Fundamentals Level – Skills Module

Taxation (Czech)

Tuesday 12 June 2012

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	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	4·5%
	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%

Minimum wage

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

ALL FIVE questions are compulsory and MUST be attempted

1 Ostravské strojírny a závody, a. s. (hereafter OSZ) is a Czech tax resident electro engineering manufacturer of aluminium industry cranes. OSZ's registered seat is in Ostrava. OSZ was established in 2005 and has been using the calendar year as its fiscal year since then.

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

(1) OSZ had the following income:

Proceeds from the sale of goods of CZK 141,748,000.
Interest from its current bank account of CZK 134,000.

(2) OSZ incurred the following costs:

Goods and services purchased of CZK 87,865,790 (all tax deductible expenses).
Salaries and wages of CZK 32,500,000 (all below the cap for the purposes of mandatory social and health care insurance).
Directors' fees of CZK 2,630,000.
Fees to the members of the supervisory board of CZK 1,125,000.

(3) In accordance with the trade union agreement, OSZ provided its 95 employees (directors not included) with benefits as follows:

- One meal per employee on each working day for CZK 35 per meal. The overall costs of grocery products used for the preparation of the meals were CZK 942,000. The overall related operational costs of the cafeteria amounted to CZK 445,000. The payments for meals received from employees amounted to CZK 630,000.
- Financial contribution of CZK 2,200 per employee per year for sports and health activities (swimming pool passes, gym memberships, massages etc).
- CZK 500 per employee per year paid to the employees' pension scheme.

(4) On top of the benefits guaranteed in the trade union agreement, OSZ contributed a total of CZK 350,000 to the pension scheme of its five directors.

(5) The pension insurance contracts fulfil the general conditions for tax deductibility.

(6) OSZ wishes to claim as tax deductible as many of above items as possible, regardless of the fact that they may be considered a taxable income for its employees.

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

(8) In November 2009, OSZ acquired a receivable of a debtor Finis, s. r. o. for CZK 120,000. The nominal value of this receivable was CZK 650,000. In December 2010, OSZ acquired a receivable of a debtor Aurelius, s. r. o. for CZK 1,800,000, the nominal value of which was CZK 6,000,000. In October 2011 both debts were cleared, OSZ received CZK 200,000 from Finis, s. r. o and CZK 1,250,000 from Aurelius, s. r. o. Both debtors were dissolved by the end of the year 2011. The relevant accounting provisions created for the two receivables in 2010 amounted to CZK 100,000 in respect of the debtor Finis, s. r. o., and CZK 1,050,000 in respect of the debtor Aurelius, s. r. o. OSZ did not create any tax deductible provisions towards these receivables.

(9) In August 2011, one of OSZ's technological plants (tax depreciation group 3) was completely destroyed by fire. OSZ cleared the site and sold the plot for CZK 1,250,000. The plot had been acquired for CZK 2,100,000 in 2005. The acquisition cost of the plant amounted to CZK 25,000,000 and it was first put into use in November 2006. The net book value of the plant at the date of the fire amounted to CZK 5,500,000.

The 2011 accounting depreciation charge amounted to CZK 3,248,000 for all assets (including the destroyed plant). The 2011 tax depreciation charge amounted to CZK 6,320,500 for all the assets (including the destroyed plant). OSZ claims the maximum possible tax deductions. OSZ applies the straight-line method for tax depreciation of all its assets. OSZ uses the increased tax depreciation charges in the year of acquisition as regards all assets where the law allows it.

(10) As of 31 December 2010, OSZ had unpaid debts as follows:

Amount CZK	Creditor	Due on	Title
250,000	Electreng, BV	15 December 2008	Management fees
84,000	Feros, s. r. o.	15 February 2009	Purchase of goods
1,820,000	Stavesi, a. s.	1 November 2008	Purchase of construction services
31,000	Stavesi, a. s.	31 December 2008	Contractual penalty for late payment
68,000	Stavesi, a. s.	31 December 2009	Contractual penalty for late payment
68,000	Stavesi, a. s.	31 December 2010	Contractual penalty for late payment
68,000	Stavesi, a. s.	31 December 2011	Contractual penalty for late payment

Stavesi, a. s. and Feros, s. r. o. are unrelated parties to OSZ. Electreng, BV and OSZ are directly related persons.

