Answers

Marks

1 Sirius Group, a. s.

(a) (i) 2010 corporate income tax

	CZK	CZK	Marks
Accounting income			
Proceeds from the sale of services		32,385,900	
Received dividends (500,000 + 200,000 + 700,000 + 400,000)		1,800,000	
Compensation from insurance company		1,300,000	
Release of reserve		400,000	
Total accounting income		35,885,900	1
Accounting expenses			
Goods and services purchased	12,596,000		
Salaries and wages	14,400,000		
Mandatory social and health care insurance contributions	4,700,000		
Chocolate 150*400	60,000		
Wine 80*180	14,400		
Books 50*750	37,500		
Premiums	120,000		
Interest to Sirius Emirates	620,000		
Interest to Sirius Virgin	224,000		
Interest to Investment Bank, a. s.	1,440,000		
Provisions (see Working 1)	24,000		½
Statutory reserve	90,000		
Other reserve	100,000		
Gift	80,000		
Depreciation charge	380,000		
Total accounting expenses	(34,885,900)		2½
Accounting profit		1,000,000	½
Add back:			
Wine	14,400		1
Books	37,500		1
Premiums	120,000		1
Other reserve created	100,000		1
Interest to Sirius Emirates	620,000		1
Interest to Sirius Virgin (see working 2)	0		1
Interest to Investment Bank, a. s.	1,440,000		1
Gift	80,000		1
Management costs related to exempt dividend (5% of 500,000 + 200,000)	35,000		1
Total add back		2,446,900	
Less:			
Dividend	1,800,000		1
Released reserve	400,000		1
Total less		(2,200,000)	
Tax base		1,246,900	
Gift relief (maximum 5% of 1,246,900)		(62,345)	1
Reduced tax base		1,184,555	½
Rounded tax base		1,184,000	½
Tax at 19%		224,960	½
Separate tax base – received dividends			
Dividend received from Sirius Slovakia	0		1
Dividend received from Sirius Russia	0		1
Dividend received from Sirius Emirates	700,000		1
Dividend received from Sirius Virgin	400,000		1
Separate tax base		1,100,000	
Tax at 15%		165,000	½
Total tax due		389,960	½

Marks

Working 1– Tax deductible provisions

Agave, s. r. o. – no provision is tax deductible (the receivable exceeds CZK 200,000 and no legal action has been initiated).	0	½
Mrs Stara – 50%*42,000	21,000	½
Mr Koukal – 20%*15,000	3,000	½
Sirius Slovakia – no provision is tax deductible (Sirius Slovakia is a related party to Sirius Group).	0	½
Total tax deductible provisions	24,000	25

Working 2 – Thin capitalisation

The interest on loans from related parties over the debt/equity ratio of 4:1 is tax non-deductible.

Maximum allowable debt: 4*10,000,000 = 40,000,000

Actual debt/equity ratio: 2,500,000/10,000,000 = 0·25

Only debt from Sirius Virgin is included. The interest on the debt from Sirius Emirates is non-deductible as a whole under a different rule. All of the interest from Sirius Virgin is tax deductible.

Tutorial notes:

1. *The dividend received from Sirius Slovakia is exempt as the shareholding is higher than 10%, has been held for more than 12 months and Sirius Slovakia is a company tax resident in an EU member state.*
2. *The dividend received from Sirius Russia is exempt as the shareholding is higher than 10%, has been held for more than 12 months, Sirius Russia is a tax resident of a state with which the Czech Republic has a tax treaty and the corporate income tax rate in Russia is above 12%.*
3. *The dividend received from Sirius Emirates is not exempt as the profit generated by Sirius Emirates was subject to corporate income tax at less than 12%.*
4. *The dividend received from Sirius Virgin is not exempt as there has been no tax treaty concluded between the Czech Republic and British Virgin Islands and in any case the profit generated by Sirius Virgin was subject to corporate income tax at less than 12%.*
5. *The interest on the loan from Sirius Emirates is non-deductible as the amount of interest is derived from the profit/loss generated by Sirius Group.*
6. *The interest on the loan from Investment Bank, a. s. is considered to be a financial cost linked to the exempt dividends received from Sirius Slovakia and therefore tax non-deductible as a whole. This is because Sirius Group acquired Sirius Slovakia within a period of less than six months after having received the loan. The interest could only be considered tax deductible if Sirius Group proved that the purpose of the loan was different from the acquisition of Sirius Slovakia.*

