

Fundamentals Level – Skills Module

Taxation (Czech)

Tuesday 6 December 2011

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)

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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	23,640
Dependent spouse allowance	24,840
Child credit	11,604
Student 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%
Threshold registration limit	CZK 1,000,000

Social security and health care contributions – Employed persons

Social security	Employee's contributions	
	Pension insurance	6·5%
	Illness insurance	0%
	Unemployment insurance	0%
	Total	6·5%
Employer's contributions	Pension insurance	21·5%
	Illness insurance	2·3%
	Unemployment insurance	1·2%
	Total	25%
	Health care	Employee's contributions
Employer's contributions		9·0%

Cap for social security and health care insurance purposes as regards income from employment CZK 1,781,280

Social security and health care contributions – Private entrepreneur

Social security	
Illness insurance	2·3%
Pension scheme	28·0%
Unemployment insurance	1·2%
Total	31·5%
Minimum monthly assessment base for the main activity	CZK 6,185
Health care contributions	13·5%
Minimum monthly assessment base	CZK 12,370

Repo interest rate

Applicable on 1 January 2011 (as of December 2010)	0·75%
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Minimum wage

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

ALL FIVE questions are compulsory and MUST be attempted

1 (a) Skiamo, s. r. o. (hereafter ‘Skiamo’) is a Czech tax resident company running a skiing school and winter sports resort in Liberec. Skiamo was established in 2005 by Mr Prouza, who has been the only shareholder since then. Skiamo’s fiscal year is equal to the calendar year. Mr Prouza’s permanent home is in Prague 1.

The following information is applicable to Skiamo for the year 2011:

- (1) Skiamo had the following income:
 - Proceeds from the sale of ski lift tickets of CZK 8,448,000.
 - Proceeds from the sale of services of a skiing school of CZK 3,472,000.
 - Interest from its current bank account of CZK 5,000.
- (2) Skiamo incurred the following costs:
 - Goods and services purchased of CZK 2,684,100 (all tax deductible expenses).
 - Salaries and wages of CZK 4,800,000 (all below the cap for the purposes of mandatory social and health care insurance).
 - Travel allowances within the statutory limit of CZK 120,000.
 - Travel allowances above the statutory limit of CZK 85,000.
 - Cost of water, coffee and tea available to skiing instructors and clients in Skiamo’s premises, of CZK 35,000.
 - Remuneration for the management of the company of CZK 125,000 paid to Mr Prouza, who acts as the statutory representative of the company (*jednatel*).

Mandatory social and health care insurance contributions, where relevant, were all paid within the statutory limit.

- (3) Three of Skiamo’s ski instructors are members of the international association of certified skiing instructors. Skiamo paid their annual membership fee amounting to CZK 30,000 per person.
- (4) Skiamo employs one skiing instructor with a special qualification for the teaching of disabled persons. Ms Slavikova is disabled herself, having lost her leg in an accident, and she is the holder of a ZTP identification card (particularly severe disability). Ms Slavikova worked full time for Skiamo for four months in 2011 and she completed 35% of the annual fund of working hours.
- (5) Skiamo owns assets as follows:

Asset	Acquisition date	Depreciation group	Acquisition price CZK	2011 accounting depreciation charge CZK
Snow groomer Prinoth	15 November 2011	1	4,500,000	450,000
Snow groomer Leitner	2 December 2005	1	2,850,000	285,000
Ski lift – construction part	1 November 2005	5	See (6) below	120,000
Ski lift – technological part	1 November 2005	3	See (6) below	490,000
Snowmobile	15 January 2009	1	375,000	75,000
Mercedes	15 June 2010	2	1,460,000	292,000
Jeep	1 October 2008	2	1,740,000	348,000
Total 2011 charge				2,060,000

