
Answers

Marks

1 Autopol, a. s.

(a) 2009 corporate income tax computation

	CZK	CZK	
Accounting income			
Proceeds from the sale of goods		2,242,200	
Proceeds from the sale of process plant and machinery		8,240,000	
Proceeds from sale of 12 cars (410,000*12)		4,920,000	
Proceeds from sale of furniture and equipment		260,000	
Proceeds from sale of the receivable		1,010,000	
Release of the provision on the sold receivable		3,000,000	
Proceeds from sale of land		2,500,000	
Interest from the current bank account		42,800	
Clearance of statutory reserves		295,000	
Clearance of other reserves		4,500,000	
Total accounting income		27,010,000	2
Accounting expenses			
Services purchased	610,000		
Salaries and wages	1,400,000		
Mandatory social and health insurance contributions	476,000		
Accounting depreciation charge	1,352,000		
Expert remuneration	1,310,000		
Book value (acquisition) of land	850,000		
Book value of sold plant and machinery	7,320,000		
Book value of sold cars (390,000*12)	4,680,000		
Nominal value of the sold receivable	3,000,000		
VAT on gift to the school (10,526*19%)	2,000		1/2
Total accounting expenses		(21,000,000)	2
Accounting profit/loss		6,010,000	
<i>Add back:</i>			
Difference between book value and tax residual value of plant and machinery (7,320,000 – 7,078,675) (Working)		241,325	1/2
Difference between book value and tax residual price of cars (4,680,000 – 3,037,500) (Working)		1,642,500	1/2
VAT on gift to the school		2,000	1
Tax non-deductible provisions on sold receivable (3,000,000 – 1,010,000 – 990,000)		1,000,000	1
Total		8,895,825	
<i>Less:</i>			
Difference between tax and accounting depreciation charge (1,577,105 – 1,352,000)	225,105		1/2
Paid debt (payable from 2005 paid in 2009)	481,000		1
Other reserves cleared	4,500,000		1
Clearance of provision on sold receivable 3,000,000 – 990,000 (not tax deductible when created)	2,010,000		1
Total		(7,216,105)	
Tax base		1,679,720	
<i>Less: Tax losses (412,000 + 764,895)</i>		(1,176,895)	1
		502,825	
Gift to the school (maximum 5% of 1,679,720)		(2,000)	1
Reduced tax base		500,825	
Rounded tax base		500,000	1/2
Tax at 20%		100,000	1/2

Autopol is obliged to submit the tax return and pay the 2009 corporate income tax of CZK 100,000 by 30 June 2010.

Autopol will pay two advances for 2010 corporate income tax. Each advance will amount to CZK 40,000 (40% of CZK 100,000) and they shall be paid by 15 December 2010, and 15 June 2011.

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Working: Tax depreciation and calculation of tax residual prices of sold asset		
Plant 1 (acquired 1996 – fully written down)	0	½
Plant 2		
2007 depreciation charge $15.4 \times 8,315,000 \times 0.01$	1,280,510	
2008 depreciation charge $9.4 \times 8,315,000 \times 0.01$	781,610	
2009 depreciation charge $0.5 \times (9.4 \times 8,315,000 \times 0.01)$	390,805	1½
2009 tax residual price $(8,315,000 - 1,280,510 - 781,610 - 390,805)$	5,862,075	½
Appliance		
2008 depreciation charge $1,760,000 \times 21 \times 0.01$	369,600	
2009 depreciation charge $0.5 \times (1,760,000 \times 19.75 \times 0.01)$	173,800	1
2009 tax residual price $(1,760,000 - 369,600 - 173,800)$	1,216,600	½
Machines (acquired 2003 – fully written down)	0	½
Total tax residual price of plant and machinery		
$1,216,600 + 5,862,075$	7,078,675	½
Cars		
2007 tax depreciation charge $12 \times (750,000/4)$	12*187,500	
2007 tax residual price $12 \times (750,000 - 187,500)$	12*562,500	
2008 tax depreciation charge $12 \times [2 \times 562,500 / (6 - 1)]$	12*225,000	
2008 tax residual price $12 \times (562,500 - 225,000)$	12*337,500	
2009 tax depreciation charge $0.5 \times 12 \times [2 \times 337,500 / (6 - 2)]$	12*84,375	2
2009 tax residual price $12 \times (750,000 - 187,500 - 225,000 - 84,375)$	12*253,125	½
2009 tax residual price	3,037,500	
Total 2009 tax depreciation charge:		
$390,805 + 173,800 + 12 \times 84,375$	1,577,105	½
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Tutorial notes:

1. The maximum tax deductible amount for the sold receivables is the received income as increased by the tax deductible provision.
2. A deduction for a non-monetary gift that has been fully written off (the computers to the school) is possible up to the amount of the connected non-deductible expense i.e. the related VAT.

(b) Treatment of the profit distribution

The profit (dividend) will be taxed as follows:

Autopol, a. s. is obliged to withhold a tax at 15% in the case of Ms Grappiolo and at 10% in case of ATP aktiebolag.