(ii) Sirius Group, a. s. is obliged to submit its 2009/2010 corporate income tax return and pay the tax due by 1 April 2011. 1

(b) (i) Corporate income tax advances

Sirius Group should have paid corporate income tax advances semi annually at a rate of 40% of the last known tax liability. 1

An advance of CZK 52,800 (132,000*0·4) was due on each of 15 September 2010 and 15 March 2011. 1

2

(ii) Penalty calculation

The first advance was outstanding for

15 days in September
31 days in October
30 days in November
31 days in December
Total 107 days 1

The corresponding penalty is the interest at (1 + 14)% for 107 days, i.e. 52,800*0·15/365*107 = CZK 2,322 (rounded up to the whole CZK). 1

The penalty for having failed to pay the corporate income tax advances amounted to CZK 2,322 on 31 December 2010.

2

30

Marks

2 Partners Horakova and Bartak

(a) 2010 Individual income tax

	CZK	CZK	Marks
Panacea's tax base			
Accounting income			
Proceeds from the sale of services		18,000,000	
Total accounting income		18,000,000	
Accounting expenses			
Goods and services purchased	2,790,000		
Salaries and wages	8,038,000		
Mandatory social and health care insurance contributions	2,730,000		
Influenza vaccination	27,000		
Laboratory equipment	870,000		
Accounting depreciation charge	2,520,000		
Software update	25,000		
Total accounting expenses	(17,000,000)		
Accounting profit		1,000,000	1½
Add back			
Difference between accounting depreciation charge and tax depreciation charge 2,520,000 – 2,434,230 (see working 1)	85,770		½
Tax base		1,085,770	½
Ms Horakova individual income tax liability			
Remuneration from Intermedica, s. r. o. (employment income)			
Payment from Intermedica, s. r. o. 7,500*12	90,000		½
Health care insurance contributions at 9%	8,100		½
Social security insurance contributions at 21·5%	19,350		½
Partial tax base		117,450	
Business income			
Payment from Medical School in Brno	80,000		½
Related expenses	(0)		½
Lump sum travel expenses (5,000*12)*80%	(48,000)		½
Share on Panacea's tax base 50%*1,085,770	542,885		½
Partial tax base		574,885	
Total tax base		692,335	
Research and development relief (50% of 870,000)		(435,000)	½
Reduced tax base		257,335	
Rounded tax base		257,300	½
Tax liability at 15%		38,595	½
Tax credit – personal		(24,840)	½
Tax credit – spouse		(24,840)	½
Tax credit children 2*11,604		(23,208)	½
Tax advances from employment income (see Working 2)		0	
Tax due		0	
Tax overpaid to be claimed back (maximum children credits)		23,208	½

			Marks
Mr Bartak – individual income tax liability			
Business income			
Share on Panacea's tax base 50%*1,085,770	542,885		½
Partial tax base		542,885	
Other income			
Sale of shares in Agnes	exempt		1
Sale of shares in Intermedica, s. r. o.			
Income	1,000,000		½
Related expense (the acquisition price)	(50,000)		½
Sale of shares in Sanema, a. s.			
Income 200*10,250	2,050,000		½
Related expenses (the acquisition price)			
200*17,826	(3,565,200)		½
Partial tax base		0	
Total tax base		542,885	½
Research and development relief (50% of 870,000)		(435,000)	½
Reduced tax base		107,885	
Rounded tax base		107,800	½
Tax liability at 15%		16,170	½
Personal tax credit		(24,840)	½
Tax due/overpaid		0	½

