

Fundamentals Level – Skills Module

Taxation (Czech)

Tuesday 4 June 2013



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

ACCA

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 for 2012 are to be used in answering the questions.

Corporate income tax rate

19%

Corporate income tax credits CZK)

Disabled employees 18,000/60,000

Personal income tax rate

15%

Personal income tax credits – annual amounts (CZK)

Personal tax credit	24,840
Dependent spouse credit	24,840
Child credit	13,404
	(maximum bonus CZK 60,300)
Student credit	4,020
Disabled employees	18,000/60,000

Social security and health care contributions

Cap for social security purposes	CZK 1,206,576
Cap for health care insurance purposes	CZK 1,809,864

Employment

Health care	Employee's contributions	4·5%
	Employer's contributions	9·0%
Social security	Employee's contributions	6·5%
	Employer's contributions	
	Pension scheme	21·5%
	Illness insurance	2·3%
	Unemployment insurance	1·2%
	Total	25·0%

Private entrepreneur

Health care contributions	13·5%
Minimum monthly assessment base	CZK 12,568·50

Social security contributions

Pension scheme	28·0%
Illness insurance	2·3%
Unemployment insurance	1·2%
Total	31·5%

Minimum monthly assessment base for the main activity	CZK 6,285
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Minimum monthly assessment base for the secondary activity	CZK 2,514
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Threshold limit for obligatory participation in social security in case of the secondary activity	CZK 60,329
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Value added tax (VAT)

Standard rate	20%
Reduced rate	14%
Threshold registration limit	CZK 1,000,000

Repo interest rate

Applicable on 1 January 2012	0.75%
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Minimum wage

CZK 8,000 per month or CZK 48.10 per hour

Tax Depreciation**Tax depreciation periods for tangible assets 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 for tangible assets 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

Tax 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

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

Tax deductible provisions limits

Due time after the maturity date of a qualifying provision

More than	
6 months	20%
12 months	33%
18 months	50%
24 months	66%
30 months	80%
36 months	100%

Tax reserves

Creation of tax reserves – maximum number of years for creation

Group 2	3 years
Group 3	6 years
Group 4	8 years
Group 5	10 years
Group 6	10 years

ALL FIVE questions are compulsory and MUST be attempted

- 1 (a) Niger, s. r. o. ('Niger') is a private research institute. Niger is a Czech tax resident company using the calendar year as the fiscal year. Niger's 2012 accounting profit amounted to CZK 12,500,000. All the accounting profit items mentioned in (1) and (3) below are included in this figure.

The following information is applicable to Niger and its fiscal year 2012.

- (1) Amongst other items, Niger accounted for:
- Salaries and wages of CZK 7,820,000 inclusive of mandatory social security and health care insurance contributions, all of which were paid by the end of 2012.
 - Contribution to the private pension plan of 21 employees of CZK 420,000. In accordance with the trade union agreement, Niger contributes up to CZK 20,000 per employee per year to employees' private pension plans, provided the contract fulfils the conditions for tax deductibility and the employee contributes at least the same amount personally.
 - Contributions to employees' holidays of CZK 145,000 paid directly to selected travel agencies. In accordance with the trade union agreement, Niger contributes up to a maximum of CZK 5,000 per employee per year to employees' holidays.
 - Directors' fees of CZK 862,000.
 - Operational costs of a private kindergarten run by Niger of CZK 655,000. The kindergarten only accepts the children of Niger's employees and is free of charge for the employees. The kindergarten is not registered with the Ministry of Culture and Education as a public pre-school institution and receives no state subsidy.
 - Costs qualifying for the research and development relief of CZK 5,412,300.
- (2) On 4 February 2012, Niger paid CZK 64,300 of social security insurance contributions outstanding from 2011.
- (3) Niger released statutory reserves of CZK 255,000 and other reserves of CZK 335,700.

