

Fundamentals Level – Skills Module

Taxation (Czech)

Tuesday 3 December 2013



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, consisting 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 2013 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 1,242,432 | 15% |
|-----------------|-----|

Over 1,242,432:

| | |
|---------------------|-----|
| Personal income tax | 15% |
|---------------------|-----|

| | |
|----------------------|----|
| Solidarity surcharge | 7% |
|----------------------|----|

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 contributions

Cap for social security purposes CZK 1,242,432

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 12,942

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 6,471

Minimum monthly assessment base for the secondary activity CZK 2,589

Threshold limit for obligatory participation in social security
in the case of the secondary activity CZK 62,121

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 8,000 per month or CZK 48.10 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 Vitrea s. r. o. (hereafter ‘Vitrea’) is a glass products manufacturer established in 2000. Vitrea’s registered seat is in Varnsdorf. Vitrea is a Czech tax resident company using the calendar year as the fiscal year.

The following information is applicable to Vitrea and its fiscal year 2013:

- (1) Vitrea accounted for purchases of goods and services (all tax deductible) of CZK 3,587,088.
- (2) Vitrea accounted for goods sold of CZK 8,240,000.
- (3) Vitrea accounted for salaries and wages for its ten employees of CZK 2,930,000 inclusive of mandatory social security and health care insurance contributions (all of which were paid by the end of January 2014), but exclusive of any fringe benefits.
- (4) In addition to their salaries, Vitrea contributes to the private pension plan of all ten of its employees. In accordance with the trade union agreement, Vitrea contributes to employees’ private pension plans up to CZK 20,000 per employee per year, provided the employee’s contract fulfils the conditions for tax deductibility and the employee contributes at least the same amount personally. In 2013 Vitrea accounted for employees’ pension plan contributions of CZK 140,000.
- (5) Vitrea provided one of its employees, Mrs Jaklova, with an interest free loan for the refurbishment of her apartment in the amount of CZK 450,000. If Mrs Jaklova had obtained this loan from a bank, the interest she would have had to pay would have amounted to CZK 24,000 per annum.
- (6) In accordance with the trade union agreement, Vitrea created a social and cultural fund of CZK 40,000 to contribute to its employees’ free time activities and well-being. Each employee is entitled to receive and actually received CZK 4,000 per year for qualifying purposes from this fund.
- (7) Vitrea rents an apartment in Varnsdorf for its executive director, Mr Havelka, as agreed in his employment contract. The monthly rent for the apartment was CZK 12,000 for the whole of 2013. Mr Havelka lives permanently in Prague and from Mondays to Fridays he stays in the rented apartment.
- (8) Vitrea operates from rented premises in a building owned by Mr Moravek, who holds a 35% share in Vitrea. In accordance with the lease agreement, Vitrea pays a monthly rent of CZK 46,000 (CZK 230 per square metre). Mr Moravek rents out the remaining part of the building to unrelated parties for rents of CZK 180 per square metre.
- (9) Vitrea owns three personal cars (depreciation group 2) and one van (depreciation group 2).
 Vitrea acquired the cars as their first owner in July 2008 for CZK 565,000 each and uses the straight line method for tax depreciation. The cars are being used by three of Vitrea’s employees. The respective employees are allowed to use the cars for private purposes as well as for business.
 Vitrea acquired the van as its first owner in 2011 for CZK 730,000 and uses the accelerated method for tax depreciation. The van was involved in an accident in April 2013. The repair costs amounted to CZK 160,000 and were fully covered by the insurance company.
- (10) Vitrea uses plant (depreciation group 3) acquired new in November 2010 for CZK 2,800,000 and which it started operating in December 2010. In 2013 Vitrea enhanced and refurbished this plant. The overall cost of the refurbishment amounted to CZK 615,000. Vitrea uses the accelerated method for the tax depreciation of the plant.
- (11) Vitrea’s tax accounting depreciation charge is equal to the tax depreciation charge.
- (12) As at 31 December 2013, Vitrea had the following unpaid receivables for which it has not previously created any accounting or tax provisions. Vitrea has not initiated court proceedings in respect of any of these debtors. Leca, s. r. o. and Darky Strakonice, s. r. o. are not related parties to Vitrea. Vitrea has not created any specific accounting provisions.

