its usual VAT tax return (no supplementary return is required), but not later than in the return for September 2013.	1½
(4) Korbel is obliged to file a supplementary VAT return for November 2011. The return must be submitted by the end of July 2012.	1½
	6
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4 Ena, a. s.

(a) Inbound dividends

(i) Tax status

Enas – Exempt: the dividend is subject to the participation exemption granted by the EU parent subsidiary directive.	½
Enan – Exempt: the dividend is subject to the participation exemption granted by the EU parent subsidiary directive.	½
Enac – Exempt: the dividend is subject to the participation exemption under the Czech Income Tax Act, although Croatia is not an EU member state. The holding in Enac is higher than 10%, Enac is a company subject to a corporate tax rate higher than 12% and there is a tax treaty between the Czech Republic and Croatia.	1
Enab – Taxable: the conditions for the participation exemption under the Czech Income Tax Act are not met as Enab is a company subject to a corporate tax rate lower than 12% and there is no tax treaty between the Czech Republic and Bermuda.	1
Canena – Taxable: the conditions for the participation exemption under the Czech Income Tax Act are not met and the holding is below 10%.	1
	4

(ii) 2012 corporate income tax liability

	CZK	
Accounting profit	7,400,000	
Add back:		
Costs related to exempt dividends (350,000 + 1,200,000 + 260,000)*5%	90,500	1
Less:		
Dividends received	(2,360,000)	1
Adjusted profit	5,130,500	
Tax base (rounded down to '000)	5,130,000	½
Tax liability at 19%	974,700	½
Tax on separate tax base (Working 1)	82,500	1
Foreign tax credit (Working 2)	(14,998)	2
Total tax from separate tax base (rounded up to the whole CZK)	67,502	
Tax liability after credits	1,042,202	6

Working 1: Separate tax base

	CZK
Dividend from Enas	0
Dividend from Enan	0
Dividend from Enac	0
Dividend from Enab	450,000
Dividend from Canena	100,000
Separate tax base	550,000
Tax on separate tax base at 15%	82,500

Marks

Working 2: Foreign tax credit for tax withheld in Canada

	CZK	
Tax paid overseas	15,000	
Maximum credit capacity coefficient 100,000/550,000	0·181818	
Maximum credit capacity 0·1818*82,500	14,998	

Tutorial note: *Foreign tax credit for the tax withheld in Croatia is not possible since the dividend from Enac is exempt from taxation in the Czech Republic.*

(b) Outbound dividends

(i) Tax status

The dividends paid to Ms Leva and Ms Johansson are subject to withholding tax (WHT) at 15% and 10%, respectively, since the participation exemption does not apply to individual shareholders. 1½

The dividend paid to Enea is exempt from taxation under the participation exemption. ½

	CZK	
WHT on Ms Leva's dividend 510,000*0·15	76,500	½
WHT on Ms Johansson's dividend 90,000*0·10	9,000	½
Total WHT	85,500	
		3

(ii) The financial director should have withheld tax as calculated in (i) above from the gross dividends, and only paid the amount net of withholding tax to individual shareholders. ½

The withholding tax of CZK 85,500 should be paid by Ena to its competent tax authority by the end of March 2012. 1

Ena should explain the mistake to its shareholders and ask them to return the amount of the tax, otherwise Ena would have to suffer the tax as its own liability. ½

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5 Intermont, a. s.

(a) February payroll tax to be withheld for Mr Jirak

	CZK	
Salary	85,000	½
Director's fees	45,000	½
Travel allowances within the statutory limit (exempt)	0	½
Travel allowances over the statutory limit (18,500 – 12,000)	6,500	½
Employee's pension plan (exempt up to an annual limit of CZK 24,000)	0	1
Tennis lessons (exempt)	0	1
Accommodation (8,000 – 3,500)	4,500	1
Birthday present (5,000 – 2,000)	3,000	1
Social and health care insurance contributions (85,000 + 45,000 + 6,500 + 4,500 + 3,000)*34%	48,960	1
Tax base	192,960	
Mortgage allowance	(0)	½
Pension insurance allowance	(0)	½
Tax base rounded (up to '00)	193,000	½
Tax at 15%	28,950	½
Personal tax credit	(2,070)	½
Children tax credit (3*1,117)	(3,351)	½
Payroll tax	23,529	
		10

Tutorial note: *Mortgage allowance and pension plan allowance can only be claimed in the tax return after the fiscal year ends.*

Marks

(b) Payroll tax documentation

Intermont, a. s. is obliged to keep a payroll sheet for each employee clearly indicating:

- the name and identification data of the employee,
- the names and identification data of persons for whom the employee claims tax credits,
- the taxable income, exempt income, tax base for withholding tax (if applicable), payroll tax/withholding tax as calculated and actually withheld, and a summary of allowances and credits claimed. 3

This documentation must be completed for each calendar month, as well as for the whole fiscal year. 1

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(c) Deadline for reconciliation

Intermont was obliged to submit the annual reconciliation of the 2012 payroll tax to its competent tax authority by the end of February 2013 or, if filed electronically, by 20 March 2013. 1

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