

Fundamentals Level – Skills Module

Taxation (Czech)

Thursday 8 December 2016



Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX questions are compulsory and MUST be attempted

Tax rates and allowances are printed on pages 2–5.

Do NOT open this question paper until instructed by the supervisor.

Do NOT record any of your answers on the question paper.

This question paper must not be removed from the examination hall.

Think Ahead

ACCA

The Association of
Chartered Certified
Accountants

Paper F6 (CZE)

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 in Section B.

TAX RATES AND ALLOWANCES

The following tax rates and allowances for 2015 are to be used in answering the questions.

Corporate income tax rate	
Rate	19%

Corporate income tax credits (CZK)	
Disabled employees	18,000/60,000

Personal income tax rate	
Rate	15%
Solidarity surcharge on income over CZK 1,296,288	7%

Personal income tax credits – annual amounts (CZK)	
Personal tax credit	24,840
Dependent spouse credit	24,840
First child credit	13,404
	(maximum bonus CZK 60,300)
Second child credit	17,004
Third and further child credit	20,604
Student credit	4,020
Credit for expense in preschool facility	9,900
Disabled employees	18,000/60,000

Social security and health care contributions

Cap for social security purposes		CZK 1,296,288
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/annual assessment base		CZK 13,503/162,036
Social security contributions		
	Social security	29·2%
	Illness insurance	2·3%
Minimum monthly/annual assessment base for the main activity		CZK 6,752/81,024
Minimum monthly/annual assessment base for the secondary activity		CZK 2,701/32,412
Threshold limit for obligatory participation in social security in the case of the secondary activity		CZK 64,813

Value added tax (VAT)

Standard rate		21%
Reduced rates		10% and 15%
Threshold registration limit		CZK 1,000,000

Repo interest rate

Applicable on 1 January 2016		0·05%
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Minimum wage

CZK 9,900

Tax depreciation

Tax depreciation periods for tangible assets

Group 1	3 years
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

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

	1st year	following years	for increased input price
Group 1	20	40	33.3
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 2	21	19.75	20
Group 3	15.4	9.4	10

Depreciation rates under the accelerated method

	1st year	following years	for increased input price
Group 1	3	4	3
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

Tax deductible provisions limits valid up to the end of 2013

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 deductible provisions limits valid up to the end of 2014

Due time after the maturity date of a qualifying provision

More than	
18 months	50%
36 months	100%

Tax deductible provisions limits valid from 2015

Due time after the maturity date of a qualifying provision

More than	
18 months	50%
30 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

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1 (a)** The tax authority started a tax audit of PEROLA, a.s.'s (PEROLA) 2014 corporate tax on 2 March 2016. Based on the results of the tax audit the tax authority assessed the company's 2014 corporate tax as CZK 1,890,000. PEROLA had paid their 2014 tax liability on 1 April 2015 based on the ordinary tax return amount of CZK 1,500,000. The decision about reassessed tax was delivered on 15 June 2016 and PEROLA paid the difference on 20 June 2016.

Required:

- (i) Calculate the penalty which will be levied by the tax authority on PEROLA, a.s.** (1 mark)
 - (ii) State the date for the statute of limitation for the 2014 corporate tax assessment.** (1 mark)
 - (iii) List ANY THREE obligations of PEROLA, a.s. with respect to the conduct of the tax audit.** (3 marks)
- (b)** On 25 June 2016 Adria, a.s. (Adria), decided to distribute the following dividends, which were paid on 3 August 2016, after deduction of the correct withholding taxes:
- CZK 160,000 to Badria, a.s., which has held 50% of Adria's shares since January 2013,
 - CZK 80,000 to Mr Holy, who holds 25% of Adria's shares; and
 - CZK 80,000 to Mr Nemy, who also holds 25% of Adria's shares.

On 4 March 2016, Adria paid a financial lease instalment of CZK 190,000 to a German company, Gemma GmbH. No tax was withheld from this payment. The German/Czech double tax treaty does provide for any change in the local withholding tax rate.

