

Fundamentals Level – Skills Module

# Taxation (Czech)

Monday 6 December 2010

**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 3–5.**

**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)

**ACCA**

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**The question paper begins on page 3.**

## 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 are to be used in answering the questions.

### Corporate income tax

19%

### Individual income tax

15%

### Personal tax credits (CZK)

Personal tax credit	24,840
Dependent spouse allowance	24,840
Child credit	11,604
Student tax credit	4,020

### Tax depreciation periods 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 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

### 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

#### 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

#### Value added tax (VAT)

Standard rate	20%
Reduced rate	10%
Registration threshold limit	CZK 1,000,000

#### Social security and health care contributions

Social security	Employee's contributions	6·5%
	Employer's contributions	25·0%
Health care	Employee's contributions	4·5%
	Employer's contributions	9·0%

Cap for social security and health care insurance purposes as regards income from employment CZK 1,707,048

Social security contributions – Private entrepreneur

Illness insurance	1·4%
Pension scheme	28·0%
Unemployment insurance	1·2%
Total	30·6%

Minimum monthly assessment base for the main activity CZK 5,928

Health care contributions – Private entrepreneur 13·5%

Minimum monthly assessment base CZK 11,854·50

**Repo interest rate**

Applicable on 1 January 2010 (as of December 2009)

1%

**Minimum wage**

CZK 8,000 per month or CZK 48·10 per hour

**ALL FIVE questions are compulsory and MUST be attempted**

- 1 Mina Bakery, s. r. o. (hereafter 'Mina Bakery') is a Czech tax resident company established in 1999 by sisters Miriam and Natalia Lukacs. Mina Bakery produces artisanal breads and patisserie, which it supplies to independent bistros and restaurants. Mina Bakery also runs three Café-Pâtisseries, one in Prague, one in Brno and one in Linz (Austria). The café in Linz creates a permanent establishment in Austria. The credit method is applicable for the elimination of double taxation according to the tax treaty concluded between the Czech Republic and Austria.

The following information is applicable to Mina Bakery:

- (1) Miriam and Natalia Lukacs are the only two partners of Mina Bakery and each of them holds a 50% share.
- (2) Since 2005 Mina Bakery has also had a silent partner, Mr Knoblauch. He is entitled to a remuneration derived from the profit of the previous year. Mina Bakery paid to Mr Knoblauch the amount of CZK 125,000 gross on 15 May 2010.
- (3) Mina Bakery's fiscal year is equal to the calendar year. The company incurred losses of CZK 680,000 in the fiscal year 2003 and CZK 140,000 in the fiscal year 2004 but profits in all the following fiscal years. Losses of CZK 710,000 were used in the fiscal years 2005 to 2009 inclusive.
- (4) In 2010 Mina Bakery had the following income from sources in the Czech Republic:
  - Proceeds from the sale of breads and patisserie of CZK 2,779,320.
  - Proceeds from sales in own restaurants of CZK 6,637,000.
  - The first prize of CZK 50,000 in an international gastro-competition organised by the Czech Gourmet Association, a Czech tax resident, in April 2010.
  - Interest from the current bank account of CZK 15,000.
- (5) In 2010 Mina Bakery incurred expenses related to income from sources in the Czech Republic as follows:
  - Goods and services purchased of CZK 2,150,000.
  - Salaries and wages of CZK 2,800,000.
  - Mandatory social and health care insurance contributions on salaries and wages of CZK 952,000 all of which were paid within the statutory limit.
  - Rental payments of CZK 1,800,000.
  - Contractual late payment penalty of CZK 60,900 payable on 15 December 2010 but not paid until after the end of the fiscal year.
- (6) In June 2010 Mina Bakery organised a garden party for clients in their restaurant in Prague. The overall cost of the party amounted to CZK 320,000.
- (7) Mina Bakery realised income in the equivalent of CZK 1,740,000 from sources in Austria through the Austrian permanent establishment. Mina Bakery accounted for expenses attributable to the Austrian permanent establishment in the equivalent of CZK 1,850,000 (excluding depreciation charges) out of which the equivalent of CZK 200,000 was tax non-deductible according to Austrian tax law although only CZK 100,000 would be considered tax non-deductible if attributable to income from a Czech source. The 2010 corporate income tax due by Mina Bakery in Austria amounts to the equivalent of CZK 31,500 and is payable by 30 May 2011.
- (8) Mina Bakery created statutory reserves of CZK 30,000 in 2010.
- (9) Miriam Lukacs lent to Mina Bakery CZK 1,700,000 for ten years in 2005 on which interest of CZK 200,000 is due annually by 15 November. Mina Bakery actually paid the 2009 interest on 23 January 2010 and the 2010 interest on 18 November 2010. The interest is at arm's length. Miriam Lukacs does not keep statutory accounting.
- (10) Mina Bakery owns a van (depreciation group 2) and five professional ovens (depreciation group 3). The van was acquired in 2008 for CZK 1,400,000. Two of the ovens were acquired in 1999 for CZK 75,000 each, another two in 2007 for CZK 50,000 each and one in 2010 for CZK 120,000. The two ovens acquired in 2007 are located in Linz and allocated to the Austrian permanent establishment.
- (11) In 2010, Mina Bakery sold the two ovens acquired in 1999 for CZK 7,000 each.
- (12) In the Czech Republic Mina Bakery uses a personal car (depreciation group 1) which is leased based on a financial lease contract. Mina Bakery concluded the contract in February 2008 for 36 months, when it paid the