Required:

Calculate Niger, s. r. o.'s 2012 corporate income tax base (loss) as assessed by the tax authority, and clearly show whether each of the above-mentioned accounting profit items is tax deductible or tax non-deductible, and how each affects the tax base. (7 marks)

- (b) Ruber, a. s. ('Ruber') is an entertainment agency organising parties, ceremonies and similar events. Ruber is a Czech tax resident company using the calendar year as the fiscal year. Ruber's 2012 accounting profit amounted to CZK 3,125,000. All of the accounting profit items mentioned in (1) below are included in this figure.

The following information is applicable to Ruber and its fiscal year 2012.

- (1) Amongst other items, Ruber accounted for expenses as follows:
- Costs of parties organised for corporate clients of CZK 82,300,000. All the costs were re-invoiced to Ruber's clients.
 - Costs of two parties organised by Ruber for the entertainment of its own clients of CZK 245,000.
 - Depreciation charge of CZK 345,000.
 - Directors' fees of CZK 415,000.
 - Costs of promotional gifts for clients comprising 200 chocolate boxes for CZK 245 each, 100 music CDs for CZK 180 each and 50 pens for CZK 620 each. All these gifts were marked with Ruber's business name and logo.
- (2) Ruber's 2012 tax depreciation charge amounted to CZK 215,000.
- (3) Ruber incurred a tax loss of CZK 185,400 in 2011.

Required:

Calculate Ruber, a. s.'s 2012 corporate income tax base (loss) as assessed by the tax authority, and clearly show whether each of the above-mentioned accounting profit items is tax deductible or tax non-deductible, and how each affects the tax base. (5 marks)

- (c) Albus, a. s. ('Albus') is a private medical centre. Albus is a Czech tax resident company using the calendar year as the fiscal year. Albus's 2012 accounting profit amounted to CZK 207,000. All the accounting profit items mentioned below are included in this figure.

The following information is applicable to Albus and its fiscal year 2012.

- (1) Albus created statutory reserves of CZK 58,000 and other reserves of CZK 22,000.
- (2) Albus received a net dividend of CZK 1,150,000 from its 100% subsidiary, Clariola, s. r. o.
- (3) As of 31 December 2012, Albus had unpaid debts as follows:

Amount CZK	Creditor	Due on	Title
650,000	Topmedica, a. s.	5 February 2012	Purchase of specialised services
720,000	Topmedica, a. s.	15 December 2009	Purchase of blood
38,000	Medicatransport, s. r. o.	1 April 2009	Purchase of transport services
2,418,000	Albena, s. r. o.	1 November 2008	2007 dividend

Required:

Calculate Albus, a. s.'s 2012 corporate income tax base (loss) as assessed by the tax authority, and clearly show whether each of the above-mentioned accounting profit items is tax deductible or tax non-deductible, and how each affects the tax base. (6 marks)

- (d) Flavus, s. r. o. ('Flavus') is a shoe and leather product manufacturer. Flavus is a Czech tax resident company using the calendar year as the fiscal year. Flavus's 2012 accounting profit amounted to CZK 94,000. All the accounting profit items mentioned below are included in this figure.

The following information is applicable to Flavus and its fiscal year 2012.

- (1) Flavus sold the house in which its premises are situated (depreciation group 6) and the neighbouring land. Flavus received CZK 5,650,000 for the house and CZK 3,250,000 for the land. Flavus had acquired the property in 2005, the building for CZK 4,500,000 and the land for CZK 5,000,000. Flavus claimed depreciation charges on the building from 2005 using the straight-line method for tax depreciation purposes. The 2012 net book value of the building amounted to CZK 3,785,000. The 2012 accounting depreciation charge on the building amounted to CZK 41,000. Flavus always claims the maximum possible tax depreciation charges.
- (2) Flavus made a charitable donation of CZK 19,000 to the foundation 'New Hope' which supports children with leukaemia.
- (3) Flavus has two disabled employees with severe handicaps. They both worked full time for Flavus for the whole of the year 2012.

