

Fundamentals Level – Skills Module

Taxation (Czech)

Monday 7 December 2009

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 2–3.

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)

ACCA

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 are to be used in answering the questions.

Corporate income tax

20%

Individual income tax

15%

Personal tax credits (CZK)

Personal tax credit	24,840
Dependent spouse allowance	24,840
Child credit	10,680
Student tax credit	4,020

Tax depreciation periods from 2005

Group 1	3 years
Group 1(a)	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

Depreciation rates under the straight-line method 2005

	<i>1st year</i>	<i>following years</i>	<i>for increased input price</i>
Group 1	20	40	33·3
Group 1(a)	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:

	<i>1st year</i>	<i>following years</i>	<i>for increased input price</i>
Group 1	30	35	33·3
Group 1(a)	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 2005

	<i>1st year</i>	<i>following years</i>	<i>for increased input price</i>
Group 1	3	4	3
Group 1(a)	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

Depreciation periods for intangible assets from 2005

Audiovisual work	18 months
Software and R&D results	36 months
Start-up costs	60 months
Other assets	72 months

Value added tax (VAT)

Standard rate	19%
Reduced rate	9%
Threshold registration limit	CZK 1,000,000

Social security and health care contributions

Social security	Employee's contributions	6.5%
	Employer's contributions	25.0%
Health care	Employee's contributions	4.5%
	Employer's contributions	9.0%

Cap for social security and health care insurance purposes as regards income from employment
CZK 1,130,640

Social security contributions – Private entrepreneur

Illness insurance	1.4%
Pension scheme	28.0%
Unemployment insurance	1.2%
Total	34.0%
Minimum monthly assessment base for the main activity	CZK 5,889
Health care contributions – Private entrepreneur	13.5%
Minimum monthly assessment base	CZK 11,777.50

Repo interest rate

Applicable as of 1 January 2009	2.25%
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ALL FIVE questions are compulsory and MUST be attempted

- 1 The company Krona, s. r. o. (hereafter 'Krona') started its business in 2006. Its fiscal year is equal to the calendar year. Krona incurred a tax loss of CZK 1,890,600 in 2006 and another of CZK 880,400 in 2007 from which no amount had been used in 2008. The company intends to use the maximum deductible amounts against its 2009 tax base and tax liability.

The following information is applicable:

- (1) The company was established by Mr Novy, a Czech tax resident (15%), Mr Smith, a UK tax resident (25%) and the company KOVOS, AG, a German tax resident company (60%). The general meeting of Krona, held in April 2009 decided to distribute profits in the amount of CZK 850,000. The profit distribution was actually paid on 4 August 2009. The withholding tax rate on dividends according to the UK/Czech tax treaty is 15% for individuals. The withholding tax rate on dividends according to the German/Czech tax treaty is 5% for companies with at least a 25% shareholding.
- (2) The company established two 100% subsidiaries in 2007. Subsidiary Ukrkrona was established in Ukraine, subsidiary Norkrona was established in Norway, both as a limited liability company. In 2009 Krona, sold the Ukraine subsidiary for CZK 4,500,000 (the book value of the shares in Krona's books was CZK 2,300,000). The corporate tax rate in Ukraine is 20%. Norkrona distributed profits of CZK 3,500,000 to Krona in April 2009. This payment was tax exempt in Norway.
- (3) The revenues of Krona accounted for in 2009 were:
 - Proceeds from the sale of goods and services of CZK 150,560,000
 - Proceeds from the sale of land of CZK 3,100,000 (2009 book value CZK 3,600,000)
 - Proceeds from sale of shares in Ukrkrona of CZK 4,500,000
 - Contractual penalties of CZK 88,000, out of which CZK 50,000 were actually received in their bank account
 - Interest from the current bank account of CZK 32,900.
- (4) The expenses of Krona accounted for in 2009 were:
 - Goods and services purchased of CZK 33,500,000
 - Entertainment expenses of CZK 123,000
 - Salaries and wages of CZK 55,700,000
 - Mandatory social and health insurance contributions on salaries and wages of CZK 18,938,000, out of which CZK 670,000 were only paid after 31 January 2009
 - Directors' fees of CZK 760,000
 - Travel expenses of CZK 560,400 out of which 80% were within the statutory limit
 - Road tax of CZK 23,000
 - Accounting depreciation charge for 2009 totalling CZK 3,000,000
 - Interest on a bank loan of CZK 348,400
 - Tax on immovable property for 2009 of CZK 24,000
 - Tax on the transfer of immovables of CZK 93,000
 - Penalty assessed for the late payment of 2008 social security contributions of CZK 43,090
 - The amount of CZK 100,000 given to the animal shelter PES, s. r. o, which has its registered seat in Prague.
 - Payment of CZK 100,000 for the temporary dwelling of ten employees. Krona's internal company guidelines stipulate that payment for temporary dwelling will be paid to the dwelling organisation in the amount of CZK 9,000 per employee.
- (5) Krona created reserves and provisions within the statutory limit of CZK 130,500. Other reserves and provisions were created in the amount of CZK 270,100. Clearance of statutory reserves amounted to CZK 35,000 and clearance of other reserves amounted to CZK 52,000.

