
Answers

1 Publishers, s.r.o.

(a) Calculation of the 2007 corporation tax base of Publishers, s. r. o.

	CZK	CZK
Accounting income		
Sale of goods and services		20,370,000
Compensation from the insurance company		200,000
Proceeds from the sale of the car		1,200,000
Dividend from Polish subsidiary		180,000
Dividend from Ukrainian subsidiary		30,000
Other reserve released		20,000
Total income		22,000,000
Accounting expenses		
Purchased goods and services	(4,120,600)	
Salaries and wages (10 * 30,000 + 3 * 150,000) * 12	(9,000,000)	
Mandatory social contributions (9,000,000 * 26%)	(2,340,000)	
Mandatory health contributions (9,000,000 * 9%)	(810,000)	
Pension premiums (3% of the assessment base, which is the same as the salaries and wages)	(270,000)	
Life insurance premiums (13 * 8,000)	(104,000)	
Travel allowances	(150,000)	
Repair of the car	(200,000)	
Accounting written down value of the car	(1,000,000)	
Rent	(1,080,000)	
Sponsorship of Social Democratic party	(250,000)	
Gift in kind for Social Democratic party	(150,000)	
Marketing gifts	(70,000)	
Statutory reserve	(15,000)	
Accounting depreciation charge	(420,000)	
Depreciation of the attic (Working 2)	(20,400)	
Total expenses		(20,000,000)
Accounting profit		2,000,000
Add back tax non deductible items		
Adjust for the difference between accounting and tax residual value of the car (Working 1)	625,000	
Travel allowances over the statutory limit	50,000	
Gift in kind	150,000	
5% of exempt received dividend (180,000 * 0.05)	9,000	
Total		834,000
Less		
Difference between the tax and accounting depreciation charge	(100,000)	
Difference between the original acquisition price of the car and the input price, maximum the proceeds from the sale (1,950,000 – 1,500,000; maximum 1,200,000)	(450,000)	
Exempt dividend	(180,000)	
Dividend in separate tax base	(30,000)	
Release of other reserve	(20,000)	
Total		(780,000)
Tax base		2,054,000
Less gift – maximum 5% of 2,054,000		(102,700)
Reduced tax base		1,951,300
Rounded tax base – down to thousands		1,951,000
Tax liability at 24%		468,240
Less disabled employee credit		(60,000)
Tax on separate tax base (Working 3)		1,500
Tax liability		409,740
Less advances 4 * 82,500		330,000
Tax due		79,740

The tax return has to be submitted and the tax due in the amount of CZK 79,740 paid by 30 June 2008.

Working 1 – car crashed, repaired and sold

Input price in 2005 – 1,500,000

2005 depreciation charge $1,500,000/4 = 375,000$

2006 depreciation charge $((1,500,000 - 375,000) * 2)/5 - 1 = 562,500$

2007 depreciation charge $0.5 * ((1,500,000 - 375,000 - 562,500) * 2)/5 - 2 = 187,500$

2007 tax written down value $1,500,000 - (375,000 + 562,500 + 187,500) = 375,000$

Difference between the accounting and tax written down value $1,000,000 - 375,000 = 625,000$

Working 2 – depreciation of attic

2007 depreciation charge $2,000,000/100 * 1.02 = \text{CZK } 20,400$

Working 3 – Separate tax base

	CZK
Ukrainian dividend	30,000
Tax at 15%	4,500
Tax paid abroad at 10%	3,000
Maximum credit capacity	<u>4,500</u>
Tax to be paid	<u>1,500</u>

The Polish dividend is exempt, since the holding exceeds 10%.

Note: Travel allowances above the statutory limit may be considered tax deductible if the employees' claim follows from the employment contract or other internal document.

(b) Insurance premiums

Pension insurance premiums have to be paid by the employer on the account of an employee opened with a pension fund established according to the special law.

