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# Answers

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1 Vitrea s. r. o.		<i>Marks</i>
<b>(a) 2013 corporate income tax liability</b>		
	<b>CZK</b>	
<b>Accounting revenues:</b>		
Proceeds from the sale of goods	8,240,000	
Insurance company compensation	160,000	
Release of other reserve	600,000	
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Total accounting revenues	9,000,000	½
<b>Accounting expenses:</b>		
Purchased goods and services	3,587,088	
Salaries and wages	2,930,000	
Employees' pension plans	140,000	½
Loan to Mrs Jaklova (a balance sheet operation)	0	1
Social security insurance on loan at 34% (24,000*0.34)	8,160	
Payments for employees' qualifying free time activities	40,000	
Social security insurance on cars used by employees (565,000*0.01*12*0.34*3)	69,156	1
Apartment rent (12,000*12)	144,000	½
Social security insurance on non-exempt apartment rent (12,000 – 3,500)*12*0.34	34,680	
Premises rent (46,000*12)	552,000	
Depreciation charge (working 1)	555,056	4½
Van repair	160,000	
Provisions (working 2)	41,400	3
Penalty	6,300	
Statutory reserve	25,000	
Donation	50,000	
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Total accounting expenses	8,342,840	2
Accounting profit	657,160	
Adjustments up:		
Social and cultural fund	40,000	1
Arm's length correction for the premises rent (552,000 – ((46,000/230)*180*12))	120,000	1
Penalty	6,300	1
Donation	50,000	1
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Total adjustments up	216,300	
Less:		
Release of other reserve	600,000	1
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Total deductions	(600,000)	
Tax base	273,460	
Less: Losses brought forward (43,700 + 76,900)	(120,600)	1
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Tax base after loss relief	152,860	
Maximum gift allowance (5% of 152,860)	(7,643)	1
Reduced tax base	145,217	
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Tax base rounded (down to '000)	145,000	½
Tax at 19%	27,550	½
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**Working 1 – Tax depreciation**

	CZK	
Personal cars acquired in 2008 – fully written off	0	1/2
Van		
2011 $730,000/5 + 10\%*730,000$	219,000	1/2
2012 $2*(730,000 - 219,000)/6 - 1$	204,400	1/2
2013 $2*(730,000 - 219,000 - 204,400)/6 - 2$	153,300	1/2
Plant		
2010 $2,800,000/10 + 10\%*2,800,000$	560,000	1/2
2011 $2*(2,800,000 - 560,000)/11 - 1$	448,000	1/2
2012 $2*(2,800,000 - 560,000 - 448,000)/11 - 2$	398,223	1/2
2013 $2*(615,000 + 2,800,000 - 560,000 - 448,000 - 398,223)/10$	401,756	1
Total depreciation charge $153,300 + 401,756$	555,056	

**Working 2 – Tax deductible provisions**

	CZK	
Mr Moravek – not allowable as he is a related party to Vitrea	0	1/2
Darky Strakonice ( $65,000*20\%$ )	13,000	1
Leca – ( $142,000*20\%$ )	28,400	1
Tax authority – not allowable	0	1/2
Total tax deductible provisions for bad debts	41,400	

**(b) Proposed general refurbishment**

- (i) The refurbishment of the premises will be considered a technical appreciation to the extent that the functionality of the building is enhanced and the cost is more than CZK 40,000. In this case, replacing the old equipment and surfaces with new will be treated as repairs, but the construction of a new pavilion is very likely to appreciate the value of the building. 2

As Vitrea is not the owner of the building, it will need the written consent of the owner (Mr Moravek) for it to depreciate any appreciation. 1

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- (ii) Vitrea can apply for a binding ruling from the tax authority as to whether and to what extent appreciation has occurred. 1/2

In addition to Vitrea's identification data, the application must comprise a detailed description of the building in question and of the planned refurbishment, including the plans and budget. 2

The application is subject to an administrative fee of CZK 10,000. 1/2

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**(c) Statute of limitations expiry dates**

- (i) 31 December 2012. 1

- (ii) 1 April or 1 July 2019. 1

- (iii) 1 April or 1 July 2020. 1

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**2 Nina Bauerova**

- (a) A person is a tax resident of the Czech Republic if s/he has a permanent home or stays in the Czech Republic for more than 183 days in a calendar year. 2