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In the case of Autoglobal GmBH and ATP aktiebolag the distribution will be exempt. Autoglobal GmBH qualifies for the participation exemption as a shareholder resident in an EU member state holding a share of more than 10%.

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- (c)** Autopol, a. s. will be obliged to submit a supplementary tax return, recapture the tax credit and pay the appropriate tax for fiscal year 2006.

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2 Tomas Kouba

(a) 2009 Personal income tax computation

	CZK	CZK	
Employment income			
Salary from Finanzte GmbH	2,800,000		1/2
Pension scheme	280,000		1/2
Employer's social and health care insurance contributions deemed at 34%*1,130,640 (up to the cap)	384,418		1
Remuneration from INTIS, a. s.	330,000		1/2
Related health care insurance (330,000*9%)	29,700		1/2
Partial tax base		3,824,118	
Business income			
Remuneration from Educa, s. r. o.	180,000		1/2
Lump-sum expenses at 50%	(90,000)		1/2
Partial tax base		90,000	
Rental income			
Rents	5,250,000		1/2
Documented expenses			
Repair and maintenance	678,000		1/2
Depreciation charge (working)	965,090		1/2
Total expenses	(1,643,090)		1/2
(Lump-sum expenses at 30% amount to CZK1,575,000 and are thus lower than documented expenses.)			
Partial tax base		3,606,910	
Sale of house (exempt)		0	1
Total tax base		7,521,028	
Exemption of income from Germany		(3,464,418)	1
Pension insurance (maximum)		(12,000)	1
Reduced tax base		4,044,610	
Rounded tax base		4,044,600	1/2
Tax liability at 15%		606,690	1/2
Tax credit – personal		(24,840)	1/2
Tax credit – spouse		0	1/2
Tax credit – child (9/12*10,680)		(8,010)	1
Tax liability		573,840	
Less:			
Tax prepayments made by INTIS, s. a. 15%*(330,000 + 29,700)		(53,955)	1
Tax due		519,885	
Working – Depreciation charges:			
		CZK	
House 1: 0.034*(7,000,000 + 5,000,000)		408,000	1
House 2: 0.034*16,000,000		544,000	1
House 3: 0.5*[(3,000,000 + 850,000)*0.034*0.2] (50% as sold in 2009)		13,090	1
Total tax depreciation charge		965,090	
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Tutorial notes:

1. The income from sale of house 3 is exempt from tax and the related expenses (the tax residual value) are tax non-deductible as Mr Kouba lived in the house for more than two years and the house was not included in his business assets.
2. The spouse tax credit is not available for unmarried couples.
3. Higher lump-sum expenses up to 60% of business income could be claimed based on legislation adopted after 31 May 2009.

(b) Mr Kouba is obliged to submit his 2009 tax return and pay the tax due by 31 March 2010.

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(c) Mr Kouba has the liability to pay individual income tax advances for 2010 quarterly in amount of CZK 143,500 (573,840/4 rounded up to hundreds) on each of 15 June 2010, 15 September 2010, 15 December 2010 and 15 March 2011	2 1 3
(d) Application for a binding ruling regarding the refurbishment	
The application to the competent tax authority must comprise details of:	
– The identification data of the taxpayer (Mr Kouba).	1/2
– The taxable period in question.	1/2
– A description and technical specification of the property subject to the refurbishment, including the date of acquisition, acquisition value and information about the current tax treatment.	1
– A description of the condition of the property at the time of acquisition and before the refurbishment, together with a description of the current use of the property and the planned use after the refurbishment.	1
– Proof of ownership to the property in question.	1/2
– The refurbishment budget.	1/2
– The technical documentation.	1/2
– A suggestion as to the outcome of the ruling.	1/2
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3 Bella boutique

(a) Value added tax (VAT) liability for the October to December 2009 tax period

Input supplies	Tax base CZK		Tax CZK	
Purchased fabrics and materials CZ	250,000	250,000*0.19	47,500	1/2
Purchased fabrics and materials USA	180,000	180,000*0.19	34,200	1/2
Purchased fabrics and materials FR	45,000	45,000*0.19	8,550	1/2
		Reverse charge		
Services from Mr Floris (not registered)	80,000	No VAT	0	1/2
Services from Stilista	375,000	375,000*0.19	71,250	1/2
		Reverse charge		
Catalogue	165,000	165,000*0.19	31,350	1/2
Total input tax			192,850	
Output supplies				
Purchased fabrics and materials FR	45,000	45,000*0.19	8,550	1/2
Purchased fabrics and materials USA	180,000	180,000*0.19	34,200	1/2
Services purchased from Stilista	375,000	375,000*0.19	71,250	1/2
Sale CZ	120,000	120,000*0.19	22,800	1/2
	341,000	341,000*0.19	64,790	1/2
Sale to Stilista – Italy	175,000	exempt	0	1/2
Sale to Moda – Switzerland	420,000	exempt	0	1/2
Sale at the parade hall – Italy	65,000	65,000*0.19	12,350	1
Complaint – dress (original price CZK 15,000 inclusive VAT)	12,605	15,000/119*19	(2,395)	1/2
Complaint – defective item – 50% reduction (original price CZK 18,000 inclusive of VAT)	7,563	9,000/119*19	(1,437)	1/2
Total			210,108	
VAT due			17,258	1/2
The VAT tax return is due by 25 January 2010.				1
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(b) The excessive deduction should be refunded within 30 days from the completion of the examination, i.e. by 17 November 2009.	1
If the tax refund is paid late by the tax authority, then the taxpayer, Eva is entitled to receive interest in the amount of the REPO rate increased by 14 percentage points.	2
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(c) Lada should have registered for VAT at the time she concluded the partnership agreement with a VAT payer, i.e. on 1 April 2009.	2
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4 FAME, a. s.