- (6) Tax depreciation of assets, other than those listed in the table below for which figures need to be calculated, amounted to CZK 1,628,000 for 2009.

Asset	Year/Date of acquisition	Acquisition price CZK	Technical improvement CZK	Depreciation method	Depreciation group	Note
Car	2007	1,800,000		Accelerated	1a	Limit of CZK 1,500,000
Management building	2006	15,300,000	4,500,000 in 2009	Straight-line	6	
Patent (used for licences to third parties)	5 July 2008 – finished and put into use	Own expenses incurred on the patent CZK 1,360,000; the market value of the patent is CZK 2,000,000		Straight-line	Other intangible assets	
Machinery	2007	CZK 200,000 acquisition price by Mr Novy in 2005; market value at the moment of contribution CZK 120,000		Straight-line	3	Contributed to the equity by Mr Novy in 2007. Mr Novy applied straight line depreciation. The increase by 10% was applied in the first year of depreciation.

- (7) Krona received payment for services from Obchod, s. r. o. of CZK 230,000 in 2009. This payment was accounted for in Krona's books as an unpaid receivable (more than 36 months) in 2008 and the 2008 tax base of Krona increased by this amount.

- (8) Tax prepayments made by Krona in 2009 were CZK 300,000.

Required:

- (a) Prepare the computation of corporate income tax payable by Krona, s. r. o. for 2009. (27 marks)
- (b) Explain how the share of profits distributions made by Krona, s. r. o. to its owners on 4 August 2009 will be taxed and state when any tax payable will be withheld and paid. (3 marks)

(30 marks)

- 2 Radka is a self-employed consultant and she keeps tax evidence of her income and expenses. She is divorced and has one child born on 2 February 2001. She receives alimony from her ex-husband of CZK 6,000 per month.

The following is applicable to Radka for the year 2009:

- (1) Radka's business income comprised:
- Sale of services of CZK 900,000
 - Gross amount of interest on current bank account of CZK 10,000
- (2) Radka's business expenses comprised:
- Cost of goods and services of CZK 200,000
 - Mandatory social security contributions (2009 advance payments) of CZK 60,000
 - Mandatory health insurance contributions (2009 advance payments) of CZK 30,000
 - Repair of personal car of CZK 100,000. The car is included in her business assets.
 - Fuel cost for business and private journeys of CZK 120,000
 - Road tax of CZK 4,000
 - Rent of the office of CZK 80,000
 - Entertainment of customers of CZK 18,000
 - Total tax depreciation charge of CZK 160,000

Radka's personal car was used for business and private purposes. Private kilometres were 40% of the total kilometres driven during 2009. The 2009 tax depreciation has already been reduced by the relevant amount.

