Answers

Marks

1 (a) Skiamo, s. r. o.

(i) 2011 corporate income tax

	CZK	
Accounting income		
Proceeds from the sale of lift tickets	8,448,000	
Proceeds from the sale of services	3,472,000	
Interest from current bank account	5,000	
Release of reserve for repair	1,320,000	
Release of the statutory reserve	220,000	
Release of other reserve	1,885,000	
Proceeds from the sale of Leitner snow groomer	355,000	
Total accounting income	15,705,000	1½
Accounting expenses		
Goods and services purchased	2,684,100	
Salaries and wages	4,800,000	
Mandatory social and health care insurance contributions	1,632,000	½
Travel allowances within the statutory limit	120,000	
Travel allowances above the statutory limit	85,000	
Mandatory social and health care insurance contributions (34%)	28,900	½
Cost of drinks, etc	35,000	
Lift maintenance costs	1,320,000	
Remuneration to the statutory representative (*jednatel*)	125,000	
Mandatory social and health care insurance contributions (34%)	42,500	½
Membership fees (3*30,000)	90,000	
Accounting depreciation charge	2,060,000	
Net book value of the sold snow groomer	282,500	
Total accounting expenses	(13,305,000)	1½
Accounting profit	2,400,000	½
Add back:		
Travel allowances above the statutory limit	85,000	1
Cost of drinks etc	35,000	1
Membership fees	90,000	1
Net book value of the sold snow groomer (Working 1)	282,500	1
Total add back	492,500	
Less:		
Release of other reserve	1,885,000	1
The difference between the tax and accounting depreciation charge (Working 2) (2,982,800 – 2,060,000)	922,800	½
Total deductions	2,807,800	
Tax base	84,700	
Rounded tax base	84,000	½
Tax at 19%	15,960	½
Tax credit for disabled employee (60,000*35%)	(21,000)	1
Tax after credit	0	
Tax advances paid (15,800 + 17,200)	(33,000)	
Tax overpaid	33,000	½

Working 1 – Tax residual value of the sold snow groomer

The groomer was acquired in 2005 and depreciated in group 1, i.e. over three years.

Tax residual value	0	

Working 2 – Tax depreciation of assets

Snow groomer Prinoth (straight-line method) 2011 depreciation charge (4,500,000*30)/100	1,350,000	1
Snow groomer Leitner Fully depreciated (as per Working 1)	0	
Ski lift – the construction part (straight-line method) Skiamo is obliged to continue depreciation as commenced by Mr Prouza 2011 depreciation charge (1,600,000*3·4/100)	54,400	1½

			Marks
Ski lift – the technological part (straight-line method)			
Skiamo is obliged to continue depreciation as commenced by Mr Prouza			
2011 depreciation charge (2,550,000 + 3,398,000 – 248,000)*10/100		570,000	2
Snowmobile			
This asset is subject to extraordinary depreciation as it was acquired between 1 January 2009 and 30 June 2010.			
It was fully written down in 2010.		0	1
Mercedes			
This asset is subject to extraordinary depreciation as it was acquired between 1 January 2009 and 30 June 2010.			
2011 depreciation charge ((1,460,000*60%/12)*6) + ((1,460,000*40%/12)*6)		730,000	2
Jeep (accelerated method)			
2008 depreciation charge (1,740,000/5)		348,000	
2008 tax residual value (1,740,000 – 348,000)		1,392,000	
2009 depreciation charge (2*1,392,000/6 – 1)		556,800	
2009 tax residual value (1,392,000 – 556,800)		835,200	
2010 depreciation charge (2*835,200/6 – 2)		417,600	
2010 tax residual value (835,200 – 417,600)		417,600	
2011 depreciation charge (2*417,600/6 – 3)		278,400	2
Total tax depreciation charge			
1,350,000 + 0 + 54,400 + 570,000 + 0 + 730,000 + 278,400		2,982,800	½
			23

Tutorial note:

The subsidy from the municipality decreases the acquisition value (technical appreciation) of the respective asset (the technological part of the lift). It is not accounted for in income.