initial payment of CZK 90,000 and each month from March 2008 it paid a monthly instalment of CZK 7,620. At the end of the contract the car will be sold to Mina Bakery for CZK 1.

- (13) All other assets employed in Mina Bakery's business are rented based on operational lease contracts and the rental payments are included in the expense figures in note (5) above.
- (14) Mina Bakery claims the maximum possible tax deductions and has never interrupted the tax depreciation of any asset. Mina Bakery applies the accelerated method for tax depreciation of the van and the straight-line method for depreciation of the ovens. Mina Bakery used the increased tax depreciation charge in the year of acquisition as regards all assets where the law allowed it. Mina Bakery applies the same accounting depreciation charge as the tax depreciation charge.
- (15) Mina Bakery made a financial gift amounting to the equivalent of CZK 24,100 to an Austrian football club. No deduction for this gift is allowed according to Austrian tax law.
- (16) In 2010 Mina Bakery paid tax advances of CZK 45,000 on 15 March and on 15 June and of CZK 35,000 on 15 September and on 15 December. The same amount of CZK 35,000 is also due on 15 March 2011 and 15 June 2011.
- (17) Mina Bakery's financial statements are subject to review by an accredited auditor.

**Required:**

- (a) (i) **Prepare the computation of corporate income tax payable by Mina Bakery, s. r. o. for 2010.**

(22 marks)

- (ii) **State by when Mina Bakery, s. r. o.'s tax return and tax payment for 2010 are due.**

(1 mark)

- (b) **Re-calculate Mina Bakery, s. r. o.'s 2010 tax liability assuming that the permanent establishment was located in a state where the relevant tax treaty provides for the exemption method for the elimination of double taxation.**

**Note:** you should assume that in all other respects the information relating to the permanent establishment is identical to that given for the Austrian permanent establishment.

(4 marks)

- (c) In addition to the prize awarded to Mina Bakery s. r. o. in the gastro-competition, Natalia Lukacs personally received a special award in 'The talent of the year' competition in April 2010. This prize consisted of a set of professional knives the value of which was CZK 8,000, and a financial amount of CZK 15,000. 'The talent of the year' competition was also organised by the Czech Gourmet Association. Participation in the competition was limited to qualifying professionals.

**Required:**

**Explain how the prize received by Natalia will be taxed; calculate the tax due and state by when it has to be paid.**

(3 marks)

**(30 marks)**

- 2 David Kopecky is a medical doctor and sports instructor specialising in metabolic disorders and sports nutrition diets. David has been on parental leave with his youngest daughter Kamila since January 2008.