Working 1 – Tax depreciation of Panacea's assets

Software		
2006 depreciation charge		
250,000/36*1	6,945	
2007 depreciation charge		
250,000/36*12	83,334	
2008 depreciation charge		
250,000/36*12	83,334	
2009 depreciation charge from January to June		
(250,000/36*6)	41,667	
2009 depreciation charge from July to December		
[250,000 – 6,945 – (2*83,334) – 41,667 + 65,000/18]*6	33,240	
2010 depreciation charge		
[250,000 – 6,945 – (2*83,334) – 41,667 + 65,000/18]*12	66,480	2
Ambulances		
2008 depreciation charge:		
(3,500,000/5) + 10%*3,500,000	1,050,000	
1,050,000*2	2,100,000	
2009 depreciation charge:		
(2*(3,500,000 – 1,050,000)/(6 – 1)	980,000	
980,000*2 =	1,960,000	
2010 depreciation charge		
[2*(3,500,000 – 1,050,000 – 980,000)]/(6 – 2)	735,000	
735,000*2	1,470,000	1½
MR scan device		
2010 depreciation charge		
(4,500,000 – 225,000)*21/100	897,750	1
Total 2010 depreciation charge		
66,480 + 1,470,000 + 897,750	2,434,230	½

Working 2 – Monthly tax advances withheld by Intermedica, s. r. o. for Ms Horakova

Salary	7,500	
Health care insurance contributions at 9%	675	
Social security insurance contributions at 21·5%	1,613	
Super gross salary	9,788	
Tax base rounded up to '00	9,800	
Tax at 15%	1,470	
Personal tax credit	(2,070)	
Tax advance withheld	0	1
		22

Marks

Tutorial notes:

1. *Costs of the influenza vaccination are tax deductible as it is guaranteed to all employees by the trade union agreement.*
2. *The upgrade of the software is considered the technical appreciation of the asset. The increased acquisition value is depreciated over the remaining time of the depreciation period of the software, but not less than 18 months.*
3. *Ms Horakova cannot deduct lump sum expenses against her business income from the Medical School in Brno if she applies lump sum travel expenses.*
4. *Ms Horakova is able to use the spouse credit as Mr Horak's income did not exceed CZK 68,000 in 2010.*
5. *During 2010 Ms Horakova could claim the child bonus for her children on a monthly basis. She could have been receiving CZK 967*2 = CZK 1,334 a month.*
6. *Mr Bartak's income from the sale of shares in Agnes, a. s. is exempt as the period between the acquisition and the sale was longer than six months and the overall shareholding held by Mr Bartak did not exceed 5%.*
7. *Mr Bartak's loss from the sale of securities cannot be offset against his business income. The corresponding expense can be deducted up to the income from sales of other securities.*

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

Social security contributions Base 50% of 542,885	271,442·50	1
Social security contributions at 30·6% (rounded up to the whole CZK)	83,062	½
Health care insurance contributions at 13·5% (rounded up to the whole CZK)	36,645	½

The settlement payment (the above figure decreased by any prepayments paid during 2010) is due by eight days after the date of filing of the tax return or after the deadline for the filing of the tax return (earlier date), in the case of health care insurance (i.e. at the latest by 8 April 2011) and in the case of social security contributions by eight days after the date of filing of the annual statement for social security, which should be filed by 30 April 2011 (i.e. at the latest date by 8 May 2011). 1