Life insurance premiums have to be paid by the employer to the insurance company on behalf of an employee based on the contract concluded between the employee and an insurance company eligible to run insurance business in the Czech Republic. The amount of CZK 8,000 per employee is tax deductible if it is agreed in the contract that the indemnity is not due before (i) 60 months after the conclusion of the contract, and (ii) the employee reaching the age of 60.

(c) Gifts

The deduction for donations and gifts allowable to legal persons with their registered seat in the Czech Republic is available if the gift is:

- For the funding of research, education, culture, police, youth promotion, fire prevention, protection of animals, social, health, ecological, humanitarian, charity, or sports purposes.
- Made to registered churches; political parties; natural persons operating educational institutions and establishments for the protection of animals; disabled natural persons; or in connection with natural disasters.

The deduction will only be granted if the value of the gift is of CZK 2,000 or more, and the maximum possible deduction is 5% of the tax base, in case of gifts made to universities and state research institutes 10%.

2 Ms Mandler**(a) (i) Calculation of the tax base of Ms Mandler as a tax resident of the Czech Republic**

	CZK	CZK
Income from employment		
Linguistic corrections for ABC, s. r. o. on 'Dohoda o provedeni prace'		35,000
Business income		
Interpreting in Prague	100,000	
Interpreting in London	150,000	
Three months with Printers, s. r. o. of CZK 20,000	<u>60,000</u>	
Total business income	310,000	
Expenses (40% of income)	<u>(124,000)</u>	186,000
Rental income		
12 rental payments of CZK 30,000	360,000	
Expenses (30% of income)	<u>(108,000)</u>	<u>252,000</u>
Tax base		<u>473,000</u>
Dividends from France – separate 15% tax base		
Gross dividend		<u>50,000</u>

Notes:

- (1) Income from Lidove noviny is subject to final withholding tax (at 10%) and therefore not included in the tax base.
- (2) Freelance interpreter has to apply 40% lump sum expenses.

(ii) Calculation of Ms Mandler's tax base as a tax non resident of the Czech Republic.

	CZK	CZK
Income from employment		
Linguistic corrections for ABC, s. r. o. on 'Dohoda o provedeni prace'		35,000
Business income		
Three months with Printers, s. r. o. (Income earned through a permanent establishment)	60,000	
Expenses (40% of income)	<u>(24,000)</u>	
		36,000
Rental income		
12 rental payments of CZK 30,000	360,000	
Expenses (30% of income)	<u>(108,000)</u>	
		<u>252,000</u>
Tax base		<u>323,000</u>

Notes:

- (1) The French dividend is income from a source outside the Czech Republic, which is not taxable in the case of a tax non resident.
 - (2) Income for services (business income) earned by a tax non resident is only taxable to the extent that it is attributable to a permanent establishment. Ms Mandler did not have a permanent establishment in the Czech Republic until 1 October 2007, when she started work under the contract with Printers, s.r.o.
- (b) Ms Mandler will have had a permanent establishment in the Czech Republic as of 1 October 2007. She was therefore obliged to notify this to the financial authority in Prague 1 within 30 days, i. e. by 31 October 2007. If she did not fulfil this obligation the competent tax authority will register the permanent establishment *ex officio* and may charge Ms Mandler with a fine of up to CZK 2,000,000.
- (c) Ms Mandler will be a tax non resident of the Czech Republic given that she has no permanent home in the Czech Republic and she spent less than 183 days there in 2007. The time she spent in Mariánské Lázně to cure her kidney and urinary problem does not count in the 183 days.
- (d) Interest due: $10,000 * 60 \text{ days} * (2.5 + 14\%) / 365 = \text{CZK } 272$ (rounded up to whole CZK)

3 AXIA, s.r.o.

- (a) (i) Any company that independently carries out any economic activity, including a company established for purposes other than carrying out business, is a person liable to VAT.

A company liable to tax is in principle exempt from VAT if its turnover does not exceed CZK 1,000,000 during the preceding 12 months. A public body not performing a business activity or a company established for a purpose other than performing business and not making taxable supplies may serve as an example of a company not liable to VAT.