(ii) Skiamo is obliged to submit its 2011 corporate income tax return by 1 April 2012. 1

The tax overpaid will be repaid to Skiamo within 30 days from when Skiamo applies for the return of the tax. 1

2

(iii) The profit distribution is subject to withholding tax at 15%

	CZK	
Tax withheld by Skiamo (88,000/0·85*0·15)	15,530	1

Skiamo was obliged to pay the tax of CZK 15,530 withheld from the profit distribution payment made to Mr Prouza by 31 March 2011. ½

The competent tax authority is the financial authority in Liberec. ½

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(b) Ski Fun GmbH – permanent establishment

A permanent establishment is a fixed place of business through which an enterprise carries out its business (wholly or partly). A stall with fixed groundings operated over five fiscal years is highly likely to create a permanent establishment of Ski Fun on Czech territory, regardless of for how long during the calendar year it is opened. 1½

If a permanent establishment exists, Ski Fun would be subject to corporate income tax in the Czech Republic on the profits earned/allocated to such a permanent establishment. 1

If no permanent establishment exists, Ski Fun would pay no tax in the Czech Republic, the profits of the stall would be taxed as part of its worldwide income in Germany. ½

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			Marks
2	**(a)**	Ms Mala	

(i) 2011 individual income tax

	CZK	
Employment income		
Salary from Cynthia, s. r. o (24,000*12)	288,000	½
Employer's social security and health care insurance contributions (288,000*0·34)	97,920	½
Super gross employment income	385,920	½
Partial tax base	385,920	
Business income		
Income	620,000	½
Lump-sum expenses at 60% (Higher than documented expenses)	(372,000)	1
Partial tax base	248,000	
Other income		
Sale of painting (exempt)	0	½
Interest from savings account (taxed by final withholding)	0	½
Partial tax base	0	
Tax base	633,920	
Tax base (rounded down to '00)	633,900	½
Tax at 15%	95,085	½
Personal tax credit	(23,640)	½
Tax after credit	71,445	

Individual income tax advances for 2012

The tax after credit is higher than CZK 30,000, so Ms Mala would normally pay tax advances semi annually. But, as her partial tax base from employment income forms more than 50% of the total tax base, Ms Mala is not obliged to pay any individual income tax advances. 1½

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(ii) Social and health care insurance contributions

Health care contributions		
Assessment base ((620,000 – 372,000)*0·5)	124,000	½
Health care contributions at 13·5%	16,740	½

Ms Mala is obliged to pay her social security and health care insurance contributions within eight days from the date of filing her individual income tax return, i.e. by 1 April 2012, so her health care contributions should be paid on 9 April 2012. 1

Social security insurance contributions		
Assessment base ((620,000 – 372,000)*0·5)	124,000	½
Social security contributions at 31·5%	39,060	½

Ms Mala is obliged to pay social security insurance contributions within eight days from the date of filing her 2011 social security report. The report is due within one month of the filing of the tax return, i.e. Ms Mala has to file her 2011 social security report by 30 April 2012 and pay her social security insurance contributions by 8 May 2012. 1

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Marks

(b) Mr Halas

2011 individual income tax

	CZK	Marks
Employment income		
Salary from Prosperité	1,800,000	½
Deemed employer's social security and health care insurance contributions at 34% up to cap of CZK 1,781,280	605,636	½
Partial tax base	2,405,636	
Business income		
Income from Czech sources	2,200,000	½
Lump-sum expenses at 60%	(1,320,000)	½
Partial tax base	880,000	
Tax base	3,285,636	
Tax base (rounded down to '00)	3,285,600	½
Tax at 15%	492,840	½
Personal tax credit	(23,640)	½
Tax after personal tax credit	469,200	
Tax credit for the Danish tax (Working)	(343,548)	2
Tax due in the Czech Republic	125,652	

Working

Income with the source abroad (super gross)	2,412,000
Expenses related to the foreign income	0
Tax paid abroad	630,000
Maximum credit capacity	
2,405,636/3,285,600 = 73·22%	
469,200*0·7322	343,548

Individual income tax advances for 2012:

The tax after credit is between CZK 30,000 and CZK 150,000, so Mr Halas is obliged to pay tax advances semi-annually in the amount of 40% of the tax due. 1

125,652*0·4 = 50,261 (rounded up to '00) = CZK 50,300. ½

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Tutorial note:
Employment income from abroad has no influence on the calculation of income tax prepayments as the foreign employer has no obligation to withhold a payroll tax in the Czech Republic.