## (b) 2013 Personal income tax

	CZK	CZK	
<b>Employment income</b>			
Salary from Multimedia (6*75,000)	450,000		½
Severance payment (3*75,000)	225,000		½
Pension plan contribution	0		1
Travel allowances within the statutory limit	0		1
Travel allowances over the statutory limit	4,200		1
Salary from Mediafox (4*145,000)	580,000		½
Costs of moving – exempt	0		1
Sub-total before social and health contributions	1,034,200		
Social security and health care insurance at 34%	351,628		1½
Partial tax base (1,034,200 + 225,000 + 351,628)		1,610,828	
<b>Capital income</b>			
Interest from the bank account	3,200		1
Partial tax base		3,200	
<b>Other income</b>			
Gain on the sale of the flat (exempt as owned for more than five years)	0		1
Partial tax base		0	
Total tax base		1,614,028	
Exempt income from Netherlands (working 1)		(777,200)	2½
Life insurance (up to CZK 12,000)		(11,000)	1
Mortgage interest allowance (up to CZK 300,000)		(215,000)	1
Reduced tax base		610,828	
Rounded tax base (down to '00)		610,800	½
Tax liability at 15%		91,620	½
Personal tax credit		(24,840)	½
Spouse credit – no credit as married in December		(0)	1
Tax liability after credits		66,780	
Less:			
Tax prepayments made by Multimedia (working 2)		(133,603)	4
Tax overpayment		(66,823)	
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**Tutorial note:** *There is no insurance on the severance payment.*

**Working 1 – Exempt income calculation**

	CZK
Salary from Mediafox	580,000
Social security and health care contributions at 34%	197,200
	<u>777,200</u>

## Working 2 – Prepayments made by Multimedia

	CZK	
<b>January to June</b>		
Salary	75,000	
Travel allowances above the limit	700	
Social security and health care insurance at 34%	25,738	
Tax base	<u>101,438</u>	
Tax base rounded up to '00	101,500	
Tax prepayment at 15%	15,225	2½
Personal deduction (declaration not signed)	0	
<b>July</b>		
Severance payment	225,000	
Social security and health care insurance	0	
Tax base	<u>225,000</u>	
Tax prepayment at 15%	33,750	
Solidarity surcharge (225,000 – 103,536)*7%	8,503	
Total tax advance	<u>42,253</u>	1½
Total prepayments (6*15,225 + 42,253)	<u>133,603</u>	

(c) Nina is not obliged to pay individual income tax advances in 2014 since she is neither a Czech tax resident nor works in the Czech Republic. She will need to inform her former tax authority accordingly.

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(d) If a person is considered to be tax resident according to the national legislation of more than one state, their residence status will be judged in accordance with the provisions of the relevant double tax treaty, in this case the Czech Republic–Netherlands treaty. Tax treaties normally provide a set of tie-breaker rules to decide the taxing rights of the respective states in dual residence situations.

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## 3 Lombok, s. a.

## (a) Value added tax (VAT) on transactions in Quarter 1 of 2013

Transaction	Transaction type	
(1) Purchase of goods and services from Czech suppliers	Taxable at standard rate	½
(2) Purchase and import of goods from Indonesian suppliers	Taxable – reverse charge method applies	1
(3) Sale of furniture to Czech customers not registered for VAT	Taxable at standard rate	½
(4) Sale of furniture and decorations to a Danish (EU) customer registered for VAT in Denmark	Inter-community exempt with recovery for input VAT	1
(5) Sale of furniture to a non-EU customer	Exempt with recovery for input VAT (export)	1
(6) Rents received for the apartments from Czech non-VAT payers	Exempt without recovery for input VAT	1
(7) Rents received for the apartment from Indonesian guests	Exempt without recovery for input VAT	1
(8) Sale of warehouse	Exempt without recovery for input VAT	1
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## (b) (i) Actual coefficient for 2012

Coefficient = Taxable supplies + Exempt with recovery for input VAT/Total supplies

Taxable supplies + Exempt with recovery for input VAT = (1,150,000 + 764,000) + (274,000 + 229,000) = 2,417,000 1½

Total supplies = 2,417,000 + 52,000 + 148,000 = 2,617,000 1

Actual coefficient = 2,417,000/2,617,000 = 92% ½

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(ii) The difference between the partial recoveries based on the advance coefficient and the amount recoverable based on the actual coefficient must be reconciled at the end of the calendar year.