- (ii) A company must register as a payer of VAT if its turnover exceeds CZK 1,000,000 during the preceding 12 months. Such a company is obliged to submit the application for registration within 15 days after the end of the calendar month in which they reached the turnover threshold.

- (b) (i) **AXIA, s.r.o. VAT return for April 2007**

Input supplies	Tax base CZK	Tax CZK
Purchase of inventories	250,000	47,500
Purchase of machine (750,000 * 80%)	600,000	114,000
Total	<u>850,000</u>	<u>161,500</u>
Output supplies		
Supplies to customers	500,000	95,000
Advance payment (260,000 * 0.1597)	218,478	41,522
Refund of the faulty supply	(25,000)	(4,750)
Supply to a US customer (export of goods)	60,000	exempt
Supply to a French customer (supply of goods to a person from another EU Member State)	80,000	exempt
Total	<u>833,478</u>	<u>131,772</u>
VAT refund due (161,500 – 131,772)		29,728

AXIA, s. r. o. have to submit the tax return by 25 May 2007.

- (ii) AXIA, s. r. o. have to file a summary statement as they have supplied goods to a person registered for VAT in another EU member State. The statement must be submitted together with the tax return within the same time limit but on a separate form.

4 Mr Novak

(a) 2007 deductible amount for business assets

House

The input price is a part of the actual cost of the building calculated according to the square metres actually used for business purposes, i.e. $(4,000,000 + 800,000)/300 * 100 = \text{CZK } 1,600,000$

2007 Depreciation charge: $1,600,000/100 * 1.4 = \text{CZK } 22,400$

Paintings – not depreciable, because works of art cannot be depreciated for income tax purposes according to the Income Taxes Act.

Sofa

The input price is CZK 100,000.

2007 Depreciation charge: $100,000/5 = \text{CZK } 20,000$

A first owner can increase the depreciation charge by 10% of the input price, i. e. $20,000 + 10,000 = \text{CZK } 30,000$

The costs of the desks, tables and chairs can be expensed 100% as incurred since the price of each individual item is below CZK 40,000.

Deductible expense: $60,000 + 75,000 + 105,000 = \text{CZK } 240,000$

Software

Depreciable basis CZK 180,000

2007 Depreciation charge: $180,000/36 * \text{one month} = \text{CZK } 5,000$

Car

The input price is CZK 400,000, because Mr Novak had owned the car for more than one year before he included it in his business assets.

2007 Depreciation charge: $400,000/4 * 0.5 = \text{CZK } 50,000$

Only a 50% deduction can be used as the car is used only partially (50%) for business purposes.

Camera

The input price is CZK 120,000, because Mr Novak had owned the camera for less than one year before he included it in his business assets.

2007 Depreciation charge: $120,000/100 * 21 = \text{CZK } 25,200$

Maximum total 2007 deductible amount is $(22,400 + 30,000 + 240,000 + 5,000 + 50,000 + 25,200) \text{ CZK } 372,600$.

- (b) Mr Novak was obliged to register with the competent tax authority within 30 days after he received the trade certificate, i.e. by 14 February 2007.

Mr Novak was obliged to register with the competent social security and health authorities within eight days after he started his business, i.e. by 9 February 2007.

