

Fundamentals Level – Skills Module

# Taxation (Czech)

Tuesday 2 December 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 consists 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 2014 are to be used in answering the questions.

### Corporate income tax rate

19%

### Corporate income tax credits (CZK)

Disabled employees	18,000/60,000
--------------------	---------------

### Personal income tax rate

Up to CZK 1,245,216	15%
---------------------	-----

Over CZK 1,245,216	22%
--------------------	-----

### Personal income tax credits – annual amounts (CZK)

Personal tax credit	24,840
---------------------	--------

Dependent spouse credit	24,840
-------------------------	--------

Child credit	13,404
--------------	--------

(maximum bonus CZK 60,300)

Student credit	4,020
----------------	-------

Disabled employees	18,000/60,000
--------------------	---------------

### **Social security and health care insurance contributions**

Cap for social security purposes CZK 1,245,216

#### **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 12,971

#### 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 6,486

Minimum monthly assessment base for the secondary activity CZK 2,595

Threshold limit for obligatory participation in social security  
in the case of the secondary activity CZK 62,261

#### **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 8,500 per month or CZK 50.60 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 Financia, s. r. o. (Financia) is an economic and financial consultancy company with a registered seat in Kozi 2, Praha 1. Financia is a tax resident of the Czech Republic. Financia's shareholders are as follows:

Shareholder	Tax residency	Holding
Rufia	A Russian tax resident company	75%
Mrs Molotovova	A Russian tax resident	10%
Mrs Sikorska	A German tax resident	10%
Sima	A German tax resident company	5%

Financia was profitable until 2013, when it suffered a tax loss of CZK 1,250,000. Financia's fiscal year is the same as the calendar year.

The following information is applicable to Financia for the year 2014:

- Revenue from the sale of services of CZK 126,000,000. This figure includes revenue from intra-group services provided to Rufia of CZK 1,542,000. The same services would normally be rendered to an unconnected client for CZK 2,750,000.
- Revenue from the sale of shares of CZK 1,340,000. The acquisition value of the shares sold, as registered in Financia's books, was CZK 980,000. None of the shares had been revalued through the profit and loss account before the sale and none of the shareholdings exceeded a 2% participation in the respective companies' registered capital and/or voting rights.
- Cost of received services and purchased goods of CZK 23,400,000.
- Salaries and wages paid of CZK 65,000,000, inclusive of mandatory social security and health care insurance contributions.
- Contributions to the pension schemes of Financia's 50 employees of CZK 19,000 per employee per annum. The contracts of pension insurance fulfilled the conditions for tax deductibility.
- Management fees for intra-group services paid to Rufia of CZK 8,000,000. The price for the services was set at arm's length.
- In 2013, Financia purchased a building (Group 6) for CZK 24,000,000. In 2014, Financia spent a further CZK 2,100,000 on the refurbishment of the building including the replacement of the waterpipes and electricity network. The original shape, structure and materials of the building were, in principle, maintained. The accelerated method of depreciation is being applied to the building for tax purposes. The 2014 accounting depreciation charge for the building is CZK 410,000.
- Financia plans to begin an overall reconstruction of the building in 2024. The overall budget for the reconstruction amounts to CZK 10,000,000 and Financia will fund the reconstruction by transferring CZK 1,000,000 to a reserve for refurbishment in each of the ten years 2014 to 2023. The reserve funds will be kept in Financia's current bank account.
- The 2014 accounting depreciation charge for Financia's remaining fixed assets is CZK 650,000 and this is equal to the tax depreciation charge on these assets.
- In 2013 Financia acquired shares in Unilea, a.s. for CZK 3,500,000. Financia classified these shares as 'available for sale' and registers changes in the shares' value in their books through the profit and loss account. In 2014, the value of the shares increased by the overall amount of CZK 200,000.
- In September 2014 two of Financia's laptops were stolen. The police issued a certificate on 15 December 2014. The laptops (depreciation group 1) had been acquired in 2013 for CZK 46,000 each. For tax purposes, the laptops have been depreciated on the straight line basis and their 2014 accounting written down value was the same as their tax residual value. The market value of the laptops when they were stolen was CZK 20,000 each and the insurance company reimbursed 50% of this market price.
- Financia is the adoptive parent of white tiger twins and contributes CZK 200,000 a year to Liberec ZOO and CZK 120,000 a year to an animal shelter in Geneva.