- (6) The ski lift consists of the construction part (depreciation group 5) and the technological part (depreciation group 3). The two parts create two separately depreciable assets. Skiamo has owned the ski lift since the company was established. The ski lift was originally owned by Mr Prouza, who used it to make an in-kind contribution to the capital of Skiamo in 2005. The value of the ski lift according to the expert appraisal for the purpose of this in-kind contribution in 2005 amounted to CZK 2,000,000 for the construction part and CZK 1,870,000 for the technological part. Mr Prouza had purchased the plot on which the ski lift is situated in 2000 for CZK 360,000. He built the lift in 2001 and included it in his business assets. The construction costs amounted to CZK 1,600,000 for the construction part and CZK 2,550,000 for the technological part. Mr Prouza claimed depreciation allowances for both parts in the fiscal years 2001 to 2005 using the straight-line method. During the autumn of 2011 Skiamo refurbished the ski lift technological part. The

overall costs of the refurbishment amounted to CZK 3,398,000. The refurbished ski lift opened in December 2011.

- (7) Skiamo received a subsidy of CZK 248,000 from the municipality of Liberec as a contribution made specifically for the purpose of the refurbishment of the ski lift.
- (8) Skiamo created a reserve for the repair of the lift in the years 2005 to 2010 in the amount of CZK 220,000 per year. These amounts were a tax deductible expense in fiscal years 2005 to 2010. In 2011 the overall amount of CZK 1,320,000 was used to make planned repairs to the construction part of the ski lift.
- (9) Skiamo cleared statutory reserves of CZK 220,000 and other reserves of CZK 1,885,000 in 2011.
- (10) Skiamo sold the snow groomer Leitner for CZK 355,000 in 2011. The net book value of the groomer was CZK 282,500.
- (11) Skiamo claims the maximum possible tax deductions and has never interrupted the tax depreciation of any asset. Skiamo applies the straight-line method for tax depreciation on all its assets except the Jeep which is depreciated based on the accelerated method. Skiamo used the increased tax depreciation charges in the year of acquisition and the extraordinary depreciation scheme as regards all assets where the law allowed it.
- (12) On 15 February 2011 Skiamo paid the 2010 profit distribution of CZK 88,000 net to Mr Prouza. As sole shareholder Mr Prouza exercised the powers of a general meeting of shareholders to decide about the distribution of profit on 15 January and Skiamo accounted for this liability on 1 February.
- (13) Skiamo paid tax advances of CZK 15,800 on 15 June 2011 and of CZK 17,200 on 15 December 2011.
- (14) Skiamo's financial statements are not subject to review by an accredited auditor and the company is not represented by a tax advisor.

Required:

- (i) **Calculate the 2011 corporate income tax payable by Skiamo, s. r. o.** (23 marks)
 - (ii) **State by when Skiamo, s. r. o.'s tax return and tax payment for 2011 are due or the tax overpaid will be returned by the tax authority.** (2 marks)
 - (iii) **Calculate the amount of tax withheld from the profit distribution sent to Mr Prouza, state by when it has to be sent to the competent tax authority and which is the competent tax authority.** (2 marks)
- (b) Ski Fun GmbH (hereafter 'Ski Fun') is a German tax resident operating four après-ski stalls on slopes in Germany and Austria. Ski Fun is considering opening a similar stall on Skiamo's slope in Liberec. The stalls always have firm grounding. The upper part of the stall and the interior equipment is usually completely removed at the end of the skiing season. Ski Fun allocates between two and three employees to a stall for the period from December to April. Après-ski stalls are installed for a minimum of five skiing seasons.

Required:

State, giving reasons, whether the après-ski stall on the slope in Liberec will be a permanent establishment in the Czech Republic. State how Ski Fun GmbH's income from the après-ski stall will be taxed if (1) it is considered to be a permanent establishment and (2) it is not considered to be a permanent establishment. (3 marks)

(30 marks)

- 2 (a) Ms Mala, a Czech tax resident, is an interior decorator providing her services mostly as a private entrepreneur. Her business income in 2011 amounted to CZK 620,000 and she had documented tax deductible expenses of CZK 120,000.

Ms Mala also works part time for Cynthia, s. r. o. based on an employment contract. She receives a monthly salary of CZK 24,000 from Cynthia, s. r. o.

In addition to these incomes, she received:

- (i) CZK 150,000 from the sale of a painting she had inherited from her aunt in 2008
- (ii) Interest from her private savings account of CZK 34,000

Ms Mala is single and has no children. She is not represented by a tax advisor.