(c) Mr Nosek

2011 individual income tax

	CZK	CZK	Marks
Employment income			
Salary from the National Technical Museum (34,000*12)		408,000	½
Employer's social security and health care insurance contributions (288,000*0·34)		138,720	½
Super gross employment income		546,720	
Partial tax base		546,720	
Other income			
Sale of shares (exempt)	0		½
Royalties	3,140,000		½
Income from article (subject to final withholding tax at 15%)	0		½
Partial tax base		3,140,000	
Tax base		3,686,720	
Tax base (rounded down to '00)		3,686,700	½
Tax at 15%		553,005	½
Personal tax credit		(23,640)	
Spouse credit		(24,840)	½
Child credit		(11,604)	½
Tax after personal tax credit		492,921	

Marks

Individual income tax advances for 2012

Mr Nosek will pay no individual income tax advances as his only income relevant for the calculation of tax advances was employment income. Other income (royalties) is not taken into account when calculating tax advances. 1½

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(d) The 2012 income tax prepayments period for a taxpayer represented by a certified tax advisor is 2 July 2012 to 1 July 2013. 1

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3 (a) Domestika, s. r. o.

(i) Value added tax (VAT) registration

Domestika did not reach the registration threshold of CZK 1,000,000 until July 2011. However on 5 February 2011, Domestika purchased goods from another EU member state for more than CZK 326,000 and so would have become a VAT payer on that day. 2

(ii) Date of registration

Domestika is obliged to submit the application for registration within 15 days from 5 February 2011, i.e. by 20 February 2011. 1

(iii) Taxable period

Domestika's taxable period will be a calendar quarter. Domestika was obliged to submit its first tax return on 26 April 2011 for the taxable period January to March 2011. 2

(iv) VAT for the first quarter of 2011

Input supplies	Tax base CZK		Tax CZK	
Claim for input supplies for assets and goods acquired in the 12 months before registration:				
Purchase of cleaning machine from a Czech VAT payer	115,000	115,000*0·2	23,000	1
Purchase of personal car	750,000	750,000*0·2	150,000	1
Purchase of inventory used in 2011	370,000	370,000*0·2	74,000	1
Supplies in the first quarter of 2011:				
Purchase of vacuum cleaner from France	345,000	345,000*0·2	69,000	½
Purchase of computer	35,000	35,000*0·2	7,000	½
Purchase of marketing services	45,000	45,000*0·2	9,000	½
Total input tax			332,000	
Output supplies				
Purchase of vacuum cleaner from France (reverse charge)	345,000	345,000*0·2	69,000	1
Sale of babysitting services	25,000	25,000*0·2	5,000	½
Sale of cleaning services	160,000	160,000*0·2	32,000	½
Total			106,000	
VAT recoverable			(226,000)	½
				7

Marks

(b) VAT invoice obligatory information

The items of information that are not obligatory are:

(3) the supplier's bank account number; and
(5) the date the invoice is payable.

The items of obligatory information that are missing are:

– The tax identification number of the customer;
– The number of the invoice;
– The price per unit (excluding VAT);
– The tax rate; and
– The amount of VAT charged.

ANY SIX correct items – ½ mark each, maximum 3

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4 Rea, a. s.

(a) Exempt income items

	Marks
1. The dividend from Rea Environmental is exempt, because the shareholding is greater than 10%, it has been held for more than 12 months and the subsidiary is a Czech tax resident.	1
2. The dividend from Rea Spain is exempt, because the shareholding is greater than 10%, it has been held for more than 12 months and the subsidiary is a company resident in an EU member state.	1
3. The dividend from Rea Mexico is exempt, because the shareholding is greater than 10%, it has been held for more than 12 months, the subsidiary is tax resident in a state with which the Czech Republic has concluded a tax treaty, the subsidiary is a joint stock company and the subsidiary is subject to a corporate income tax rate higher than 12% in Mexico.	2
4. The income from the sale of shares in Rea Mexico is exempt for the same reasons as for the dividend income from Rea Mexico (i.e. the share holding is greater than 10%, it has been held for more than 12 months, the subsidiary is tax resident in a state with which the Czech Republic has concluded a tax treaty, the subsidiary is a joint stock company and the subsidiary is subject to a corporate income tax rate higher than 12% in Mexico).	1
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(b) 2011 corporate income tax