Required:

Calculate Flavus, s. r. o.'s 2012 corporate income tax base (loss) as assessed by the tax authority, and clearly show whether each of the above-mentioned accounting profit items is tax deductible or tax non-deductible, and how each affects the tax base. (7 marks)

(25 marks)

- 2 Jakub Dlouhy is a psychiatrist and an accredited court expert in the field of addictions. He renders services as an independent therapist and expert. In addition, he works for a private psychological and psychiatric centre, JBM, s. r. o. ('JBM'). Jakub is one of JBM's three partners and Jakub's share in JBM is included in his business assets. As part of its activities, JBM runs a psychiatric clinic. Jakub is the sole owner of the building from which the clinic operates and he rents the building to JBM.

Jakub keeps tax documentation ('*daňová evidence*') as regards his business and rental income and he applies the calendar year as the fiscal year.

Jakub is a Czech tax resident. He is married and has two sons, Petr and Josef. Petr is 27 years old and studies medicine at the Charles University in Prague. Josef is 24 years old; Josef graduated from the Technical University in Prague in June 2012 and started his first job in September 2012. Jitka, Jakub's wife, is employed with JBM and earned CZK 24,000 a month for the whole of 2012.

The following information is applicable to Jakub for the fiscal year 2012.

- (1) Jakub received a monthly remuneration of CZK 41,000 from JBM for his work for the company for the whole of 2012. Jakub has not signed the declaration of a taxpayer (*Prohlášení poplatníka*) with either JBM or any other company.
- (2) JBM contributed CZK 228,000 to Jakub's private pension plan in January 2012. Jakub contributed a further CZK 24,000 to this plan. JBM's other employees do not receive any contribution to their private pension plans. Jakub's pension insurance contract is with a Czech insurance company and fulfils the general conditions required by the Czech tax law for tax deductibility.
- (3) In March 2012, Jakub received CZK 212,500 as his net profit share from JBM for 2011. JBM's general meeting of partners decided about the distribution of profits for 2011 on 22 February 2012.
- (4) Jakub issued invoices totalling CZK 3,125,000 in respect of the services he rendered as an independent expert in 2012. He actually received CZK 2,387,500 from his clients and health insurance companies for the services rendered.
- (5) The interest on Jakub's business current account amounted to CZK 12,300.
- (6) Jakub purchased goods and services for CZK 262,000 (all tax deductible) and used them solely for his business activity. In addition, he spent CZK 43,800 for lunches, dinners and social events with his business partners and clients.
- (7) Jakub uses a Volvo V70 for business purposes, acquired on a finance lease contract concluded with Prague Top Lease, a. s. ('PTL') in April 2010 for 36 months. Jakub paid the advance payment of CZK 189,000 at the beginning of the finance lease. The first of the 36 monthly instalments of CZK 22,000 was due by the end of April 2010. According to the contract with PTL, the car would be sold to the lessee at the end of the 36th month for CZK 1. In March 2012, Jakub assigned the finance lease contract to Mr Vondra. Jakub paid his last monthly instalment in March 2012 and Mr Vondra started his payments in April 2012. Mr Vondra agreed to pay CZK 265,000 to Jakub for the assignment of the contract. Jakub Dlouhy and Mr Vondra are not related parties.
- (8) In February 2012, Jakub concluded another finance lease contract with PTL on a Volkswagen Passat for 48 months. Jakub paid the advance payment of CZK 162,000 at the beginning of the finance lease. The first of the 48 monthly instalments of CZK 15,000 was due by the end of March 2012.
- (9) Jakub purchased 25 volumes of Oxford Clinical Psychiatry for the equivalent of CZK 32,800 and included these books in his business assets.
- (10) Jakub uses the specialist software 'AssessMe' for testing his clients' mental capacities. Jakub acquired the rights to use 'AssessMe' in November 2009 for CZK 124,200 and started tax depreciation on this amount in December 2009. The software is updated annually and Jakub pays CZK 8,000 per update. In addition to the annual update in July 2012, Jakub had the software upgraded for CZK 38,000.
- (11) Jakub sold a house in Studenec for CZK 4,500,000. Jakub had inherited this house from his father in 2005. The expert appraisal for the purposes of the inheritance procedure amounted to CZK 2,800,000. Jakub started to use the house as a hotel with a therapeutic centre in 2006, included the house in his business assets (depreciation group 6) and commenced tax depreciation using the accelerated method. In 2007 Jakub

completed an overall refurbishment of the house, the costs of which amounted to CZK 1,320,000. In December 2009, Jakub stopped using the house for business purposes and excluded it from his business assets.