(11) OSZ paid no 2011 corporate income tax advances as it had incurred a tax loss of CZK 75,200 in 2010.

(12) OSZ has three shareholders as follows:

- a Slovak tax resident, Mr Bugala, holding 15% of OSZ's voting rights;
- a Czech tax resident, Strojirny Finance, a. s., holding 8% of OSZ's voting rights; and
- a Dutch (Netherlands) tax resident, Electreng BV, holding 77% of OSZ's voting rights.

On 21 April 2011, OSZ's general assembly agreed on the distribution of its 2009 profit of CZK 2,500,000 (gross). OSZ accounted for this liability on 30 April 2011 and sent the money to its shareholders on 2 May 2011.

The maximum rates of withholding tax at source according to the tax treaties that the Czech Republic has concluded with Slovakia and the Netherlands are as follows:

Dividend		
Slovakia	Holdings of 10% and more held by corporate shareholders	Holdings below 10%
withholding tax rate	5%	15%
Netherlands	Holdings of 25% and more held by corporate shareholders	Holdings below 25%
withholding tax rate	0%	10%

Required:

(a) Calculate the tax loss incurred by Ostravské strojírny a závody, a. s. (OSZ) in 2011. (20 marks)

(b) State how the 2011 tax loss incurred by OSZ can be used in the following and/or preceding fiscal years. (2 marks)

(c) State, giving reasons, whether the distributions of 2009 profit made to OSZ's shareholders are taxable or exempt and calculate the amount of withholding tax, if any, due in respect of each shareholder. (3 marks)

(d) List the documents that OSZ is obliged to keep for its employees in connection with the liability to withhold payroll tax and the periods for which the documents should be completed. (4 marks)

(e) State by when OSZ is obliged to submit the annual reconciliation of the 2011 payroll tax if it submits the reconciliation electronically. (1 mark)

(30 marks)

2 Teresa Majerova is tax resident in the Czech Republic. She is a violin virtuoso and performs as a visiting soloist with symphonic and chamber orchestras. She also composes music for documentaries. Teresa is single and she has a 17-year-old daughter, Klara, who has lived with her in a common household since she was born. Klara has been studying at Corbett High School in Oregon, USA, since 2010 and she spent eight months in the USA in 2011.

The following information is applicable for Teresa for the year 2011.

(1) Teresa studied, rehearsed and performed Rimsky-Korsakov's *Scheherazade* with the Prague Symphonic Orchestra (hereafter PSO). Teresa concluded an employment contract for work activity ('*dohoda o pracovní činnosti*') with the PSO and she received a gross salary of CZK 15,300 each month during the whole of 2011 for this activity. Teresa signed the declaration of an individual taxpayer ('*Prohlášení poplatníka k dani z příjmů*') with the PSO. She wishes to claim the child credit during the fiscal year.

(2) In August, Teresa went on a tour in Japan to perform *Scheherazade* in Tokyo, Osaka, and Okinawa. This activity was also covered by the contract for work activity. In addition to the normal monthly salary, in August Teresa received travel allowances of CZK 116,250, CZK 77,500 of which was above the statutory limit.

(3) In Japan Teresa also performed her own concerts and the Japanese organiser paid her the equivalent of CZK 158,000 gross for this activity. This remuneration is not considered employment income. In accordance with Japanese tax legislation, the Japanese organiser withheld tax of 20% of the gross amount paid to Teresa. The Czech Republic has concluded a double taxation convention with Japan. According to this convention, the income of artists may be taxed in the state where the respective activity is performed. The convention stipulates the credit method for elimination of double taxation of income received by artists.