Required:

- (i) Calculate the tax withheld from the dividends paid by Adria, a.s. and state the due date for payment of the withholding tax to the tax authority.** (3 marks)
- (ii) Calculate the tax which should have been withheld from the finance lease instalment and state the due date for payment of the withholding tax to the tax authority.** (2 marks)

(10 marks)

- 2** Lukas retired on 15 December 2015. Until that date he had been a sole entrepreneur, operating a business based on a trade licence (other than craft). The following information is relevant to his 2016 tax return:
- (1) He received pensions of CZK 160,000 from the Czech social system and CZK 450,000 from the Belgian social system. He had worked in Belgium for ten years in the 1990s.
 - (2) In January 2016, he sold a flat for CZK 3 million. He had acquired the flat in 2010 for CZK 2,500,000 and lived in it for the years 2010 and 2011. In January 2012, he moved with his wife to a family house and the flat was then rented out from February 2012 to December 2015.
 - (3) In February 2016, his father died and Lukas inherited a garage with a market value of CZK 320,000. His father had owned the garage for 30 years. Lukas sold the garage in November 2016 for CZK 400,000. The garage has never been a part of business property either of father or Lukas.
 - (4) In April 2016 he sold a car (Car 1) for CZK 200,000. Lukas had acquired this car as part of his business assets in January 2012 for CZK 450,000 and its tax residual value at the date he finished his business activity and retired was CZK 150,000.
 - (5) He bought a new car (Car 2) in May 2016 for CZK 210,000. This car was stolen in September 2016 and Lukas received an insurance benefit of CZK 150,000 in December 2016.
 - (6) He sold some shares in Deka, a.s., for CZK 340,000. Lukas had acquired the shares in January 2014 for CZK 100,890 and included them his business assets. He sold them in May 2016 after he had finished his business and retired.
 - (7) Annual interest of CZK 1,400 was credited to his ordinary bank account in 2016.
 - (8) He received a gift in the form of money, of CZK 20,000 from his friend Emil.

Required:

Prepare Lukas's 2016 tax return and calculate the income tax payable.

Note: You should indicate clearly by the use of zero (0) any items which are not taxable.

(10 marks)

- 3 (a)** Arrmora, s.r.o., (Arrmora) is a value added tax (VAT) payer with its seat in Prague. In March 2016 Arrmora had the following output and input supplies (all figures exclude any applicable VAT):

Output supplies:

- (1) Goods supplied from Prague to Dresden, in Germany, to a person registered for VAT in Germany, for CZK 96,000.
- (2) Marketing consultancy provided to a Slovak VAT payer registered in Slovakia for CZK 56,000.
- (3) Webhosting provided to non-VAT payers from other EU states for CZK 95,000 and to non-VAT payers from third (non-EU) states for CZK 46,000
- (4) Evaluating services in respect of real estate situated in Slovakia provided to a non-VAT payer who is a Slovak citizen for CZK 25,000.

Input supplies:

- (5) Purchased goods from a German VAT payer for CZK 190,000. The goods were transported direct from Germany to Prague.
- (6) Imported goods from Ukraine for CZK 65,000. The goods were transported from the Ukraine through Slovakia to the Czech Republic where they were released to free circulation and the customs duty regime is concluded.
- (7) Services purchased from a Slovak consultancy company, which is a Slovak VAT payer, for CZK 30,000.

Required:

- (i) For each output supply state the place of supply, whether the supply is a taxable or exempt supply in the Czech Republic and whether it is necessary for Arrmora. s.r.o. to register for value added tax (VAT) in any other state.** (3 marks)

- (ii) For each input supply state the place of supply and how any VAT will be paid or input deduction claimed.**

Note: You are not required to calculate any applicable VAT in either part (i) or (ii). (2 marks)

- (b)** Sekunda, s.r.o. (Sekunda) a value added tax (VAT) payer, operates a store selling used goods. Sekunda entered into the following transactions in 2016:

- (1) Purchased a used TV set from Miroslav, who is not a VAT payer for CZK 2,000. Sekunda sold the TV set to a customer for CZK 4,500.
- (2) Sold land which is not a building plot, to Prima, s.r.o., a VAT payer for CZK 400,000. The two companies agreed that the sale would be subject to VAT.
- (3) Rented out a building to a non-VAT payer from August 2016. Sekunda had acquired the building as new from a VAT payer for CZK 5 million in May 2014. The building was approved in March 2014. Sekunda applied the VAT deduction of CZK 1,050,000 in full in 2014 and used the building for its own economic activity from the time of purchase until July 2016.