½

**Marks**

The reconciliation should be included in the last VAT return for the calendar year, i.e. the return for Quarter 4.

½

The difference must be settled as part of the VAT return payment by 25 January 2013.

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(c) If the delay in submitting a VAT return is more than five working days, the following penalties apply:

- a late submission fine of 0.05% of the VAT recoverable for each further day of delay beyond the first five days, 1
- a minimum penalty of CZK 500 and a maximum of 5% of the VAT recoverable. 1

In addition, interest will be charged for every day that payment of any VAT due is late, at the repo rate plus 14%.

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**4 Hoza, s. r. o.**

(a) Mr Zahradnik is obliged to submit his application for registration within 15 days from the start of his entrepreneurial activity, i.e. no later than 16 April 2013, with the financial authority Praha, regional office Praha 9.

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Mr Holy was obliged to submit his application in 2008 when his business licence came into force.

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He will have been registered since then with the tax authority Praha, regional office Praha 2.

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Hoza, s. r. o. was obliged to submit its application for tax registration on 20 June 2013 at the latest, with the tax authority Praha, regional office Praha 2; and

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in case it opens a wage payer (*plátcova pokladna*), it would be registered in FU Pardubice, regional office Holic.

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(b) It is not possible for a newly registered VAT payer to switch from a monthly to a calendar quarter VAT period in the first year they are registered or in the following year.

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Therefore, Hoza cannot switch to a quarterly VAT period until 2015, and then only if the following conditions are satisfied:

- the turnover in the year preceding year the year of change does not exceed CZK 10 million,
- the VAT payer must be a reliable payer,
- the VAT payer must not be a member of a VAT group, and
- the change must be announced by the end of January in the year of change, in Hoza's case, 31 January 2015.

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(c) (i) Obligatory.

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(ii) Obligatory.

½

(iii) Not obligatory.

½

(iv) Not obligatory.

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(v) Obligatory.

½

(vi) Obligatory.

½

(vii) Not obligatory.

½

(viii) Not obligatory.

½

(ix) Not obligatory.

½

(x) Obligatory.

½

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## 5 Adam Dolensky

## (a) 2013 Personal income tax

	CZK	CZK	
<b>Employment income</b>			
Statutory representative's fee	527,000		½
Pension plan contribution (exempt < CZK 30,000)	0		1
Life insurance contribution (exempt < CZK 30,000)	0		1
SHI at 34%	<u>179,180</u>		½
Partial tax base		706,180	
<b>Business income</b>			
Exhibition design remuneration	852,000		½
Lump-sum expenses at 40%	340,800		1
Contribution to the magazine (subject to withholding tax at 15%)	<u>0</u>		½
Partial tax base		511,200	
<b>Capital income</b>			
Dividend (subject to withholding tax at 15%)	0		½
Interest (subject to a withholding tax at 15%)	<u>0</u>		½
Partial tax base		0	
<b>Rental income</b>			
Rent for the flat	164,000		½
Lump-sum expenses at 30%	<u>49,200</u>		1
Partial tax base		<u>114,800</u>	
Total tax base		1,332,180	
Pension insurance allowance (10,000 – 12,000)		<u>0</u>	1
Reduced tax base		<u>1,332,180</u>	
Rounded tax base (down to '00)		<u>1,332,180</u>	½
			<u>9</u>

## (b) 2014 tax advances due

## 2013 tax liability

	CZK	
Tax base (from (a))	1,149,000	
Tax before credits at 15%	172,350	½
Personal tax credit	<u>(24,840)</u>	½
Tax liability	<u>147,510</u>	

The tax liability is between CZK 30,000 and CZK 150,000; and Adam's 'employment' income is less than 50%,  $527,000/1,149,000 = 45.87\%$  of the total tax base, therefore, Adam will pay 2014 individual income tax advances twice a year of  $147,510 \times 40\% \times 50\% = \text{CZK } 29,600$  (rounded up to hundreds).

The first advance will be due on 15 December 2014 and the second on 15 June 2015.

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## (c) 2013 social security and health care insurance due

Base for SHI: 50% of 511,200	CZK 255,600	1
Social security insurance at 29.2%	CZK 74,635	½
Health care insurance at 13.5%	CZK 34,506	½

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