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Marks

3 Mr Vondra

(a) Value added tax (VAT) liability for the second 2010 quarter tax period

Input supplies	Tax base CZK		Tax CZK	
Goods from Luxembourg	108,000	108,000*0·2	21,600	½
Goods from USA				
350,000 + 70,000	420,000	420,000*0·2	84,000	½
Stationery for training in Brno	7,800	7,800*0·2		
(accredited retraining sessions)		No recovery	0	½
Stationery for seminars in Prague	5,400	5,400*0·2	1,080	½
Data projector	52,000	52,000*0·2*0·73	7,592	1
		Partial recovery		
		(see working)		
Catering for the training in April in Brno	6,000	6,000*0·2	0	½
		No recovery (linked		
		to the exempt supply)		
Catering for the seminar in May in Prague	6,000	6,000*0·2	1,200	½
Total input tax			115,472	
Output supplies				
Export to Ukraine	45,000	exempt	0	½
Sale of goods to Romania (EU)	75,000	exempt	0	½
Sale of books in CR	12,400	12,400*0·1	1,240	½
Advance payment for the seminar in July 2010	8,300	8,300*0·2	1,660	½
Payment for accredited training in February		Taxable supply of a	n/a	½
		previous tax period		
Accredited training in April	64,000	Exempt supply with	0	½
		no recovery		
PowerPoint seminar	32,000	32,000*0·2	6,400	½
Goods from Luxembourg	108,000	108,000*0·2	21,600	½
Goods from USA				
(350,000 + 70,000)	420,000	420,000*0·2	84,000	½
Credit note	(3,000)	(3,000*0·2)	(600)	1
Total			114,300	

Working: Advance coefficient calculation

(745,000 + 405,000 + 547,000)/(745,000 + 405,000 + 547,000 + 640,000) = 0·73 — 1

VAT recoverable (1,172) — ½

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(b) Persons identified to VAT

A person not liable to VAT becomes a person identified to VAT if s/he:

– purchases goods from another EU member state in the Czech Republic and the overall value of the purchased goods exceeds CZK 326,000 per calendar year as of the day when the threshold is reached. 1

– purchases goods subject to excise duty or a means of transport from another EU member state in the Czech Republic below the above mentioned threshold as of the day when the goods are delivered. 1

– purchases other goods from another EU member state in the Czech Republic below the above mentioned threshold if s/he submits an application for registration. 1

Examples:

– A non-profit organisation with no economic activity purchasing goods subject to excise duty or a motor vehicle from another EU member state.

– A public authority acquiring goods from another EU member state the value of which exceeds CZK 326,000 per calendar year.

(ONE example only required) ½

Persons identified to VAT are liable to pay VAT but they are not entitled to recover input VAT. ½

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Marks

4 Bank of Prague, a. s.

(a) Withholding tax (WHT) liabilities

(1) The interest is subject to WHT at 10%. Bank of Prague is obliged to withhold CZK 2,530 on 15 April 2010 and send the tax to its competent tax authority, the financial authority for Prague 1 by the end of May 2010 together with the notification of the payment. 1

Tutorial note: *The information on Belgian tax residents' income is passed on to the competent authority in Belgium according to the EU Savings Directive.*

(2) Dividends

Shareholder	Gross dividend CZK	Taxed/exempt	Reasoning/computation	Marks
Bank of Paris	2,000,000	Exempt	Parent subsidiary directive	1
Bank of Tokyo	800,000	Subject to WHT at 15%	Bank of Prague is obliged to withhold CZK 120,000	1
Bank of Monte Carlo	4,080,000	Subject to WHT at 15%	Bank of Prague is obliged to withhold CZK 612,000	1
Mr Lepetit	1,120,000	Subject to WHT at 10%	Bank of Prague is obliged to withhold CZK 112,000	1

In all cases the tax should be withheld on 15 April 2010 and sent together with the notification of payment to Bank of Prague's competent tax authority, the financial authority for Prague 1, by the end of May 2010. 1½

(3) The interest to Bank of Brussels, an indirectly related company, is subject to WHT at 10%. Bank of Prague is obliged to withhold CZK 400,000 on 15 April 2010 and send it to its competent tax authority, the financial authority for Prague 1, by the end of May 2010 together with the notification of payment. 1½

(4) The interest is subject to WHT at 15%. Bank of Prague is obliged to withhold CZK 112,500 on 15 April 2010 and send it to its competent tax authority, the financial authority for Prague 1, by the end of May 2010 together with the notification of payment. 1½