- (3) Radka paid one income tax prepayment during 2009 amounting to CZK 20,000.
- (4) Radka incurred a loss of CZK 90,000 in 2008. She wishes to use this loss in her 2009 personal income tax return.
- (5) Radka bought a new house in 2007, where she has been living with her son since June 2008. She repays a mortgage loan used to purchase this house. The monthly payment to the bank in connection with the mortgage loan is CZK 18,000. In 2009 she paid mortgage interest of CZK 70,000.
- (6) Radka has been renting out a cottage in Slovakia, which she inherited from her aunt in 2008. The total rental income in 2009 was CZK 150,000. She wishes to use lump sum expenses in the form of a percentage. Radka paid tax on this rental income of CZK 15,000 in Slovakia. According to the Czech/Slovak double tax treaty the credit method is used for the elimination of double taxation.
- (7) Radka received gross interest income on her Slovak bank account of CZK 15,000. No tax was withheld in Slovakia from this income.
- (8) Radka received gross dividends of CZK 100,000 from a Slovak company Kupalisko, a.s. Slovak tax at the rate of 15% was withheld from this income, which is in accordance with the Czech/Slovak double tax treaty.
- (9) Radka is also employed as an accountant. Her total gross employment income for 2009 was CZK 240,000. Her employer deducted from her salary employee's mandatory social insurance and health insurance contributions for 2009 totalling CZK 26,400. Her employer also paid mandatory social insurance and health insurance contributions for Radka in 2009 totalling CZK 81,600. The total tax prepayments withheld by her employer for the year 2009 were CZK 23,400.
- (10) Radka paid pension insurance contributions of CZK 12,000 and life insurance of CZK 18,000 for 2009.
- (11) Radka made a donation to the local school of CZK 3,000 in 2009.

Required:

- (a) Calculate the amount of income tax due/overpaid by Radka for 2009. (22 marks)
- (b) Calculate Radka's obligatory social and health insurance contributions relating to her business activity due/overpaid for 2009. (3 marks)

(25 marks)

- 3** Adventures, s. r. o. (hereafter 'Adventures') is a limited liability company established in the Czech Republic. Rendering services of a travel agency is the sole activity performed by Adventures. Adventures has been a quarterly value added tax (VAT) payer since June 2008.

The following information is applicable to the quarter from January to March 2009. All figures are exclusive of VAT if not stated otherwise. The basic VAT rate applies if not stated otherwise.

- (1) During January, Adventures purchased lodging services inclusive of half board services from a Swiss operator for CZK 680,000 and train tickets for CZK 115,000. Adventures sold holidays in Switzerland for January, February and March and received from clients payments in the amount of CZK 850,000.
- (2) In January, Adventures received invoices for air tickets and lodging in Thessaloniki (Greece) for March. Adventures paid CZK 860,000 to a Czech airline company for the air tickets and CZK 720,000 to a local hotel for lodging. By the end of February, Adventures had sold holidays in Thessaloniki and had received from its clients payments in the amount of CZK 1,840,000.
- (3) In March, Adventures booked lodging for a German travel operator registered for VAT in Germany in southern Bohemia and received a commission payment from the German operator in the amount of CZK 30,000 for this service.
- (4) Adventures pays rent for its offices of CZK 25,000 each month. The rent is due on the fifth (5th) day of each month. The lessor is a Czech VAT payer and claims a VAT deduction.
- (5) A new summer leaflet was printed in March. Adventures received the invoice for the printing on 25 March and paid the invoiced amount of CZK 56,000 on 2 April.
- (6) Adventures paid CZK 52,000 for internet commercials during January, February and March.
- (7) Adventures received from its clients advance payments for summer holidays in August of CZK 530,000 during January, February and March, which include payments for transport and lodging.