5 Mr Vojta

Calculation of Mr Vojta's personal income tax liability

Employment income:	CZK	CZK
Salary – UK (GBP 12,000 x 43)		516,000
Salary – Credit, s.r.o.		260,000
Personal car (6% of CZK 1,200,000)		72,000
		<u>848,000</u>
Less:		
Social security and health care contributions:		
UK (mandatory) (GBP 1,200 x 43)	(51,600)	
Credit, s.r.o.	(32,500)	
	<u></u>	(84,100)
		<u>763,900</u>
Income from author activity (SKK 62,500 * 0.80)	50,000	
Less flat rate expenses (50,000 x 40%):	(20,000)	
	<u></u>	30,000
Total tax base:		<u>793,900</u>
Deductions:		
Life insurance	(12,000)	
Pension insurance	(12,000)	
	<u></u>	(24,000)
Tax base		<u>769,900</u>
Tax base (rounded)		<u>769,900</u>
Tax liability before exemption $61,212 + (769,900 - 331,200) \times 32\%$		<u>201,596</u>
Exemption calculation:		
Total tax base		793,900
Foreign income to be exempted (516,000 – 51,600)		(464,400)
		<u>329,500</u>
Deductions – life and pension insurance		(24,000)
		<u>305,500</u>
Tax percentage (rounded to two decimal places) $201,596/769,900 \times 100$	26.18%	
Tax after exemption (rounded up to the whole CZK) $305,500 \times 26.18\%$		79,980
Credit for Slovakian tax:		
Lower of: – SKK 11,875 x 0.80 = 9,500		
– $30,000/(793,900 - 464,400) \times 100 = 9.10\%$		
– $79,980 \times 9.10\% = 7,278$		
		<u>(7,278)</u>
Tax after exemption and credit		<u>72,702</u>
Separate tax base – tax rate 15%:		
UK interest GBP 500 x 43 x 15% (rounded up to the whole CZK)		3,225
Less:		
Personal tax credit	(7,200)	
Child tax credit (three children 3 x 6,000)	(18,000)	
Tax prepayments	(65,000)	
	<u></u>	(90,200)
Total tax overpaid		<u>(14,273)</u>

		<i>Marks</i>
1	(a) Accounting profit:	
	Accounting income	1½
	Salaries and wages + mandatory contributions	2
	Life insurance	1
	Pension insurance	1
	Depreciation of attic (working 2)	1
	Remaining accounting expenses	2
	Tax non deductible items:	
	Car: correct acquisition value	1
	depreciation charge/NBV	1½
	adjust difference in residual value	½
	repairs deductible	½
	Travel allowances	1
	Gift	1
	Non taxable items:	
	Difference between the acquisition price and limited input price	1
	Dividends	1
	Released reserve	1
	Tax base/tax liability	
	Gift (maximum calculation)	1
	Rounded tax base	½
	Tax at 24%	½
	Disabled employee credit	1
	Tax on separate tax base:	
	Ukrainian dividend (working 3)	1½
	Polish dividend exempt	1
	Minus advances	½
	Date due	1
		<u>24</u>
	(b) Insurance	
	Pensions:	
	On account of an employee with a pension fund	1
	Life:	
	60 months	1
	Age of 60	1
		<u>3</u>
	(c) Gifts/donations	
	Purposes	1
	Recipients	1
	Minimum	½
	Maximum	½
		<u>3</u>
	Total	<u>30</u>

		Marks	
2	(a) (i)	Employment income	1
		Business income	4
		Deductible expenses	1
		Rental income	1
		Deductible expenses	1
		Dividend as separate tax base	1
		Income from Lidove noviny final withholding	1
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	(ii)	Employment income	1
		Business income net of expenses	1
		Rental income net of expenses	1
		Dividend income non Czech Republic source	1
		Business income only taxable if earned through a permanent establishment	1
		<hr/>	
		5	
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	(b)	Notification of a permanent establishment	1
		Time limit	1
Competent authority		1	
Sanctions		2	
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	5		
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(c)	Tax non resident	1	
	Justification (no permanent home, less than 183 days when days in the spa deducted)	2	
	<hr/>		
	3		
	<hr/>		
(d)	Interest	2	
	Total	25	
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3	(a) (i)	Economic activity	1
		Turnover below CZK 1 million	1
		Example	1
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		3	
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	(ii)	Obligation to register	1
		Time limit	1
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		2	
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	(b) (i)	Input supplies:	
		Inventories	1/2
		Machine	1
		Refund	1
		Output supplies:	
		Supplies	1/2
		Advance payment	1 1/2
		US customer	1
		French customer	1
VAT refund		1/2	
Due date		1	
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	8		
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(ii)	Summary statement	1/2	
	Time limit	1	
	Separate form	1/2	
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