(5) The royalty is subject to WHT at 10%. Bank of Prague is obliged to withhold CZK 30,000 on 15 April 2010 and send it to its competent tax authority, the financial authority for Prague 1, by the end of May 2010 together with the notification of payment. 1½

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(b) Related parties

(i) Bank of Brussels – related ½
(ii) Bank of Monte Carlo – related ½
(iii) Interbanka a. s. – unrelated ½
(iv) Bank of Paris – related ½
(v) Bank of Tokyo – unrelated ½
(vi) Bank of Amsterdam – related ½
(vii) Mr Lepetit – related ½
(viii) Mr Toshimura – unrelated ½

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Tutorial note: *Related parties are defined as 'persons connected through capital' and 'persons connected otherwise'. The term 'persons connected through capital' means a relationship between persons in which one has a direct or indirect share of at least 25% in the capital or voting rights of the other. If a person has such a shareholding in more than one person, all the persons involved are regarded as persons connected through capital.*

The term 'persons connected otherwise' means a relationship between:

- *persons in which one participates in the management or control of the other, or the same persons or closely related individuals participate in the management or control of other persons; those other persons are then 'persons connected otherwise'. Persons in supervisory boards of which the same person is a member are not considered as 'persons connected otherwise';*
- *controlled and controlling persons;*
- *persons controlled by the same controlling person or closely related individuals; or*
- *persons that have created a business relationship predominantly for the purpose of decreasing the tax base or increasing the tax loss.*

		Marks

5 (a) Ms Valkova is not obliged to submit an individual income tax return for the tax period 2010.

Her retirement pension is exempt as it is below the threshold of 36 times the minimum wage (36 x 8,000 = CZK 288,000). Income from sale of the car is exempt since she has owned the car for more than one year. Her only taxable income is her business income of CZK 12,000 and this is below the threshold of CZK 15,000 required for the submission of a tax return by taxpayers with other than exempt income. 3

(b) Mr Novak is obliged to submit an individual income tax return for the tax period 2010 by 1 April 2011. His taxable business income is above the threshold of CZK 6,000 for submission of a tax return by taxpayers who concurrently earn taxable employment income. 2

(c) Ms Hola is not obliged to submit an individual income tax return for the period 2010 as she only had income subject to withholding tax. She received a net income and the withholding tax was due by the payer of the income in both cases. 2

(d) Mr Scherbatsky is obliged to submit an individual income tax return and declare his business income, even though he incurred a loss. The deadline for the submission of the tax return by Mr Scherbatsky is 1 July 2011 because he is obliged to keep statutory bookkeeping and have it approved by a certified accountant as his 2010 turnover exceeded CZK 80,000,000, and in both 2009 and 2010 the number of employees exceeded 50. 2

(e) Ms Heidlerova – 2011 individual income tax advances

	CZK	CZK	
Employment income			
Salary from Lingua a. s. 25,000*12	300,000		½
Employer's social security and health care insurance contributions 300,000*0·34	102,000		½
Super gross employment income	402,000		½
Partial tax base		402,000	
Business income			
Remuneration from Publishers	1,350,000		½
Lump-sum expenses at 40%	(540,000)		½
Partial tax base		810,000	
Tax base (rounded down to '00)		1,212,000	
Tax at 15%		181,800	½
Personal tax credit		(24,840)	½
Tax after credit		156,960	

Individual income tax advances for 2011:

The tax is higher than CZK150,000, so Ms Heidlerova will pay tax advances quarterly. ½

Partial tax base from employment income creates 33·16% of the total tax base, which is between 15%–50%, therefore Ms Heidlerova will calculate her individual income tax advances as 50% of the standard amount.

Each advance (rounded up to '00) will be 156,960/4*50% = CZK19,700 1

The tax advances will be payable by 15 June 2011, 15 September 2011, 15 December 2011 and 15 March 2012. 1

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