
Answers

Section B

Marks

1 (a) PEROLA, a.s.

- (i) The penalty is 20% of the difference between the original tax liability and the reassessed liability:
 $(1,890,000 - 1,500,000) \times 0.2 = \text{CZK } 78,000$ 1
- (ii) The statute of limitation is 1 March 2019, three years from the start of the tax audit, as this is earlier than ten years from the original deadline (i.e. ten years from 1 April 2015). 1
- (iii) **Obligations during the tax audit**
- To provide proper conditions and a place for carrying out of the tax audit.
 To provide essential information about the organisational chart, about the employees' roles, and about the deposition of the accounting books.
 To provide evidence proving the facts comprised in the tax returns.
 To facilitate discussion with any of their employees.
 Not to hide any evidence that is at their disposal.
- THREE items ONLY required, 1 mark each – maximum** 3

(b) Adria, a.s.

(i) Withholding tax on dividends

	CZK	
Dividend to Badria, a.s. – exempt (holding of more than 10% for more than one year)	0	0.5
Dividend to Mr Holy – $(80,000 \times 0.15)$	12,000	1
Dividend to Mr Nemy (as above)	12,000	0.5
	<u>24,000</u>	

The tax withheld should be sent to the tax authority by 30 September 2016 (i.e. the end of the month following the month in which the dividend is paid).

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(ii) Withholding tax on finance lease payment

As Adria, a.s. did not withhold the tax when making the payment it needs to be grossed up:
 $((190,000/95) \times 100) = \text{CZK } 200,000$ 1
 Tax to be withheld: $(200,000 \times 0.05) = \text{CZK } 10,000$ 0.5
 The tax withheld should have been sent to the tax authority by 30 April 2016. 0.5

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2 Lukas – 2016 income tax return

	CZK	CZK	
Other income			
Pensions (160,000 + 450,000)	610,000		0·5
Less: limit (36*9,900 minimum wage)	<u>(356,400)</u>		1
		253,600	
Sale of flat – exempt (held for more than five years)		0	1
Inheritance of garage – exempt		0	0·5
Sale of garage – exempt (held for more than five years)		0	1
Sale of Car 1 – proceeds	200,000		0·5
Less: residual value	<u>(150,000)</u>		1
		50,000	
Car 2 insurance benefit – not taxable		0	0·5
Sale of shares – proceeds	340,000		
Less: cost	<u>(100,890)</u>		
		239,110	1
Bank interest – taxed by withholding		–	0·5
Gift from friend		20,000	1
Tax base		<u>562,710</u>	
Rounded tax base		562,700	0·5
Tax at 15%		84,405	0·5
Personal tax credit		<u>(24,840)</u>	0·5
Tax payable		<u>59,565</u>	
			<u>10</u>

Tutorial notes:

1. The sale of the house is exempt because it was held for more than five years and was not included in business assets.
2. The sale of the garage is exempt because the holding period of five years includes the period held by his father.
3. The sale of Car 1 is taxable because it was sold less than five years from the date when it ceased to be a business asset.
4. The sale of the shares is taxable as neither of the conditions for exemption are met, i.e. held for three years and proceeds less than CZK 100,000 gross in a year.
5. The interest on the bank account is taxed by withholding and not included in the tax return.
6. The gift is not exempt as it is not from a relative and it is more than the limit for exemption of CZK 15,000.

3 (a) Arrmora, s.r.o. – Value added tax (VAT) treatment of output supplies and input supplies

(i) Output supplies	Place of supply	VAT status in the Czech Republic	
Goods supplied to a German VAT payer in Dresden	Czech Republic	Exempt	0·5
Marketing consultancy service supplied to a Slovak VAT payer	Slovakia	Exempt	0·5
Webhosting services supplied to non-VAT payers from other EU states	other EU states	Not taxable	0·5
Webhosting services supplied to non-VAT payers from third (non-EU) states	Third countries	Exempt	0·5
Evaluating services in respect of real estate situated in Slovakia	Slovakia	Exempt	0·5
Arrmora, s.r.o. will need to register in Slovakia because of the real estate services			0·5
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(ii) Input supplies	Place of supply	Payment/claim mechanism	
Goods purchased from a German VAT payer	Czech Republic	Reverse charge applies	0·5
Goods imported from the Ukraine	Czech Republic	Paid on import/input claimed	1
Services purchased from a Slovak VAT payer	Czech Republic	Reverse charge applies	0·5
			<u>2</u>