- Financia decided on a distribution of its 2012 retained profit on 14 March 2014, amounting to CZK 3,200,000 and the dividend was paid to shareholders on 2 April 2014.

In accordance with the tax treaty in force concluded between the Czech Republic and Russia, dividends may be subject to a maximum tax rate of 10% in the case of dividends from shares with over 25% of voting rights or capital and 15% in all other cases. In accordance with the tax treaty concluded between the Czech Republic and Germany, dividends may be subject to a maximum tax rate of 5% in the case of dividends from shares with over 25% of voting rights or capital and 15% in all other cases.

- Financia's books are subject to a review by a certified accountant.

**Required:**

- (a) Prepare the 2014 corporate income tax return of Financia, s. r. o., and calculate the corporate income tax due.** (21 marks)
- (b) State by when Financia, s. r. o.'s 2014 tax return is due and by when the corporate income tax must be paid.** (1 mark)
- (c) Calculate the withholding tax due on the dividend paid by Financia, s. r. o. on 2 April 2014 and state by when it must be paid over to the tax authority.** (5 marks)
- (d) Calculate the 2015 corporate income tax advances payable by Financia, s. r. o., and state by when they should be paid.** (3 marks)

**(30 marks)**

- 2 Mr Prouza is a consultant and court expert in the field of real estate. He is also the sole shareholder of a limited liability company, Bouda, s. r. o. (Bouda), which renders rental and real estate advisory services. Bouda has its registered seat at Brnenska 7, Blansko.

Mr Prouza is employed by Bouda's 100% subsidiary Home, s. r. o. (Home) as a real estate agent and he has signed the taxpayer's declaration with this company. Mr Prouza is also one of Home's three statutory representatives (*jednatel*). Home is based in Prague, Navratilova 11. Mr Prouza has his permanent home in Olomouc.

Mr Prouza is married and has a son, Karel, who is 20 years old and a student at the Prague technical university. Mrs Prouzova had no income in 2014. Mr Prouza, Mrs Prouzova and Karel Prouza lived in a common household for the whole of 2014.

In 2014 Mr Prouza received the following income and benefits:

**From employment with Home:**

- (1) A salary of CZK 45,000 per month, based on the employment contract concluded with Home. He was employed by Home for all 12 months of 2014.
- (2) A statutory representative's fee of CZK 43,000 per month.
- (3) Travel allowances within the statutory limit of CZK 48,000.
- (4) Mr Prouza stays in an apartment in Vodickova 18, Praha 1, rented by Home, every week from Monday to Friday. Home pays a monthly rent of CZK 30,000 directly to the owner of the flat.
- (5) Home offers all of its employees, including Mr Prouza, national theatre annual tickets for CZK 500 each. These tickets cost Home CZK 5,000 per employee per year and the difference is paid from the company's social and cultural fund. Mr Prouza used the ticket in 2014.
- (6) Home pays life insurance premiums of CZK 15,000 per employee per year for all of its employees including Mr Prouza, in December each year. The contracts for life insurance fulfil all the conditions prescribed by the income tax legislation.

**From other sources:**

- (7) Mr Prouza owns an apartment in Brno. He lets the apartment out and in 2014 he received rental payments of CZK 265,000. Mr Prouza pays the utility costs for this apartment himself and covers them from the rents. The utility fees paid in 2014 amounted to CZK 24,000.
- (8) Received remuneration of CZK 68,000 for acting as an expert for the court in Prague 5 in July 2014.
- (9) Received a distribution of Bouda's 2013 profit of CZK 725,000 (net) in October 2014.
- (10) Sold a car for CZK 75,000. The car was originally acquired by Bouda in 2010 and Bouda claimed tax depreciation allowances based on the straight line depreciation method in 2010 and 2011. Mr Prouza had bought the car from Bouda in June 2011 for its tax residual value.