- (12) The tax depreciation charge for Jakub's depreciable assets, other than that mentioned at item 10 above, amounts to CZK 62,300.
- (13) In 2012 Jakub received rental income of CZK 612,000 from JBM for the rent of the clinic building. This building is not part of Jakub's business assets. He accounted for expenses of CZK 52,000 in connection with this rental income. The 2012 tax depreciation charge relating to the clinic's assets amounted to CZK 124,000.
- (14) Jakub had bought an Audi A3 in November 2011 for CZK 620,000, solely for use for private purposes. However, he was unhappy with the car, so sold it in June 2012 for CZK 445,000. The car was never part of his business assets.
- (15) Jakub sold 530 items of his private technical library for CZK 16,200. These books had never been included in his business assets.
- (16) Jakub made a private charitable donation of CZK 25,000 to the community centre 'Nova cesta', which treats cured drug addicts.
- (17) Based on his 2010 tax return, Jakub did not pay any tax advances. Based on his 2011 tax return, Jakub paid individual income tax advances of CZK 136,000 quarterly. His 2011 tax return was submitted by his tax adviser based on the power of attorney. The 2012 tax return will be submitted by the same means.

Required:

- (a) **Calculate the 2012 individual income tax due or overpaid by Jakub Dlouhy, taking into consideration all the prepayments of tax made by himself and his employer.** (26 marks)
- (b) **Calculate the 2013 advances of social security and health care insurance contributions due by Jakub Dlouhy on his income, other than his employment income, on the basis that his business activity is his main activity, and state the due dates of payment.** (4 marks)

(30 marks)

- 3 (a)** Korbel & syn, s. r. o. ('Korbel') is a family farm based on the outskirts of Ceske Budejovice, which grows grain and rears cattle. Korbel has been a monthly value added tax (VAT) payer since January 2010.

The following information is applicable to Korbel for the month of May 2012. All of Korbel's purchases of goods and services in May 2012 are subject to the standard VAT rate, and all of its sales to the reduced VAT rate. All figures are stated exclusive of any applicable VAT.

- (1) Purchased goods and services for CZK 356,000 from Czech suppliers.
- (2) Purchased goods from Austrian suppliers registered for VAT in Austria for CZK 57,000.
- (3) Purchased a competition horse for CZK 83,000 from a Czech supplier. The horse is not employed directly in Korbel's business but to advertise the farm and entertain its customers.
- (4) Sold seven live cows to a Czech customer registered for VAT for CZK 275,000.
- (5) Sold 50 tons of wheat to Slovak customers registered for VAT in Slovakia for CZK 265,000.
- (6) Sold dairy products to a Russian customer not registered for VAT in the Czech Republic for CZK 435,000.
- (7) Sold products for CZK 74,500 in their farm shop to Czech customers not registered for VAT.
- (8) Received an advance payment of CZK 241,000 for dairy products to be delivered in June from a German customer who is registered for VAT in both Germany and the Czech Republic.

Required:

- (i) Calculate the value added tax (VAT) due or recoverable by Korbel & syn, s. r. o. for the month of May 2012 and state by when the VAT return must be submitted.** (6 marks)
 - (ii) Korbel would like to change its VAT taxable period from a month to a quarter. State the circumstances in which it can do this, together with what needs to be done to effect such a change and by when.** (3 marks)
- (b)** The general audit of Korbel's accounts performed by an accredited accountant in June 2012 found errors in its past VAT returns. The audit was completed and the final report handed over to Korbel on 25 June 2012. The findings were as follows:
- (1) VAT on goods purchased in January 2008 had been claimed in the amount of CZK 16,300. The respective goods had been returned by Korbel to the Czech supplier but, although the supplier paid back the full price including the VAT, Korbel has not yet taken any action as regards the VAT claimed.
 - (2) VAT was declared and paid in the amount of CZK 30,400 instead of CZK 15,200 on goods sold to a Czech customer in May 2010, because Korbel had incorrectly applied the standard VAT rate instead of the reduced VAT rate.
 - (3) VAT of CZK 25,000 had not been claimed back on equipment purchased from a Czech supplier in September 2010.
 - (4) A taxable supply of crop cultivation services for CZK 38,000 made in October 2011 had not been included in Korbel's VAT returns. The invoice for this supply was issued correctly.