Required:

For each transaction (1) to (3), explain the most beneficial VAT treatment and calculate the VAT payable and/or deductible, if any. (5 marks)

(10 marks)

- 4 The following information relates to the assets used by DENG0, s.r.o. (DENG0) in its business in 2016:
- (1) Machine A (group 3) acquired for CZK 1,100,000 in 2016 from Gongo, s.r.o (Gongo). Gongo had used the machine in its own business for two years and it had a residual value in Gongo of CZK 980,000. Gongo used the accelerated method of depreciation. DENG0 put the asset into use in its business on 1 March 2016 and decided to use linear tax depreciation for the machine.
 - (2) A warehouse (group 5) built by DENG0 using its own workforce in 2013 and put into use on 1 January 2014. The cost of the works (*vlastní náklady*) totalled CZK 2,400,000, the reproduction price of the finished building was CZK 2,800,000 and the market price CZK 3,000,000. In 2016, DENG0 made repairs to the roof for CZK 350,000 and modernised the building (equivalent to technical appreciation) for CZK 1,200,000. DENG0 uses accelerated tax depreciation for the warehouse.
 - (3) Software purchased for CZK 360,000 in February 2015. DENG0 paid CZK 80,000 to upgrade the software (a technical appreciation) in June 2016, the upgrade was put into use on 3 June 2016. In December 2016 DENG0 paid CZK 34,000 for maintenance services.
 - (4) Machine B (group 2) acquired based on a finance lease contract signed in 2014 and put into use on 1 March 2014. The purchase price was CZK 500,000 and the total lease price CZK 660,000 comprising an initial payment of CZK 160,000 in February 2014 and 60 monthly payments of CZK 10,000, with the first instalment made on 1 March 2014. The lease contract was prematurely terminated on 30 June 2016 (last instalment paid on 1 June) and DENG0 purchased the machinery outright for CZK 300,000 on that date. DENG0 uses accelerated tax depreciation for this machine.

Required:

For each asset (1) to (4), calculate the tax depreciation and any other deductible tax expenses, if any, connected with the assets for 2016.

(10 marks)

5 Libor, a Czech tax resident, is married and has two daughters. Libor is an executive manager of Bluma, s.r.o. and also runs his own real estate business and writes articles in technical journals.

In 2016 Libor had the following income:

- (1) Remuneration as an executive manager from Bluma, s.r.o. of CZK 65,000 per month. He also has a business car at his private disposal. In 2016 he only made private journeys with the car in the months of January to May, and September to December. The acquisition price in 2014 was CZK 350,000. The total payroll tax withheld for the whole year 2016 was CZK 96,000.
- (2) He was paid CZK 15,000 in August and CZK 5,000 in September for two separate articles published in a prestigious journal.
- (3) The 2016 taxable income of his real estate business was CZK 925,000 and the related tax deductible expenses were CZK 450,000. He keeps tax evidence and does not use flat rate percentage expenses for tax purposes because he wants to be able to apply the children credit.
- (4) He had invested in shares of a Belgian company in 2014. In 2016 he received dividends on these shares of CZK 54,000 net after deduction of Belgian withholding tax equivalent to CZK 6,000. According to the Czech Republic–Belgium double tax treaty the credit method is applied for the elimination of double taxation.
- (5) He closed a building society saving account in July 2016 and was paid the proceeds of CZK 150,000. He invested these proceeds in shares of DAK, a.s. on 1 August 2016 for CZK 150,000. He sold these shares on 29 December 2016 for CZK 250,000.
- (6) He pays his own pension insurance of CZK 2,000 per month and in addition Bluma, s.r.o. contributes CZK 1,500 per month directly to the insurance company.
- (7) On 1 April 2016, he terminated his life insurance, which he had been paying since 2013, and received CZK 5,200 as the surrender value (*odkupne*). He had applied an annual tax allowance of CZK 6,000 in his tax returns in each of the years 2013, 2014 and 2015.
- (8) His five-year-old daughter attends a preschool facility. Libor and his wife, Martina, paid an annual fee of CZK 20,000 for this facility in 2016.
- (9) His second daughter was born on 15 June 2016. In 2016 Martina received CZK 45,000 maternity leave compensation, CZK 66,000 parents' subsidy and earned CZK 95,000 from her business activity prior to 1 June 2016. Martina uses lump sum percentage expenses.