(4) Teresa performed various pieces from her repertoire at 11 soloist concerts organised in various locations in the Czech Republic. She received an overall amount of CZK 385,000 for these concerts.

(5) Teresa received a royalty of CZK 31,800 from the sale of CDs she recorded in 2008.

(6) Teresa composed music for a five series documentary, 'The Lost World', produced by Czech Television. She completed this work based on the contract on work ('*Smlouva o dílo*') and received CZK 46,500 for it.

(7) Teresa rents out an apartment in Prague that she inherited from her father who had bought it in 2005. She received rent of CZK 25,000 per month during the whole of 2011. Teresa did not incur any expenses in connection with the maintenance of the apartment in 2011.

(8) Teresa contributes CZK 82,400 annually to her private pension scheme. The pension insurance contract is with a Swiss tax resident insurance company and fulfils the general conditions required by the Czech law for tax deductibility.

(9) Teresa's income from performing activity is considered income from independent activity, if not stated otherwise. The documented expenses she incurred in relation to her independent activity amounted to CZK 245,000, of which CZK 65,000 was spent for tax non-deductible items. Teresa has no business assets.

(10) Teresa's tax return is submitted by her tax adviser, based on the power of attorney.

Required:

(a) Calculate the 2011 individual income tax due or overpaid by Teresa Majerova. (16 marks)

(b) Calculate the 2011 social security and health care insurance contributions due by Teresa Majerova and explain by when they each have to be paid. (4 marks)

(c) Calculate the 2012 income tax advances due by Teresa Majerova. (3 marks)

(d) Teresa has enrolled for a two semester course 'Applied violin' at the Northern University of Oregon School of Music and Dance for the academic year 2012. The University fee for the programme amounts to $12,000. The University has provided Teresa with a scholarship of $15,000 to cover the tuition fee and part of her living costs. In addition, Teresa has obtained another scholarship of $10,000 to cover her living costs from the Oregon Symphony Orchestra, together with the offer of a one year contract after she completes the course. The Oregon Symphony is a private entity with no contributions from public budgets.

Required:

Assuming Teresa Majerova continues to be tax resident in the Czech Republic in the year 2012, state whether the scholarship funds she has obtained are taxable or exempt in the Czech Republic. (2 marks)

(25 marks)

3 **(a)** Ariana is a Swiss company with 25 branches in Switzerland, the USA and Mexico. Ariana designs, sews and sells tailored wedding dresses. In January 2011, Ariana sent one of its employees, Mr Henry Wright, to the Czech Republic to select and purchase glass beads, jewellery and laces for the decoration of Ariana's 2012 collection.

Mr Wright incurred the following expenses during his mission and presented the respective receipts to his employer. All amounts are stated exclusive of value added tax (VAT).

(1) Purchase of beads on 19 January 2011 in Jablonec nad Nisou for CZK 330,000.
(2) Purchase of laces on 25 February 2011 in Nachod for CZK 648,000.
(3) Payment of CZK 63,600 on 8 February 2011 to the car rental company at Prague airport. Mr Wright used the car during his stay solely for business purposes.
(4) Payments for fuel on 14 February, 20 January and 28 February 2011, totalling CZK 7,200.
(5) Advance cash payment of CZK 32,700 to the Czech branch of DHL for the shipping of the goods purchased to Switzerland.
(6) Payments for accommodation and meals dated between 14 January and 28 February 2011 in the overall amount of CZK 180,000. The VAT on the accommodation and meals amounted to CZK 25,400.

All the purchases Mr Wright made were from Czech VAT payers.

In 2011 Ariana made no other purchases in the Czech Republic. The Swiss tax administration provides Czech business operators not registered for VAT in Switzerland with a VAT refund for goods and services purchased in Switzerland under similar conditions as given in the Czech VAT legislation.