Required:

- (i) **Calculate the 2011 individual income tax payable by Ms Mala and her 2012 tax advances due, if any. If you conclude that no tax advances are due in 2012, state why.** (7 marks)
- (ii) **Calculate the 2011 social and health care insurance contributions, exclusive of the illness insurance, payable by Ms Mala and state by when they are due, assuming that she paid her individual income tax on the last day of the respective time limit.** (4 marks)

- (b) Mr Halas is a Czech tax resident. He is a financial advisor who works in Denmark as an employee of Prosperité, a Danish tax resident company.

Mr Halas received a gross salary amounting to the equivalent of CZK 1,800,000 in 2011, on which he paid Danish individual income tax in the equivalent of CZK 630,000. In addition, social security and health care insurance contributions were withheld by his employer at 8% of his gross salary in accordance with the respective Danish legislation. The Danish/Czech tax treaty provides for the credit method in the case of employment income earned in one state by the residents of the other state.

In addition to his employment income, Mr Halas earned business income from rendering financial advisory services to his Czech clients, based on his business licence of CZK 2,200,000. He has not documented any expenses incurred in connection with this income.

Mr Halas is single and has no children.

Required:

Calculate the 2011 individual income tax payable by Mr Halas in the Czech Republic and his 2012 tax advances due, if any. If you conclude that no tax advances are due in 2012, state why. (7 marks)

- (c) Mr Nosek, a Czech tax resident, is employed by the National Technical Museum. He received a monthly salary of CZK 34,000 from the National Technical Museum during the whole of 2011. In addition, in 2011 he received:

- (i) CZK 800,000 from the sale of shares in Unipetrol, a. s. in April 2011. The shares sold represented less than 0.1% of Unipetrol, a. s.'s registered capital. Mr Nosek had acquired the shares in 1994 for CZK 450,000.
- (ii) Royalties of CZK 3,140,000 for books written by his father, which were sold during 2011. Mr Nosek had inherited the rights to these books in 2005 when his father died.
- (iii) CZK 4,500 for having written an article for Denik, s. r. o. in February 2011.

Mr Nosek is married and has two-year-old twins. His wife had no income at all during 2011, except for the parental subsidy.

Required:

Calculate the 2011 individual income tax payable by Mr Nosek and his 2012 tax advances due, if any. If you conclude that no tax advances are due in 2012, state why. (6 marks)

(d) State when the 2012 income tax prepayments period starts, and when it ends, in the case of an individual taxpayer represented by a certified tax advisor.

(1 mark)

(25 marks)

- 3 (a) Domestika, s. r. o. (hereafter 'Domestika') is a Czech company rendering cleaning, housekeeping and babysitting services. Domestika was established in August 2010.

Domestika has made supplies and purchases as follows. All figures are exclusive of VAT, where applicable.

Supply	Date of taxable supply	CZK
Purchase of a cleaning machine from a Czech value added tax (VAT) payer	15 August 2010	115,000
Purchase of a personal car from a Czech VAT payer	5 September 2010	750,000
Purchase of detergents (inventory) from Czech VAT payers (all used by 31 December 2010)	25 September 2010	85,000
Purchase of cleaning cloths and detergents (inventory) from a Czech VAT payer (all to be used in 2011)	30 October 2010	370,000
Sale of cleaning services to Czech VAT payers	28 November 2010	78,000
Purchase of a high-capacity vacuum cleaner from a French supplier not registered for VAT in the Czech Republic	5 February 2011	345,000
Purchase of a computer from a Czech VAT payer	15 February 2011	35,000
Sale of babysitting services to Czech non-VAT payers	15 March 2011	25,000
Purchase of marketing services from an Austrian supplier registered for VAT in the Czech Republic	20 March 2011	45,000
Sale of cleaning services to Czech non-VAT payers	25 March 2011	160,000
Sale of cleaning services to Czech VAT payers	5 July 2011	850,000
Sale of babysitting services to Czech non-VAT payers	15 August 2011	45,000
Purchase of mops and cloths (inventory) from Czech VAT payers	25 September 2011	55,000