(b) Sekunda, s.r.o. – VAT treatment of transactions**(1) Purchase and re-sale of second-hand TV set**

Sekunda, s.r.o. can use the special regime for a trader in used goods. VAT is calculated based on the gross amount of the surplus: $(4,500 - 2,000) \times 0.21 / 1.21 = \text{CZK } 434$

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(2) Sale of land which is not a building plot

The sale of land is generally exempt from VAT, but if both the seller and purchaser are VAT payers they can agree to subject the sale to VAT. From 2016 the reverse charge mechanism is used, so Prima, s.r.o. will apply the tax and claim a deduction of CZK 84,000 $(400,000 \times 0.21)$.

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(3) Sekunda, s.r.o started to use the building for exempt supplies (rental) in 2016, within ten years from the date the building was first put into use, therefore the VAT deduction previously claimed in full needs to be adjusted.

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The building was used for exempt supplies from August 2016, i.e. five months of the year, thus in December 2016 Sekunda, s.r.o. must 'return' CZK 43,750 $((1,050,000/10) \times 5/12)$ of the VAT deduction claimed.

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510**4 DENGÓ, s.r.o – 2016 tax depreciation and other related tax deductible expenses**

	CZK	CZK	Total 2016 tax expense CZK	
Machine A				
Input price	1,100,000			
2016 tax depreciation	$(1,100,000 \times 5.5\%)$	60,500	<u>60,500</u>	0.5
Warehouse				
Input price	2,400,000			0.5
2014 depreciation	$(2,400,000/30)$	80,000		0.5
Residual value	2,320,000			
2015 depreciation	$((2 \times 2,320,000)/(31 - 1))$	154,667		0.5
Residual value	2,165,333			
2016 depreciation	$(2 \times (2,165,333 + 1,200,000)/30)$	224,356	224,356	1
Tax expense: roof repair (revenue item)			<u>350,000</u>	0.5
			<u>574,356</u>	
Software				
Input price	360,000			
2015 depreciation	$((360,000/36) \times 10)$	100,000		0.5
Residual value	260,000			
2016 depreciation January to June – 6 months	$((360,000/36) \times 6)$	60,000	60,000	0.5
Residual value	200,000			
2016 depreciation July to December – 6 months	$((200,000 + 80,000)/20) \times 6$	84,000	84,000	1.5
Tax expense: maintenance expense (revenue item)			<u>34,000</u>	0.5
			<u>178,000</u>	

	CZK	CZK	Total 2016 tax expense CZK	Marks
Machine B				
The leasing was prematurely terminated, so the tax residual value using linear depreciation needs to be compared to the purchase price:				
Input price for linear depreciation	500,000			
2014 depreciation	(500,000*0.11)	55,000		0.5
Residual value	445,000			
2015 depreciation	(500,000*0.2225)	111,250		0.5
Residual value	333,750			
2016 depreciation	((500,000*0.2225) x 6/12)	55,625		0.5
Residual value	278,125			
As the residual value is less than the purchase price of CZK 300,000 the lease payments made both in previous years and in 2016 are fully tax deductible and there is no need for an adjustment through additional tax returns.				
Tax expenses for financial lease payments – 6 months to 30 June 2016:				
(660,000/60*6)			66,000	0.5
Input price for accelerated depreciation	300,000			
2016 depreciation	(300,000/5)	60,000	60,000	0.5
			<u>126,000</u>	0.5
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5 Libor – 2016 income tax return