Required:

(i) Calculate the amount of value added tax (VAT) paid in the Czech Republic that Ariana can claim back. (3 marks)

(ii) State the earliest and latest dates on which Ariana's application for a VAT refund can be submitted, to which competent authority, and by when Ariana is likely to receive the refund. (2 marks)

(b) Mr Kralik runs a second-hand photography equipment shop in Pardubice. Mr Kralik also sells his goods through an internet shop, where customers can order selected items and Mr Kralik will have them delivered from Pardubice to the customer's address.

Mr Kralik is a monthly value added tax (VAT) payer. He does not apply the VAT special regime for commerce with second-hand goods. In April 2011, he made the following input and output supplies:

Supply	Date of taxable supply	CZK exclusive of VAT
Purchase of used cameras for resale, from an Austrian VAT payer not registered for VAT in the Czech Republic	3 April	245,000
Purchase of used photography equipment for resale, from a Swiss VAT payer not registered for VAT in the Czech Republic	8 April	163,000
Purchase of maintenance services from a Czech VAT payer	12 April	51,000
Advance payment for used photo printers for resale, from a German VAT payer registered for VAT in the Czech Republic	20 April	118,000
Purchase of inventories from a Czech VAT payer	21 April	12,000
Rental payment to a landlord not registered for VAT	25 April	22,000
Sale of second-hand photography equipment and cameras	30 April	465,000

Required:

(i) Calculate the value added tax (VAT) due by Mr Kralik for the taxable period April 2011. (6 marks)

(ii) State where the place of taxable supply is in the case of a camera sold through Mr Kralik's internet e-shop and sent to the following customers:

- **a German individual who is not registered for VAT, living in Ingolstadt, Germany; and**
- **a Czech company registered for VAT with its registered seat in Prague 1.** (1 mark)

(c) In April 2011 Mr Kralik decided he would like to change his VAT taxable period from a month to a quarter. He has been a monthly VAT payer since January 2009. His 2010 turnover amounted to CZK 7,500,000.

Required:

(i) State whether it is possible for Mr Kralik to become a quarterly VAT payer and if so, from when. (2 marks)

(ii) State by when Mr Kralik has to apply for/notify such a change to his VAT taxable period to the competent authority. (1 mark)

(15 marks)

4 **(a)** Mr Resl has owned a flat in Londynska 15, Prague 2 since 2004, when he bought the flat for CZK 2,500,000. In 2007 he refurbished the flat at a cost of CZK 1,800,000, included the flat in his business assets and started tax depreciation using the straight-line method. Mr Resl excluded the flat from his business assets as of 1 January 2010 and had his permanent address in this flat between January 2010 and May 2011. In June 2011 he sold the flat for CZK 7,400,000.

Required:

State, giving reasons, whether the income Mr Resl received from the sale of the flat in Londynska is subject to income tax or exempt from tax. If you conclude that the income is taxable, calculate the net taxable income from the sale. (4 marks)

(b) Spouses Novakovi purchased a house in Vrchlabi in November 2009 for CZK 2,800,000. They lived in the house together for 16 months. In March 2011 Mr Novak moved out, the Novakovi divorced and agreed that Mrs Novakova would become sole owner of the house, stay living there and pay Mr Novak CZK 1,500,000 for his share of the house. The court granted their divorce and approved their agreement on property split in June 2011. Mr Novak used the money to buy a new flat in Jicin, where he has been living since the divorce.

Required:

State, giving reasons, whether the income Mr Novak received from Mrs Novakova for the house is subject to income tax or exempt from tax. If you conclude that the income is taxable, calculate the resulting net taxable income. (2 marks)

(c) In February 2011, Ms Boudova inherited a house in Liberec from her mother, who had owned the house since 1978. The expert appraisal of the house for the purposes of the inheritance procedure stated the value as CZK 16,200,000. Ms Boudova sold the house in October 2011 for CZK 18,000,000. Neither Ms Boudova nor her mother included the house in their business assets and neither of them has ever lived in the house.