Required:

- (i) State, giving reasons, from when Domestika, s. r. o. became a Czech value added tax (VAT) payer. (2 marks)
- (ii) State by when Domestika, s. r. o. was obliged to register for VAT with the competent tax authority. (1 mark)
- (iii) State what Domestika, s. r. o.'s taxable period is and by when the first VAT return was due. (2 marks)
- (iv) Calculate Domestika, s. r. o.'s VAT payable/refundable for its first VAT return period, using the maximum allowable input deductions. (7 marks)
- (b) Mr Hruby, a Czech VAT payer, received an invoice from Domestika, s. r. o. which included the following data:
- (1) The supplier: Domestika, s. r. o., Korunni 145, Prague 2
 - (2) Domestika, s. r. o.'s tax identification number: CZ18569425
 - (3) Domestika, s. r. o.'s bank account number: 115899637/0300
 - (4) The date the invoice was issued: 30 November 2011
 - (5) The date the invoice was payable by: 10 December 2011
 - (6) The date of the taxable supply: 28 November 2011
 - (7) The customer: Mr Hruby, Kloboucnicka 12, Praha 9
 - (8) The taxable supply: Cleaning services for administrative building 8,500m² rendered on 28 November 2011
 - (9) Price exclusive of VAT: CZK 78,000

Required:

State which of the items of information listed above are NOT required to be included on a VAT invoice and list the items of obligatory information that are missing. (3 marks)

(15 marks)

4 Rea, a. s. (hereafter 'Rea') is a Czech tax resident company operating in the biotechnology industry. Rea has four 100% subsidiaries: Rea Environmental, a. s., a Czech tax resident company; Rea Spain, a Spanish tax resident; Rea Mexico, a tax resident of Mexico; and Rea Panama, a tax resident of Panama. The shares in all four subsidiaries were acquired before the end of 2008.

Rea's 2011 accounting profit amounts to CZK 60,415,000. This figure includes dividends, interest, income from the sale of shares and related expenses, as detailed below. The other expenses included in the 2011 accounting profit all qualify as tax deductible. Rea is not eligible to claim loss relief, gift relief or research and development relief in its 2011 tax return.

- (1) On 15 February 2011, Rea received a dividend of CZK 2,420,000 from Rea Environmental, a. s.
- (2) On 20 April 2011, Rea accounted for a dividend in the equivalent of CZK 820,000 from Rea Mexico. Tax of the equivalent of CZK 123,000 was withheld in Mexico.
- (3) On 3 May 2011, Rea received a gross dividend in the equivalent of CZK 1,350,000 from Rea Spain. No tax was withheld in Spain.
- (4) On 15 May 2011, Rea accounted for a dividend in the equivalent of CZK 520,000 from Rea Panama. Rea Panama withheld tax in the equivalent of CZK 12,000 when paying the dividend to Rea, in accordance with the tax laws of Panama.
- (5) On 1 September 2011, Rea sold 15% of its shares in Rea Mexico for CZK 3,800,000. Rea had acquired 100% of the shares in Rea Mexico in 2004 for CZK 15,000,000.
- (6) On 1 October 2011, Rea sold 25% of its shares in Rea Panama for CZK 15,000,000. Rea had acquired 100% of the shares in Rea Panama for CZK 10,300,000 in 2008. Tax in the equivalent of CZK 235,000 was withheld from the sale proceeds paid to Rea, in accordance with the tax laws of Panama.
- (7) On 15 November 2011, Rea received net interest of the equivalent of CZK 495,000 from Rea Mexico. The interest rate is at arm's length. Tax of the equivalent of CZK 55,000 was withheld in Mexico. The expenses relating to the interest received from Rea Mexico amounted to CZK 60,000.

Additional information:

- (i) The Czech Republic does not have a tax treaty with Panama.
- (ii) The Czech Republic has concluded tax treaties with Spain and Mexico. The maximum rates of withholding tax at source, according to these tax treaties, are as follows:

	Dividends		Interest
	Holdings of 25% and more	Holdings below 25%	
Spain	5%	15%	0%
Mexico	10%	10%	10%

Capital gains can only be taxed in the state of tax residence of the recipient, according to both the above mentioned treaties.