**Required:**

- (a) **Prepare Mr Prouza's 2014 tax return and calculate his individual income tax liability and the balance of tax due after taking into account the payroll tax withheld by his employer.** (17 marks)
- (b) **State, giving reasons, whether in 2014 Mr Prouza will be liable to pay any social security and health care contributions in addition to those withheld by his employer; if contributions are payable, calculate the amount due.**  
Note: You should assume that Mr Prouza did not participate in the illness insurance. (4 marks)
- (c) **Briefly explain the application of the cooperating person regime for income tax, stating the limits on the amounts of income which can be allocated to cooperating persons.** (4 marks)

**(25 marks)**



- 3** Sansa, s. r. o. (Sansa) became a registered value added tax (VAT) payer on 1 January 2014. All of the goods and services supplied by Sansa are standard rated. The following information is relevant to Sansa's first quarterly VAT period, all amounts are stated exclusive of any applicable VAT and Sansa has all the necessary tax documents.

Sansa had the following assets documented in its books of account as at 1 January 2014:

- A car acquired from a non-VAT payer on 4 September 2012 for CZK 650,000. Tax depreciation charges had been claimed by Sansa in 2012 and 2013 based on the accelerated depreciation method.
- A stock of spare parts acquired from Czech suppliers who were registered VAT payers in the period from 1 January 2012 to 31 December 2013 for CZK 660,000.

Sansa had the following transactions in the period 1 January to 31 March 2014:

- (1) Rendered domestic transportation services to Czech customers for CZK 2,245,000.
- (2) Supplied international transportation services to a Polish customer, registered for VAT in Poland, for CZK 560,000.
- (3) Sold goods to Czech customers for CZK 450,000.
- (4) Sold goods to a French customer, registered for VAT in the Czech Republic, for CZK 790,000.
- (5) Received an advanced payment from Pandora, a. s. of CZK 340,000 on 15 March 2014, for work to be done in May 2014. The total price of the work was set at CZK 630,000.
- (6) Received a credit note in March 2014, in respect of an amount reclaimed for defective stock purchased in December 2012. The price reduction credit received was CZK 40,000 and the corresponding VAT CZK 6,388.
- (7) Received payment of CZK 145,000 from Mr Kozel, a non-VAT payer, for the rent of premises.
- (8) Exported goods to Vietnam with a value of CZK 2,390,000.
- (9) Purchased goods from Czech VAT registered suppliers for CZK 820,000.
- (10) Purchased goods from EU suppliers, registered for VAT in their respective member states, for CZK 380,000.
- (11) Purchased services from EU suppliers, registered for VAT in their respective member states, but not in the Czech Republic, for CZK 450,000.
- (12) Provided a credit note for a decrease in price to a customer for CZK 150,000 and corresponding VAT of CZK 23,955.
- (13) Paid for the electricity for the premises used for making taxable supplies of CZK 14,000.
- (14) Paid for the electricity for the premises leased to Mr Kozel (as in (7) above) of CZK 25,000.

**Required:**

**Calculate the value added tax (VAT) payable by Sansa, s. r. o. for the first quarter of 2014.**

**(15 marks)**

- 4 Randa, a. s. (Randa) has its registered seat at Polska 14, Praha 2. An additional assessment of the company's 2012 corporate income tax liability was delivered to Randa on 20 February 2014. The reassessment resulted from the tax audit conducted at Randa in 2013, which had revealed a mistake in the calculation of the 2012 tax depreciation charges. Randa formally agreed to the audit result and signed the audit report on 10 February 2014.