The following information is applicable for David for the year 2010:

- (1) David led therapeutic training and courses for diabetes patients organised by the Czech Diabetes Association (hereafter CDA). David concluded an employment contract for work activity (*'dohoda o pracovní činnosti'*) with the CDA and he received a gross salary of CZK 3,650 each month during the whole of 2010 for this activity.
- (2) In addition to the payments in (1) the CDA paid David CZK 55,000 for the supervision of the testing of a new programme for diabetes patients based on a contract for work (*'smlouva o dílo'*).
- (3) David is a licensed spinning bicycle instructor and he leads two courses a week in a fitness studio, New Balance. David received a gross salary of CZK 2,400 each month during the whole of 2010 based on an employment contract for work activity (*'dohoda o pracovní činnosti'*) with New Balance for this activity.
- (4) David has been working on his post-doctoral thesis and as part of this he participates in a research programme run by Charles University's Faculty of Applied Medicine. David has a part-time employment contract with the University and received a gross salary of CZK 5,800 each month during the whole of 2010 for this activity.
- (5) David works in a metabolic ambulance one day a week for which he has an employment contract for work activity (*'dohoda o pracovní činnosti'*) with the owner of the ambulance MUDr Jana Steklova. David received a gross salary of CZK 4,800 each month during the whole of 2010 for this activity.
- (6) David wrote four articles, which were published by four different publishers in 2010 as follows:
  - In January in the magazine the Review of Diabetology for which he received CZK 1,200 gross.
  - In April, one article in Academia for which he received CZK 600 gross and a second article in the Review of Diabetology for which he received CZK 6,800 gross.
  - In June in the Medical Magazine for which he received CZK 8,400 gross.
- (7) David concluded a contract of business representation with Dianutri, s. r. o. selling food components. His remuneration under this contract is based on the sales performance of his business group. In 2010 he received CZK 38,000.
- (8) In March David opened an internet seminar 'How to live freely without sugar'. The registration fee for the seminar is CZK 500 and David received fees from 12 participants by the end of December 2010.
- (9) David received a parental subsidy of CZK 8,900 each month from the social security insurance administration for his daughter Kamila. His parental leave will last until February 2011 when Kamila will reach three years of age.
- (10) David pays premiums of CZK 5,400 annually for his life insurance. The life insurance contract fulfils all the conditions required by the law for tax deductibility.
- (11) David is paying back a bank loan, which he used for the refurbishment of the house where he lives with his wife and children. He paid mortgage interest of CZK 18,000 in 2010.
- (12) David did not sign the declaration of an individual taxpayer (*'Prohlášení poplatníka k dani z příjmů'*) with any of his employers in 2010. David's wife Jana works full time and she uses the tax credits for their children. In 2010 Jana earned CZK 1,250,000.
- (13) David's business income is considered income from activity performed by an independent licensed medical doctor (*'podnikání podle zvláštních příjmů'*). David does not keep a statutory book-keeping and has not kept any documentation of expenses related to his business income.
- (14) David is represented neither by a tax adviser nor by an attorney.
- (15) David is a tax resident of the Czech Republic.



**Required:**

- (a) Calculate the individual income tax due or tax overpaid by David Kopecky in 2010 and the overall individual income tax borne by him in 2010. (14 marks)

- (b) Advise David how to restructure his activities so that he could (1) make maximum use of his personal credit; and (2) improve his cash flow situation during the fiscal year.

Note: you are not required to prepare any computations for this part. (3 marks)

- (c) David is considering starting his own ambulance business. The business would operate from the house David owns together with his wife and where the whole family lives. The house itself would not be included in his business assets.

**Required:**

Assuming that David documents all his expenses, state whether or not each of the following items will be tax deductible for David's business:

- (i) Refurbishment of the ambulance consisting of painting and cleaning done by a firm;
- (ii) Cost of construction works to add one further door in the house, the overall cost of which would amount to CZK 38,000;
- (iii) Office furniture, chairs and a table for the waiting room, with an overall price CZK 120,000; the price of any individual item would not exceed CZK 20,000;
- (iv) Membership fee to the medical chamber. Professional medical services cannot be performed without such membership;
- (v) Membership fee to the international association of diabetologists (a facultative membership);
- (vi) Digital calibrated scales costing CZK 85,000;
- (vii) Salary of an assistant;
- (viii) Vaccination against hepatitis for David himself and for his assistant (not prescribed by any law);
- (ix) Five prints of photographs from a famous Czech photographer to decorate the waiting room, costing CZK 12,000 each;
- (x) Coffee, tea and water for patients;
- (xi) Printing of promotional leaflets and handouts;
- (xii) Purchase of small promotional objects (pens, pads, calendars etc);
- (xiii) Work clothes for his assistant (not prescribed by any law);
- (xiv) Three new suits for David, himself;
- (xv) Spinning bike for use by David to relax after work, costing CZK 35,000;
- (xvi) English course fee for his assistant;

(8 marks)

(25 marks)

- 3** Mexina, spol. s r. o. (hereafter 'Mexina') is a construction company and a real estate agent. Mexina is a monthly VAT payer.