(a) (1) A supplementary tax return cannot be submitted since the fiscal year 2004 is subject to the statutes of limitation.	1
(2) A supplementary tax return must be submitted by 30 April 2009.	1
The corresponding penalty will be calculated for 500 days. The actual delay exceeds this limit (from 1 April 2006 till 30 April 2009, i.e. 365 + 366 + 365 + 30 = 1,126), so for the remaining 626 days (1,126 – 500) the interest only will be calculated.	
280,000*0.05%*500 = 70,000	
280,000*1.4*(2.25/100)*(626/365) = 15,127	
Total amount due CZK 70,000 + CZK 15,127 = CZK 85,127	2
Note: In accordance with the recent ruling of the constitutional court the tax year 2005 may also be subject to the statutes of limitations. Candidates who give this answer will receive full marks.	
(3) A supplementary tax return can be submitted by 30 April 2009.	1
(4) A supplementary tax return must be submitted by 30 April 2009.	1
The corresponding penalty will be interest at (2.25 + 14)% for one year and 30 days, i.e. 280,000*0.1625 + (280,000*0.1625/365*30) = CZK 49,240.	2
(5) A supplementary tax return can be submitted by 30 April 2009.	1
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(b) The tax authority can waive a tax liability because of inconsistencies ensuing from the application of the tax law.	1
The tax authority can waive penalties in the case of inconsistencies ensuing from the application of the tax law or in order to eliminate hardship (on taxpayer).	2
	<u>3</u>
(c) The application for the pardon of a tax penalty must comprise the following:	
– The identification of the taxpayer, taxable period and tax.	1
– A description of the problem, in particular the details of the potential inconsistency of the law or the hardship caused by the penalty.	1
– Supporting documents confirming the reasoning.	½
– A suggestion of the outcome.	½
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5 The Kodet family

(a) Martin Kodet's 2009 individual income tax return

	CZK	CZK	
Employment income			
Salary from Miro (12*12,000)	144,000		1/2
Membership (exempt)	0		1/2
Meal vouchers (exempt)	0		1/2
Holiday in Harrachov (exempt)	0		1/2
Pension plan contribution (exempt)	0		1/2
Social and health care contributions paid by Miro at 34%	48,960		1/2
Partial tax base		192,960	
Business income			
Film festival	15,000		1/2
Violinist Cartier	25,000		1/2
Lump-sum expenses at 50%	(20,000)		1/2
Partial tax base		20,000	
Other income			
Royalties		270,000	1/2
Tax base		482,960	
Life insurance allowance (maximum amount)		(12,000)	1
Mortgage interest allowance		(7,000)	1
Reduced tax base		463,960	
Rounded tax base		463,900	1/2
Tax at 15%		69,585	1/2
Personal tax credit		(24,840)	1/2
Student tax credit		(4,020)	1/2
Tax liability		40,725	
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Tutorial note:

Higher lump-sum expenses up to 60% of business income could be claimed based on legislation adopted after 31 May 2009.

(b) Mr Kodet's social security and health care contributions

Social security insurance contributions

Mr Kodet has not reached the minimum tax base of CZK 56,532 (12*4,711), so he is not obliged to pay additional contributions in respect of his private entrepreneur activity. If he decides to register with the competent authority and pay social security insurance contributions for his private entrepreneur activity (on a voluntary basis), he will calculate his contributions from the minimum base of CZK 28,272, i.e. $28,272 \times 29.2\% = \text{CZK } 8,256$

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Health care insurance contributions

Base	CZK	
Business income	20,000	
50%		10,000 1/2
Contributions at 13.5%		1,350 1/2
		2

(c) Mrs Kodetova

Mrs Kodetova's pension is exempt income as it is lower than 36 times the minimum salary of CZK 8,000, i.e. CZK 288,000.

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Mrs Kodetova's income from Ela will be subject to withholding tax at source at the rate of 15%.

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Mrs Kodetova will be eligible to claim the child tax credit of CZK 10,680 as her 2009 income from Ela is more than eight times the minimum salary of CZK 8,000, i.e. CZK 64,000. If she wishes to claim this credit and obtain a corresponding tax refund, she will have to file a tax return.

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