	CZK	
Accounting profit	60,415,000	
Add back:		
Expenses related to dividends, which are exempt (2,420,000 + 820,000 + 1,350,000)*0·05	229,500	1
Acquisition price of exempt shares sold (15,000,000*15%)	2,250,000	1
Total add back	2,479,500	
Less:		
Dividend from Rea Environmental	2,420,000	½
Dividend from Rea Mexico	820,000	½
Dividend from Rea Spain	1,350,000	½
Dividend from Rea Panama	520,000	½
Income from sale of shares in Rea Mexico	3,800,000	½
Total deductions	8,910,000	
Tax base	53,984,500	
Rounded tax base	53,984,000	½
Tax at 19%	10,256,960	½
Foreign tax credit (Working 1)	(55,000)	2
Tax on separate tax base (Working 2)	78,000	1½
Tax due	10,279,960	9

Marks

Working 1 – Foreign tax credit on interest from Rea Mexico

	CZK
Income with the source abroad (495,000 + 55,000)	550,000
Expenses linked to the foreign income	60,000
Tax paid abroad	55,000
Maximum credit capacity	
(550,000 – 60,000)/53,984,000 = 0·91%	
10,256,960*0·0091	93,338

The full amount of the tax paid in Mexico can be credited against the Czech worldwide tax liability.

Working 2 – Separate tax base

Dividend from Rea Panama	520,000
Separate tax base	520,000
Tax at 15%	78,000
Foreign tax credit	0
Tax on separate tax base	78,000

Tutorial note:

1. *The proceeds from the sale of shares are included in the accounting profit.*
2. *The income from the sale of shares in Rea Panama is not exempt as this subsidiary is tax resident in a state with which the Czech Republic has not concluded a tax treaty.*
3. *Tax paid in Panama cannot be credited against the Czech worldwide tax liability as there is no tax treaty between Panama and the Czech Republic.*

(c) Documents to be presented

Rea, a. s. will need to present a certificate of tax paid in Mexico issued by the competent tax authority in Mexico to claim the foreign tax credit. 1

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5 Anja Kowalska

(a) 2011 individual income tax

	CZK	
Employment income		
Salary from Energia (182,500*12)	2,190,000	½
Bonus	320,000	½
Rented apartment ((18,500 – 3,500)*12)	180,000	1
Car ((1%*850,000*4) + (1%*1,350,000*8))	142,000	1
Employer's social security and health care insurance contributions (Working 1)	605,636	1
Medical services (exempt)	0	½
Wellness club membership (exempt)	0	½
Partial tax base	3,437,636	
Rental income	0	½
Tax base	3,437,636	
Less deductions:		
Pension insurance	12,000	½
Life insurance	12,000	½
Mortgage	35,000	½
Gift (up to 10% of CZK 3,437,636)	6,000	1
Reduced tax base	3,372,636	
Tax base (rounded down to '00)	3,372,600	½
Tax at 15%	505,890	½
Personal tax credit	(23,640)	½
Spouse credit	(24,840)	½
Child credit	(11,604)	½
Tax after credits	445,806	
Tax advances by Energia	492,100	½
Tax overpaid	46,294	

Marks

Working 1 – Employer's social security and health care insurance contributions

	CZK	
Base (2,190,000 + 320,000 + 180,000 + 142,000)	2,832,000	
The cap	1,781,280	
Employer's social security and health care insurance contributions (1,781,280*0·34)	605,636	

Working 2

Income with the source in the Czech Republic	3,437,636	
Income from other sources		
Rent (25,000*12)	300,000	
3,437,636/(3,437,636 + 300,000)	91·97%	1
		12

Tutorial notes:

1. *Anja is not a Czech tax resident, therefore she is not subject to individual income tax on income with a source outside the Czech Republic, such as the rent from the apartment in Warsaw.*
2. *Although a tax non-resident of the Czech Republic, Anja is able to claim gift, pension, life insurance and mortgage interest deductions and the personal, spouse and child credit as at least 90% of her worldwide income has a source in the Czech Republic.*

(b) When deductions/credits are claimable

The personal tax credit can be credited during the tax year when calculating the tax advances deducted from Anja's employment income based on the declaration signed by her with Energia Consulting, a. s. ½

The following deductions/credits can only be claimed in Anja's tax return:

- gift deduction; ½
- pension and life insurance deduction; ½
- mortgage deduction; ½
- spouse credit; and ½
- child credit. ½

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