The credit method applies for the elimination of double taxation of dividend and interest, according to both treaties.

- (iii) Rea Mexico is subject to a corporate income tax rate of 25% in Mexico. Rea Panama is subject to a corporate income tax rate of 15% in Panama.
- (iv) All Rea's subsidiaries are joint stock companies.

Required:

- (a) **State, giving reasons, which items of Rea, a. s.'s 2011 income are exempt from tax in the Czech Republic.** (5 marks)
- (b) **Calculate the 2011 corporate income tax payable by Rea, a. s.** (9 marks)
- (c) **State which documents Rea, a. s. is obliged to present in order to claim the foreign tax credit in respect of its 2011 taxable income.** (1 mark)

(15 marks)

5 Ms Anja Kowalska is a Polish tax resident. Anja is the executive director of Energia Consulting, a. s. (hereafter 'Energia'), a Czech tax resident. She has been employed with this company since 1 January 2009.

Anja is married to Leszek, and they have a nine-year-old daughter Martyna. Anja lives in Krakow, Poland, with her husband and their daughter. Anja works in Ostrava and commutes from Krakow to Ostrava every week. The following is applicable to Anja for the year 2011:

- (1) In accordance with her employment contract with Energia, Anja received a gross salary amounting to CZK 182,500 per month. In addition, she received a bonus of CZK 320,000 in May 2011.
- (2) Energia rents an apartment in Ostrava for Anja. The monthly rent amounts to CZK 18,500. Energia pays the rent directly to the owner of the apartment and includes the rent in its tax deductible expenses.
- (3) Energia provides Anja with a company car, which she also uses for private purposes. Between 1 January 2009 and 25 May 2011 Anja had a Volvo acquired by Energia in December 2008 for CZK 850,000. Since 26 May 2011 Anja has been using a new Audi acquired by Energia for CZK 1,350,000.
- (4) Energia paid CZK 10,000 per month to a private clinic, Medica, s. r. o., for medical services available to Anja. These are not covered by the general health care insurance. This benefit is neither guaranteed by the union agreement nor by her employment contract. Energia paid this from its profit after tax.
- (5) Energia provides all its employees, including Anja, with annual membership of the Ostrava wellness club, Body Balance. The annual membership is normally available for CZK 8,000. Energia receives a discount and pays CZK 6,000 per membership. This benefit is paid out of Energia's cultural and social fund (i.e. profit after tax).
- (6) Anja is paying off the loan she borrowed from a Polish bank for the acquisition of the apartment in which she lives in Krakow with her husband and their daughter. In 2011 Anja paid mortgage interest in the equivalent of CZK 35,000.
- (7) Anja owns another apartment in Warsaw. She rents this apartment out and receives the equivalent of CZK 25,000 per month in rent.
- (8) Anja pays premiums in the equivalent of CZK 12,400 annually for her life insurance. The life insurance contract is concluded with a Polish insurance company and fulfils all the conditions required by the Czech income taxes law for tax deductibility.
- (9) Anja contributes to her pension scheme in Poland. Her contract with the Polish pension fund is comparable to those concluded with Czech pension funds fulfilling the conditions for tax deductibility. In 2011, she contributed the equivalent of CZK 75,000.
- (10) Anja made a charitable donation of CZK 6,000 to the Ostrava public hospital.
- (11) Anja signed the 'Declaration of a taxpayer' with Energia, which withheld individual income tax advances of CZK 492,100 from her in 2011.
- (12) Anja had no income other than as listed above in 2011.

Leszek had no taxable income at all during 2011.

Required:

- (a) Calculate the amount of 2011 individual income tax payable/overpaid by Ms Anja Kowalska in the Czech Republic.** (12 marks)
- (b) State which deductions and/or credits can be claimed on behalf of Anja by her employer when calculating the individual income tax advances from her employment income during the year, and which can only be claimed by Anja in the tax return.** (3 marks)

(15 marks)

End of Question Paper