Required:

State, giving reasons, whether the income Ms Boudova received from the sale of the house is subject to income tax or exempt from tax. If you conclude that the income is taxable, calculate the net taxable income from the sale. (2 marks)

(d) Mr Trojan, who lives in a flat in Prague 3, owns a house in Suchdol. He has been renting out the house in Suchdol since 2000 when he had purchased it for CZK 19,000,000. Mr Trojan has never included the house in his business assets. In 2011 Mr Trojan received income from rents of CZK 720,000 and incurred repair and maintenance costs (excluding the supply of electricity, gas and water) of CZK 220,000. In December 2011, Mr Trojan sold the house for CZK 28,000,000.

Required:

State, giving reasons, whether the rental income and the income from the sale of the house received by Mr Trojan is subject to income tax or exempt from tax. If you conclude that any of the income is taxable, calculate the resulting net taxable income for 2011. (3 marks)

(e) Mrs Davidova is a retired accountant, who received the following monthly income in 2011:

- CZK 5,000 per month from Linea, s. r. o. based on contracts for work done ('*Dohody o provní práce*');
- CZK 20,000 per month from her regular retirement pension; and
- CZK 8,000 per month from her private pension scheme with the state subsidy.

In accordance with the contract with the pension fund, Mrs Davidova will receive her private pension for 25 years. Her contributions to the private pension scheme inclusive of the state subsidy amounted to CZK 2,150,000 by February 2008 when she retired.

Required:

For each item of income received by Mrs Davidova in 2011, state, giving reasons, whether it is subject to income tax or exempt from tax. If you conclude that an item is taxable, state how it will be taxed and calculate the tax payable each month. (4 marks)

Note: Residential buildings are Group 5 assets for depreciation purposes. If it is not mentioned otherwise the straight-line method should be used for the depreciation of buildings.

(15 marks)

5 Marshall Media, s. r. o. (hereafter MM) produces short films and runs a cinema theatre in Brandys nad Labem. MM has rented the cinema premises (depreciation group 6) from Ms Kludska since 2005. Ms Kludska inherited the cinema premises from her father in 2004 and the expert evaluation for the purpose of the inheritance tax assessment amounted to CZK 25,000,000. Neither Ms Kludska nor her father has ever had any business assets. In the written rental agreement with MM, Ms Kludska agreed that the depreciation charge could be claimed by the lessee (MM). In 2006 MM refurbished the cinema halls at a cost of CZK 3,700,000.

MM owns the following fixed assets:

(1) A projector (depreciation group 1) acquired in 2006 for CZK 325,000. In 2011 MM made improvements to the projector at an overall cost of CZK 48,000.

(2) An audio-video camera (depreciation group 1) acquired in 2011 from MM's silent partner, Mr Sedivy, as an in-kind contribution at the evaluation price of CZK 145,000. Mr Sedivy had purchased the camera in 2009 for CZK 216,000; he included it in his business assets and used the accelerated method for tax depreciation.

(3) A van (depreciation group 2) acquired in September 2010 as a second-hand asset for CZK 1,340,000. MM sold the van in 2011 and bought a new utility car Ford Transit (depreciation group 2, category M1) for CZK 860,000.

(4) Rights to a movie, 'Lost Beauty', acquired in January 2010 for CZK 7,740,000 for an unlimited period of time. MM had the movie digitised in May 2011 and the costs of this technical improvement amounted to CZK 418,000.

(5) Rights to a movie, 'Menace', acquired in March 2007 for a period of six years, for CZK 1,260,000.

(6) MM produced a documentary, 'Green Universe', which was finished and first shown in February 2011. The overall costs of the documentary's production amounted to CZK 12,240,000. MM shows the documentary in their own cinema theatre as well as selling the rights to show it to other cinemas.

MM claims the maximum allowable tax depreciation charges for all assets and has never interrupted tax depreciation of any asset. Except where stated otherwise, MM uses the straight-line method of depreciation.

Required:

Calculate the maximum tax depreciation charges that Marshall Media, s. r. o. can claim in its 2011 corporate income tax return.

(15 marks)

End of Question Paper