The corporate income tax liability declared in Randa's 2012 tax return and paid on the due date was CZK 352,500. The reassessed 2012 corporate income tax liability was for CZK 387,000, a difference of CZK 34,500. However, the reassessment is only partially justified. It is correct that the depreciation charge had not been correctly calculated in Randa's 2012 tax return, but in making the reassessment the tax inspector has disregarded the outstanding tax loss of CZK 25,000, which Randa had incurred in 2011 but failed to carry forward in 2012.

Randa's accounts are subject to statutory check by a certified accountant. There are no other amounts due by Randa as registered by the tax administration.

**Required:**

- (a) **Assuming Randa, a. s. consulted a firm of tax advisors on 5 January 2014, state what action should have been taken to obtain a correction of the corporate income tax reassessment, giving the reasons justifying the correction.** (3 marks)
- (b) **Assuming Randa, a. s. only consulted a firm of tax advisors on 5 March 2014, state what action should have been taken to obtain a correction of the corporate income tax reassessment, identifying the relevant deadline, the competent authority, the obligatory procedural requisites, and whether or not, if the action is correctly submitted, Randa, a. s. will be obliged to pay the due amount as reassessed.** (6 marks)
- (c) **Assuming the reassessment was NOT corrected and Randa, a. s. paid the reassessed difference on 1 April 2014, calculate the overall amount of the sanctions payable by the company in addition to the additional corporate income tax liability.** (3 marks)
- (d) **Assuming Randa, a. s. paid the reassessed difference on 1 April 2014 but the reassessment was then repealed by the appellate body and that decision was then entered into force as of 5 September 2014 and the tax administration returned the amount of CZK 25,000 to the company on 15 September 2014, state whether the tax administration will be required to pay any additional amount to Randa, a. s. and if so, state how it will be calculated and by when it must be paid.** (3 marks)

**(15 marks)**

- 5** Ms Sixtova, a sole entrepreneur, runs a family farm specialising in the growing of field scale fruit and vegetables. Ms Sixtova hired 65 seasonal workers for the strawberry harvest in May and June 2014. Ms Sixtova hires seasonal workers on the basis of the agreement on the work activity (*‘Dohoda o pracovní činnosti’*). None of the employees signed the declaration of a taxpayer with Ms Sixtova.

Ms Sixtova incurred the following expenses in connection with the seasonal workers:

- (1) Wages (gross) of CZK 5,000 per worker per week.
- (2) Cost of work clothes (dungarees, boots and hats) of CZK 750 per set. Workers who work four weeks or more are allowed to keep their set of work clothes.
- (3) Cost of sun cream of CZK 200 per tube. Each worker is provided with one tube per week.
- (4) Cost of accident insurance premiums of CZK 120 per worker per week. One worker bruised his foot during the harvest and had to be treated at the hospital. The worker did not have mandatory health insurance so Ms Sixtova paid the additional medical costs of CZK 12,000.
- (5) Cost of meal vouchers of CZK 80 per worker per working day.
- (6) Cost of acquiring an additional water cooling tank of CZK 18,500 and cost of making water available to the workers of CZK 20 per worker per day.
- (7) Cost of the ‘strawberry garden party’ organised for the workers and their families at the end of the season of CZK 65,000.

The workers’ wages were paid on 6, 13, 20 and 27 June respectively. The payment date for all the other payments and benefits listed is not defined.

**Required:**

**(a) In respect of each of items referred to in (1) to (7) above:**

- (i) **state whether they are tax deductible or tax non-deductible for the purposes of Ms Sixtova’s individual income tax base;** (4 marks)
- (ii) **state whether they are taxable or not taxable (exempt) for the individual employees;** (4 marks)
- (iii) **state whether they are subject to the employers’ mandatory social security and health care contributions.** (4 marks)

Note: Computations are not required for any of the above sub-parts.

- (b) (i) **State by when Ms Sixtova should pay the payroll tax due in respect of her seasonal workers for the month of June 2014 to the competent tax authority.** (1 mark)
- (ii) **State by when Ms Sixtova should submit her annual reconciliation of payroll tax for the year 2014, if the return is submitted (1) in paper form; and (2) electronically.** (2 marks)

**(15 marks)**

**End of Question Paper**