| Amount CZK | Debtor | Due on | Title |
|---------------|----------------------------|------------------|--------------------|
| 552,000 | Mr Moravek. | 15 December 2010 | Sale of services |
| 65,000 | Darky Strakonice, s. r. o. | 15 November 2012 | Sale of goods |
| 142,000 | Leca, s. r. o. | 1 March 2013 | Sale of goods |
| 15,000 | Tax authority | 15 December 2013 | Overpayment of tax |

- (13) On 12 January 2013, Vitrea paid a penalty for the late payment of social security and health care contributions of CZK 6,300. This penalty was assessed on 20 December 2012.
- (14) Vitrea created statutory reserves of CZK 25,000 and released other reserves of CZK 600,000.
- (15) Vitrea made a charitable donation of CZK 50,000.
- (16) Vitrea had a positive tax base in each of the four fiscal years 2007 to 2010 but incurred tax losses of CZK 43,700 in 2011 and CZK 76,900 in 2012.

Required:

- (a) **Calculate Vitrea s. r. o.'s 2013 corporate income tax base (loss) and tax liability as assessed by the tax authority.** (21 marks)
- (b) Vitrea s. r. o. plans a general refurbishment of its premises. The refurbishment will include painting and wallpapering, a change of the floor surfaces, a change of windows and doors, and the construction of a new pavilion of 35 square metres.

Required:

- (i) **State under what circumstances the refurbishment would qualify as technical appreciation and could be depreciated by Vitrea s. r. o.** (3 marks)
- (ii) **State whether Vitrea s. r. o. can apply for a binding ruling from the competent tax authority and, if so, list the information which must be included in the application.** (3 marks)
- (c) **Assuming a taxpayer recorded a positive tax base in 2008 and tax losses in 2010 and 2011, and that a tax audit of the tax year 2010 was initiated in October 2013, state when the statute of limitations expired or will expire for the assessment of the corporate income tax for the tax years:**
- (i) 2008;
- (ii) 2010;
- (iii) 2011. (3 marks)

(30 marks)

- 2 Nina Bauerova has been employed with Multimedia, s. r. o. (Multimedia) since September 1999. In 2013 Multimedia went through a general reorganisation in which Nina's post was cancelled as of 1 July 2013. Multimedia offered Nina three months' salary as a severance payment, which she agreed to. Nina found a new job with Mediafox BV (hereafter 'Mediafox'), a Dutch tax resident. Nina moved to Amsterdam (the Netherlands) in September 2013 when she started work with Mediafox.

In December 2013 Nina got married to Thomas Clang, a Dutch tax resident. Thomas is unemployed and the only income he received in 2013 was an unemployment subsidy from the Dutch government in the overall amount equivalent to CZK 42,500. Since their marriage, Nina has been living in a common household with Thomas and his nine-year-old daughter from a previous relationship. Nina has no children of her own. Nina shall be considered to be a Czech tax resident for the whole of 2013.

The following information is applicable to Nina Bauerova for the year 2013:

- (1) Nina earned a monthly gross salary of CZK 75,000 from Multimedia from 1 January to 30 June 2013. In addition, she received her agreed severance payment of three months' salary in July 2013. Nina has not signed the taxpayer's declaration with Multimedia.
- (2) Multimedia made a contribution to Nina's private pension plan of CZK 6,000 with a state subsidy, in accordance with the trade union agreement. The contract fulfils the conditions for tax deductibility.
- (3) Nina received travel allowances within the statutory limit of CZK 5,400 (CZK 900 each month) and travel allowances over the statutory limit of CZK 4,200 (CZK 700 each month) from Multimedia.
- (4) Nina earned a monthly gross salary amounting to the equivalent of CZK 145,000 from Mediafox from 1 September to 31 December 2013. Mediafox withheld Dutch tax in the overall amount equivalent to CZK 154,500. For social security and health care insurance in 2013 Nina remained registered in the Czech Republic. According to the double taxation convention between the Czech Republic and the Netherlands, the exemption method applies in respect of employment income.
- (5) Mediafox paid Nina's costs of moving from Prague to Amsterdam directly to the removals company. These costs amounted to CZK 120,000. These costs are tax deductible for Mediafox according to Dutch law.
- (6) Nina opened a current bank account with ING Amsterdam. In 2013 she received interest amounting to the equivalent of CZK 3,200 on this account. No tax was withheld in the Netherlands.
- (7) Nina concluded a contract of life insurance which met the conditions for income tax deductibility, and paid premiums of CZK 11,000 in the year 2013.
- (8) In October 2013 Nina paid the last instalment of the mortgage loan for her flat in Soukenicka, Praha 1 where she lived before she moved to Amsterdam. In 2013 Nina paid interest on the loan in the overall amount of CZK 215,000. In December 2013, Nina sold the flat for CZK 6,400,000. She had acquired and moved into the flat in September 2008 for CZK 4,950,000. Nina's registered permanent home address in the Czech Republic remained in Soukenicka until 15 December 2013.