Required:

Prepare Libor's 2016 tax return and calculate his income tax payable.

Note: You should indicate clearly by the use of zero (0) any items which are not taxable or any relevant deductions which are not available.

(15 marks)

- 6 (a)** MOWE, a.s. (MOWE) is a Czech resident company, whose tax return is prepared by a tax advisor. In 2016, MOWE recorded an accounting profit of CZK 22,500,400. The following information is relevant for preparing the company's 2016 corporate tax return. All transactions were accounted for in accordance with the accounting regulations to accounting groups 6 and 50–58.
- (1) MOWE had purchased goods with an invoice value of CZK 175,000 in 2014. The invoice was payable on 1 February 2014 but MOWE had still not paid the invoice in November 2016. The supplier charged a contractual penalty of CZK 50,000 on 1 December 2016 and MOWE paid CZK 100,000 of the original invoice amount and the whole of the penalty on 30 December 2016.
 - (2) MOWE paid its 2016 tax on immovables of CZK 10,800 on 2 January 2017.
 - (3) MOWE paid the following benefits to its employees in 2016, the claim for all of the benefits was laid down either in the company's internal regulations or directly in employees' contracts:
 - vitamin and flu vaccinations of CZK 20,000;
 - contributions to injury insurance paid directly to the insurance company of CZK 40,000;
 - rental of CZK 200,000 paid for a temporary dwelling for an employee, Mr Novy; and
 - severance pay of CZK 250,000 paid to Mr Prochazka, which was equivalent to five times his monthly salary (the Labour Code incorporates a claim for three times for severance pay).
 - (4) MOWE received CZK 3,400,000 in dividends from LOWE, a.s., a Czech tax resident company in which MOWE has owned 50% of the share capital since 2012.
 - (5) MOWE made donations in 2016 of:
 - two worn-out computers with a total residual value of CZK 10,000 to a foundation supporting disabled persons; and
 - CZK 500,000 to a sports club (a non-profit organisation).
 - (6) In 2013 MOWE assigned R&D expenses of CZK 6 million as qualifying for an R&D allowance, but the company's tax base in 2013 was only high enough to apply CZK 5 million of this allowance. In 2014 and 2015, MOWE incurred tax losses totalling CZK 10,400,000.
 - (7) MOWE's shareholder capital (*vlastni capital*) as at 1 January 2016 was stated as CZK 10 million and this did not change during 2016. MOWE, a.s. received a credit from the Commercial Bank on 10 October 2015 of CZK 12 million to fund its current operational expenses. MOWE pays principal monthly instalments of CZK 300,000 on this credit, so the outstanding amount as at 31 December 2016 is CZK 7,800,000. The annual interest paid in 2016 was CZK 800,000, which was calculated on an arm's length basis. MOWE also received an investment credit from its parent company KOWE GmbH on 10 June 2015 of CZK 50 million. The interest accounted for and paid on this credit in 2016 was CZK 4 million which corresponded to the market rate of interest at the time the loan contract was concluded. MOWE did not make any repayments of the principal of this credit in 2016. KOWE GmbH owns 80% of the share capital of MOWE.

Required:

Prepare MOWE, a.s.'s 2016 tax return and calculate the corporate income tax payable.

Note: Your answer should start with the accounting profit of CZK 22,500,400 and should indicate clearly by the use of zero (0) any of the above items for which no adjustment is required. (13 marks)

(b) MOWE, a.s. had the following receivables accounted for in its books as at 31 December 2016:

- (1) Receivable from Mr Many of CZK 19,000 for goods, payable on 1 December 2015.
- (2) Receivable from Mr Raly of CZK 150,000 for services, payable on 1 March 2015.
- (3) Receivable from KOWE GmbH of CZK 2,580,000 for services, payable on 15 March 2015.

Required:

State, with reasons, what tax provisions or write offs, if any, MOWE, a.s. can apply in respect of the receivables (1) to (3) in its 2016 tax return.

Note: You are not required to revise your computation in part (a).

(2 marks)

(15 marks)

End of Question Paper