Required:

- (a) **Calculate the value added tax (VAT) due by Adventures, s. r. o. for the taxable period January to March 2009.** (12 marks)
- (b) **State under what conditions Adventures, s. r. o. would be able to apply for the cancellation of its VAT registration.** (2 marks)
- (c) **Give ONE example of a situation in which the tax authorities may cancel a VAT registration *ex officio* (on their own initiative without an application from a taxpayer).** (1 mark)

(15 marks)

- 4 Mr Sedlak and Mr Farmer established a limited liability company SEFA, s. r. o (hereafter 'SEFA'). Mr Sedlak is a Czech tax resident. Mr Farmer is an Irish national and tax resident. The following data is applicable to SEFA for 2009:
- (1) The agreement of establishment of the company was signed on 16 March 2009.
 - (2) In accordance with the business licence issued and delivered to Mr Sedlak on 20 March 2009, entered in force on 31 March 2009, SEFA started its business on 5 April 2009.
 - (3) SEFA will operate both in Prague and Dublin. SEFA's registered seat will be Prague 1, Vladislavova 25. On 1 April 2009 SEFA also opened an office in Dublin. SEFA's place of effective management will be in Dublin.
 - (4) SEFA will have 55 full time employees based in Prague who will start work on 1 May 2009. Each of the employees will receive a monthly gross salary of CZK 35,000. The employees will receive their salaries on the 15th day of each month, their first salary (for May) will be paid on 15 June. The number of employees is expected to increase by another 30 by the end of 2009.
 - (5) SEFA's 2009 turnover is estimated at CZK 60 million.

Required:

- (a) **Explain SEFA, s. r. o.'s obligation(s) to register with the tax authorities. Your answer should state the correct deadlines, competent authority and obligatory data to be reported.** (6 marks)
- (b) **State by when SEFA, s. r. o. was obliged to register with the competent social security authority and health care insurance authority.** (2 marks)
- (c) **Calculate the amount of the first social security and health care insurance contributions due by SEFA, s. r. o. and state by when the contributions should be paid.** (3 marks)
- (d) **State when SEFA, s. r. o. was obliged to open its statutory books, what its first taxable period will be and by when its first corporate income tax return will be due.** (3 marks)
- (e) **State, giving reasons, whether SEFA, s. r. o. is a Czech tax resident.** (1 mark)

(15 marks)

- 5 (a) Martina is employed by the company Stavba, a.s. in Ostrava. Martina is married and has a son Jakub, who is six years old. Martina's husband is disabled and he receives only a disability pension.

Martina received the following income and benefits in March 2009:

- (1) Gross salary of CZK 40,000.
- (2) Bonus for 2008 of CZK 15,000.
- (3) Martina was provided with a company car for business and private purposes. The purchase price of the car was CZK 400,000 inclusive of value added tax (VAT). Fuel costing CZK 6,000 was fully paid for by Stavba, a.s. According to the log book, 50% of the kilometres travelled were for business purposes.
- (4) Stavba, a.s. provided Martina with meal vouchers to the value of CZK 1,000.
- (5) Stavba, a.s. paid CZK 500 into a private pension insurance fund with state subsidy for Martina.
- (6) Stavba, a.s. provided Martina with two tickets for a philharmonic orchestra concert. The tickets cost CZK 400 each and were purchased from a social fund.
- (7) Stavba, a.s. paid CZK 1,500 for Jakub's summer camp. The amount was paid from a social fund directly to the travel agency.

Required:

- (i) **Calculate the amount of social and health insurance contributions payable by Stavba, a.s. (employer) and Martina (employee) for the month of March;** (8 marks)
- (ii) **Calculate the payroll tax withheld from Martina's March 2009 employment income.** (3 marks)

- (b) In 2009 Martina paid the following amounts:

- (1) Gift of CZK 2,000 to an animal shelter operated by a charity in Germany.
- (2) Gift of CZK 200 to a school in Ostrava.
- (3) Gift of CZK 1,000 to a Czech political party.
- (4) Pension insurance with a state subsidy of CZK 7,000.
- (5) Annual membership fee for a local tennis club of CZK 3,000.
- (6) Telephone charges of CZK 150 for 'DMSs' (*darcovske zpravy*).

Required:

- (i) **For each of the above items state whether or not it is deductible from Martina's 2009 tax base;** (3 marks)
- (ii) **State whether Martina's employer can make the deductions in (i) above, when making the annual payroll tax reconciliation or whether Martina has to file a tax return to be able to claim the deductions.** (1 mark)

(15 marks)

End of Question Paper