The following information is applicable to the month of February 2010. All figures are exclusive of VAT if not stated otherwise.

- (1) Mexina purchased materials used for the construction of houses from:
  - Czech VAT payers for CZK 20,250,000;
  - Czech VAT non-payers for CZK 2,180,000; and
  - a German supplier registered for VAT in the Czech Republic for the equivalent of CZK 8,450,000.
- (2) Mexina purchased goods and services used to provide real estate agent services from Czech VAT payers for CZK 350,000;
- (3) Mexina purchased a building plot for CZK 3,800,000.
- (4) Mexina purchased a piece of land (not a building plot) for CZK 890,000.
- (5) Mexina purchased a residential house for CZK 8,100,000. The house was approved for use in March 2008. The house is included in Mexina's fixed assets and will be rented out.
- (6) Mexina sold a house with a building plot for CZK 8,400,000 for which Mexina had accounted as inventory when acquired (six months before the sale). The house had been constructed in 1938 and used for residential living until 2009.
- (7) Mexina received advance payments of CZK 14,200,000 from clients in connection with the building of residential houses.
- (8) Mexina received a payment of CZK 12,400,000 in connection with the construction of an administrative centre.
- (9) Mexina sold an administrative centre consisting of administrative spaces and flats for CZK 68,000,000, which it had built and financed through its own resources. The construction had been completed and the building approved for use in November 2006.
- (10) Mexina received reservation fees for real estate of CZK 1,530,000. In each case the reservation fee represented Mexina's fee for the arrangement of the sale, payable when the sale is realised.
- (11) Mexina received in their deposit account the selling price of CZK 2,900,000 for a house the sale of which Mexina has been arranging. This whole amount will be released to the seller when the change of ownership is registered in the register of immovables (which will not be before the end of February). Mexina's arrangement fee for this sale had already been taken when the reservation fee for the immovable was paid. Mexina does not serve as a commissionaire agent in these arrangements.

**Required:**

- (a) **Calculate the value added tax (VAT) due by Mexina for the taxable period February 2010, if the standard rate of VAT applies to all taxable items.** (7 marks)
- (b) **State under what conditions Mexina could apply a reduced rate of VAT to its construction services.** (3 marks)
- (c) **Explain under what conditions companies are allowed to submit a VAT return and pay VAT as a group. Your answer should include details of the qualifying relationship.** (5 marks)

**(15 marks)**

- 4 Samco, a. s. (hereafter 'Samco') is a Czech tax resident company with a registered seat in Praha 5. Samco is considering establishing a new 100% subsidiary or opening a branch ('*organizační složka*') in the Czech Republic. The subsidiary or branch would have a registered seat in Brno. There would be various fixed assets employed in the new company or branch including the following:

1. technological plant;
2. various items of tangible equipment;
3. cars;
4. computer software;
5. licences; and
6. patents.

Neither Samco nor the new company/branch would acquire any immovable property in connection with the start of the new business, but they would rent administrative spaces and a plot to set up the technological plant. Samco is prepared to have the rented spaces to be used as their offices adapted and improved, at their own cost.