Required:

- (a) **State when a person is a Czech tax resident according to the Czech national legislation.** (2 marks)
- (b) **Calculate Nina Bauerova's income tax liability for 2013 and the tax due, including the amount of tax overpaid after taking into account the tax prepayments made by Multimedia, s. r. o.** (20 marks)
- (c) **State, giving reasons, whether Nina is obliged to pay individual income tax advances in the Czech Republic in 2014.** (1 mark)
- (d) **Explain how Nina Bauerova's tax status would be determined if both the Czech and the Dutch domestic tax legislation were to consider her to be their tax resident.** (2 marks)

(25 marks)

- 3** Lombok, a. s. (hereafter 'Lombok') imports and sells furniture and decorations acquired from Indonesia in its shop in Prague. Lombok owns the building where the shop is situated and there is an office on the second floor and an apartment on the third floor of this building. Lombok uses the office and lets out the apartment on an occasional basis to non-value added tax (VAT) payers.

Lombok has been a quarterly VAT payer since July 2010. None of Lombok's purchases of goods and services or sales are subject to VAT at the reduced rate. All figures are stated exclusive of any applicable VAT.

The following information is applicable to Lombok for the three-month period 1 January to 31 March 2013 (Quarter 1).

- (1) Purchased goods and services for CZK 356,000 from Czech suppliers.
- (2) Purchased and imported goods from Indonesian suppliers for CZK 57,000.
- (3) Sold furniture to Czech customers not registered for VAT for CZK 275,000.
- (4) Sold furniture and decorations to a Danish customer registered for VAT in Denmark (a member of the European Union (EU)) for CZK 265,000.
- (5) Sold furniture to a customer resident in a non-EU country for CZK 435,000.
- (6) Received rents for the apartment from Czech guests of CZK 78,500.
- (7) Received rents for the apartment from Indonesian guests of CZK 17,000.
- (8) Lombok owned two warehouses at the beginning of 2013, one in Nehvizdy and the other in Hostivice. Both warehouses were included in Lombok's fixed assets. In January 2013 the warehouse in Nehvizdy was sold for CZK 3,120,000. Lombok had acquired the Nehvizdy warehouse in 2008 for CZK 2,980,000.

In 2012 Lombok had used an advance coefficient for the recovery of VAT of 95%. Lombok's total supplies for the year 2012 were made up as follows:

Goods delivered to Czech VAT payers of CZK 1,150,000

Goods delivered to Czech non-VAT payers of CZK 764,000

Goods delivered to customers in countries outside the EU in the equivalent of CZK 274,000

Goods delivered to customers registered as VAT payers in other EU member states in the equivalent of CZK 229,000

Rents received from Czech guests of CZK 148,000

Rents received from Indonesian guests of CZK 52,000.

Required:

- (a) For each of Lombok, a. s.'s transactions for Quarter 1 of 2013, for the purposes of value added tax (VAT) state whether**

- **it is taxable and, if so, on what basis; or**
- **exempt and, if so, whether exempt with or without recovery for input VAT.**

Note: You are not required to calculate the VAT. (7 marks)

- (b) (i) Calculate the actual coefficient to be applied by Lombok, a. s. when calculating the amount of VAT recoverable for the year 2012.** (3 marks)

- (ii) State when Lombok, a. s. should reconcile the difference between the partial recoveries based on the advance coefficient and the actual amount recoverable, and by when the difference must be settled.** (2 marks)

- (c) State the consequences if a VAT return is submitted more than five days after the deadline.** (3 marks)

(15 marks)

4 Mr Zahradnik and Mr Holy opened a restaurant in Holice (Pardubice region) on 1 July 2013.

Mr Zahradnik applied for a business licence enabling him to provide restaurant services in February 2013. He obtained his licence on 3 March and in accordance with the licence was able to perform his business activity as from 1 April 2013. Mr Zahradnik's permanent address is in Prague 9, Kostelecka 24.