	CZK	CZK	
Employment income			
Salary	(65,000*12)	780,000	0.5
Benefit in the form of a business car	(350,000*0.01*12)	42,000	1
Total employment income		822,000	
Social security paid by employer	(822,000*0.34)	<u>279,480</u>	0.5
Partial tax base		1,101,480	
Business income			
Article – August		15,000	0.5
Article – September not included in the tax return		–	0.5
Real estate business income		925,000	
Related expenses		<u>(450,000)</u>	0.5
Partial tax base		490,000	
Capital income			
Belgian shares		<u>60,000</u>	1
Partial tax base		60,000	
Other income			
Proceeds from building savings account – not subject to tax		–	0.5
Sale of DAK, a.s. shares – proceeds		250,000	
– cost		<u>(150,000)</u>	
		100,000	1
Tax allowances claimed for life insurance in 2013 to 2015 – added back (3*6,000)		<u>18,000</u>	1
Partial tax base		<u>118,000</u>	

	CZK	CZK	Marks
Tax base		1,769,480	
Pension insurance	((12*2,000) – 12,000)	(12,000)	1
Tax base after deductions		1,757,480	
Rounded tax base		1,757,400	0·5
Tax at 15%		263,610	0·5
Personal tax credit	(24,840)		0·5
Spouse credit	0		1
First child credit	(13,404)		0·5
Second child credit	((17,004/12)*7)	(9,919)	1
Preschool facility allowance	(9,900)		0·5
Total credits		(58,063)	
Tax after credits		205,547	
Employment and business income tax base for the purposes of tax surcharge (822,000 + 490,000) = CZK1,312,000			0·5
Tax surcharge: ((1,312,000 – 1,296,288)*0·07)		1,100	0·5
Tax after credits plus surcharge		206,647	
Tax prepayments	(96,000)		0·5
Foreign tax credit (working)	(6,000)		1
		(112,000)	
Tax payable		104,647	

Working: Foreign tax credit

Lower of: ((60,000/1,769,480)*263,610) = CZK 8,939; and
tax paid abroad of CZK 6,000; i.e. CZK 6,000.

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Tutorial notes:

1. Lump sum percentage expenses cannot be used in respect of the income from publishing the August article because actual expenses are used for Libor's real estate business.
2. The income from publishing the September article is less than CZK 10,000 and so will be taxed by withholding and not included in the tax return.
3. No spouse credit is available because Martina's income exceeds CZK 68,000.

6 MOWE, a.s.

(a) 2016 corporate income tax return

	CZK	CZK	
Accounting profit		22,500,400	
<i>Add back</i>			
Liability (not paid after 30 months)	75,000		1
Contractual penalty paid (no adjustment)	0		0.5
Tax on immovables	10,800		0.5
Vitamins and flu vaccinations	20,000		0.5
Contribution to injury insurance (no adjustment)	0		0.5
Rental for temporary dwelling (no adjustment)	0		0.5
Severance payment (no adjustment)	0		1
Indirect expenses connected with exempt dividends (3,400,000*0.05)	170,000		1
Value of gifts to charities (10,000 + 500,000)	510,000		1
Interest not deductible under the thin capitalisation rules (working)	800,000		2
Total add back		1,585,800	
<i>Minus</i>			
Lowe, a.s. dividends (taxed by withholding)		(3,400,000)	1
Adjusted tax base		20,686,200	
Tax losses		(10,400,000)	1
Adjustment tax base		10,286,200	
Gift allowance (maximum 10,286,200*0.1)	(510,000)		0.5
R&D allowance from previous years	(1,000,000)		1
		(1,510,000)	
Reduced tax base		8,776,200	
Reduced tax base rounded down to thousands		8,776,000	0.5
Tax at 19%		1,677,440	0.5
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Working: Thin capitalisation			
Four times equity (4*10,000,000)	40,000,000		
Credit from dependent party (KOWE GmbH)	50,000,000		
Ratio of equity/credits	0.8		
Deductible interest (4,000,000*0.8)	3,200,000		
Non deductible interest	800,000		

(b) Treatment of receivables

Receivable from Mr Many: 100% write off (receivable up to CZK 30,000 and older than 12 months)	1
Receivable from Raly, s.r.o.: 50% tax provision (older than 18 months)	0.5
Receivable from KOWE GmbH: no tax provision allowed (dependent company)	0.5
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