**Required:**

- (a) Briefly explain the tax depreciation treatment of both tangible fixed assets and intangible fixed assets. (5 marks)
- (b) State who is entitled to depreciate fixed assets for tax purposes and explain whether or not Samco, a. s., or the newly established branch or subsidiary company will be able to claim tax depreciation on the improvements made to the rented spaces. (3 marks)
- (c) State the tax depreciation basis to be used and calculate the maximum 2010 tax depreciation charge for an item of technological plant falling within tax depreciation group 3, in both of the following situations:
- (1) Samco, a. s. moved to a newly opened a branch ('*organizační složka*') as of 15 January 2010.
  - (2) Samco, a. s. used to make an in kind contribution to the capital of a new subsidiary company; the contribution and transfer became effective on 15 December 2009 and the expert appraisal of the plant's value for the purpose of the in kind contribution was CZK 1,300,000.
- The technological plant was originally acquired in 2008 for CZK 2,000,000 by Samco, a. s. and depreciated by it in 2008 and 2009 using the straight-line method with the depreciation rate increased by 10% in the first year.
- Note: you should use the straight-line method of depreciation for both situations. (3 marks)
- (d) State whether and if so by when Samco, a. s. and/or a newly established branch or subsidiary company will be obliged to register with and/or notify the competent tax authority of the relevant facts if:
- (3) Samco a. s. opened a branch in Brno ('*organizační složka*'), registered in the commercial register on 3 December 2009, as of 15 December 2009.
  - (4) Samco a. s. established a subsidiary to undertake its activities in Brno, which obtained its business licence, effective as of 1 December 2009, on 25 November 2009 and was registered in the commercial register on 15 December 2009. (3 marks)
- (e) State the maximum possible sanction the competent tax authority can charge an entity that has failed to satisfy the registration or notification obligations within the prescribed time limit. (1 mark)

**(15 marks)**

**5** Tipco, a. s. (hereafter 'Tipco') is a Czech tax resident company with 180 employees. All the employees are tax resident in the Czech Republic, work full time based on ordinary labour contracts and perform their work activity in the Czech Republic. In March 2010 Tipco accounted for the following expenses in connection with the payment of salaries, wages and employees' and directors' benefits:

- (1) The part of the salaries and wages (gross) paid to employees that was below the cap for social and health insurance contributions amounting to CZK 7,550,000.
- (2) The part of the salaries and wages (gross) paid to employees that was above the cap for social and health insurance contributions amounting to CZK 3,400,000.
- (3) Fees (gross) paid to members of the supervisory board amounting to CZK 350,000.
- (4) Fees (gross) paid to members of the statutory body amounting to CZK 500,000.
- (5) Travel allowances within the statutory limit amounting to CZK 25,000.
- (6) Travel allowances above the statutory limit amounting to CZK 9,000.
- (7) Payment for the vacation of an employee made directly to the travel agency amounting to CZK 22,000. All employees are entitled to an annual contribution of CZK 25,000 for their vacation under the company's Union agreement. The contribution is not paid from Tipco's social fund.
- (8) Payment for meal vouchers amounting to CZK 189,000.
- (9) Payment to the employees' private pension schemes of CZK 110,000. All employees are entitled to a maximum annual contribution to their private pension fund of CZK 12,000 under the company's Union agreement. Tipco pays this contribution for 135 employees on a monthly basis.
- (10) Compensation for untaken leave paid to an employee amounting to CZK 15,000 (as prescribed by the labour law).
- (11) Financial lease instalments for 20 cars used by 20 employees for both business and private purposes amounting to CZK 170,200. The acquisition price of each car was CZK 400,000. The financial lease contract is concluded for a period of 36 months.
- (12) Payment for a teambuilding weekend stay organised for 20 members of Tipco's medium level management in High Tatras (Slovakia) amounting to CZK 360,000. Participation of the respective employees in this event was obligatory and considered a working activity by the employer.
- (13) Payment of CZK 380,000 for a golf tournament organised for Tipco's clients and employees. The tournament was open to all employees but participation was voluntary.

Salaries and wages are payable to Tipco's employees on the 10th day of the month following the month in which they are earned. The payment date for all the other payments and benefits listed, is not defined.

**Required:**

- (a) State which of the employees' benefits listed in (3) to (13) above are exempt from individual income tax or are not subject to individual income tax.**

Note: a computation is not required for this part. (3 marks)

- (b) State which of payments listed in (3) to (13) above are not deductible as expenses by Tipco, a. s. for corporate income tax purposes.** (2 marks)

- (c) Calculate the aggregated amount of mandatory social security insurance contributions due by Tipco, a. s. on their employees' income for the month of March 2010 and state by when they have to be paid.** (8 marks)

- (d) Calculate the aggregated amount of mandatory health care insurance contributions due by Tipco, a. s. on their employees' income for the month of March 2010 and state by when they have to be paid.** (2 marks)

**(15 marks)**

**End of Question Paper**