Mr Holy has held a business licence for purchasing and trading in goods since June 2008. Mr Holy's permanent address is in Prague 2, Neklanova 8.

Mr Holy and Mr Zahradnik decided to establish a limited liability company, Hoza, s. r. o. (hereafter 'Hoza'), in which they would each hold a 50% share. They signed the memorandum of association on 15 April 2013 and received the business licence for the company on 15 May 2013. The business licence permits the company to perform its business as from 1 May 2013, which it did. The company was registered in the commercial register as from 5 June 2013. Mr Holy is the sole statutory representative of the company. Hoza's registered seat is in Prague 2, Neklanova 8. The restaurant premises are located in a rented building in Holubova 2, Holice.

Hoza has employed a cook and two waitresses since 1 July 2013.

Required:

- (a) **State by when and with which competent authority Mr Zahradnik, Mr Holy and Hoza, s. r. o. are obliged to file their registration application for tax in respect of the restaurant activities, assuming that the financial offices and their branches are located in the towns and municipalities detailed above.** (7 marks)
- (b) Hoza, s. r. o. would like to become a quarterly value added tax (VAT) payer as soon as possible.

Required:

State, giving reasons, whether this will be possible and, if so, when. (3 marks)

- (c) **State whether or not it is obligatory for Hoza, s. r. o. to include each of the following items of information when it submits its application for registration for corporate income tax:**
- (i) **The name of the company and the address of its registered seat;**
 - (ii) **The address of the place where the restaurant is being located;**
 - (iii) **Mr Holy's permanent home address;**
 - (iv) **The names and identification data of all of Hoza's partners;**
 - (v) **The name and identification data of Mr Holy;**
 - (vi) **The statement as to whether it is Hoza's first application for tax registration;**
 - (vii) **The names and identification data of Hoza's suppliers registered for VAT;**
 - (viii) **Mr Zahradnik's telephone number and e-mail address;**
 - (ix) **The number of Mr Holy's business bank account;**
 - (x) **A copy of the business licence or all the information contained in the licence.** (5 marks)

(15 marks)

- 5 Mr Adam Dolensky is an architect and one of the three partners in the architect studio Archdeco, s. r. o. (hereafter 'Archdeco') whose registered seat is at Spalena, Praha 1. Adam is one of the three statutory representatives of the company (*jednatel*) and he receives remuneration for this activity based on a contract of mandate (*mandátní smlouva*). He is not employed by Archdeco.

In 2013 Adam had the following income and expenditure:

- (1) Received statutory representative's fees of CZK 527,000 from Archdeco in December 2013 for his work for the company. Adam incurred documented expenses in relation to this activity of CZK 145,000.
- (2) Received a distribution of Archdeco's 2012 profit of CZK 125,000 (net).
- (3) In December each year, Archdeco pays pension insurance contributions with a state subsidy of CZK 6,000 and life insurance premiums of CZK 14,000 for all of its employees and statutory representatives (including Adam). The contracts of pension insurance and life insurance fulfil all conditions as prescribed by the income tax legislation for tax deductibility. In addition to these contributions, Adam paid CZK 10,000 on the pension insurance contract himself.
- (4) Adam owns a flat in Brno which he lets out. In 2013 he received rental income of CZK 164,000. He incurred documented expenses in relation to this rental of CZK 30,000.
- (5) Adam received remuneration for designing an exhibition hall from the municipality of Zlin. He provided these services on a personal basis for the overall amount of CZK 852,000. He incurred documented costs of CZK 65,000 in connection with this work.
- (6) Adam contributed to the magazine 'Design' and received remuneration of CZK 3,200 (gross) for this based on a contract on work done (*Dohoda o provedení práce*).
- (7) Adam received interest on his Czech private savings account of CZK 32,000.

Adam is single and has no children. He is represented by a certified tax adviser.

Required:

- (a) **Calculate Adam Dolensky's 2013 tax base.** (9 marks)
- (b) **Calculate the 2014 individual income tax advances due by Adam Dolensky and state by when they are due.** (4 marks)
- (c) **Calculate the 2013 social security and health care insurance contributions to be paid by Adam Dolensky from his income from independent activity, if he does not participate in the illness insurance.** (2 marks)

(15 marks)

End of Question Paper