The tax authority has not initiated any tax audit of Korbel's accounts and VAT returns.

Required:

In the case of each of the items above, state what Korbel & syn, s. r. o. should do to correct the amount of VAT claimed/paid, including the relevant deadlines. (6 marks)

(15 marks)

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Question 4 begins on page 12.**

- 4 (a) Ena, a. s. ('Ena') is a public relations and promotions company, which is tax resident in the Czech Republic. In 2005 Ena established four subsidiary companies and has owned 100% of each company's shares since then. The subsidiaries are as follows:

- (1) Enas, a tax resident of Sweden;
- (2) Enan, a tax resident of the Netherlands;
- (3) Enac, a tax resident of Croatia; and
- (4) Enab, a tax resident of Bermuda.

Ena also holds 5% of the shares of the company Canena, which is a tax resident of Canada.

The Czech Republic has concluded bilateral conventions on the elimination of double taxation with Sweden, the Netherlands, Croatia and Canada. There is no such convention between the Czech Republic and Bermuda.

The ordinary credit method is applicable for the elimination of the double taxation of dividends according to the tax treaties concluded between the Czech Republic, Sweden, the Netherlands, Croatia and Canada.

The maximum rates of withholding tax applicable at source to outbound dividends under these respective conventions are as follows:

Country	Maximum withholding tax rate
Sweden – holdings higher than 25%	0%
Sweden – holdings below 25% or individual shareholders	10%
Netherlands	0%
Croatia	5%
Canada	15%

The four subsidiaries and Canena are subject to corporate income taxes in their states of residence as follows:

Company	Country of residence	Corporate income tax rate
Enas	Sweden	26.3%
Enan	Netherlands	20 to 25%
Enac	Croatia	20%
Enab	Bermuda	There is no corporate tax on income, profits, capital gains or capital appreciation in Bermuda.
Canena	Canada	15%

In 2012 Ena received dividends totalling CZK 2,360,000 as follows (all stated at their equivalent in CZK):

Received from	Gross dividend CZK	Tax withheld in the source state CZK
Enas	350,000	0
Enan	1,200,000	0
Enac	260,000	13,000
Enab	450,000	0
Canena	100,000	15,000

Ena's 2012 accounting profit amounted to CZK 7,400,000, inclusive of all of the above mentioned dividends. All the expenses and revenues not otherwise identified in the question are tax deductible and taxable, respectively, at the amounts included in the accounting profit.

Required:

- (i) State, giving reasons, which of the five dividends is taxable and which is exempt. (4 marks)
- (ii) Calculate Ena, a. s.'s 2012 corporate income tax liability. (6 marks)

- (b)** Ena, a. s. has three shareholders: Ms Leva holding 51% of Ena's shares, Ms Johansson holding 9% of Ena's shares, and a company, Enea, holding 40% of Ena's shares.

Ms Leva is a tax resident of the Czech Republic, Ms Johansson and Enea are both tax residents of Sweden.

On 22 February 2012, Ena's general meeting of shareholders decided to distribute CZK 1,000,000 of its 2011 profits. Based on this decision, on 25 February 2012, Ena's financial director arranged for the following sums to be transferred to the shareholders' bank accounts

- CZK 510,000 to Ms Leva
- CZK 90,000 to Ms Johansson
- CZK 400,000 to Enea.

Required:

- (i) **State, giving reasons, which of the three dividends paid by Ena, a. s. is taxable and which is exempt in the Czech Republic, and calculate any tax payable.** (3 marks)
- (ii) **Explain the error made by Ena, a. s.'s financial director and state what Ena, a. s. should now do to comply with the relevant tax laws, including the relevant deadline(s).** (2 marks)

(15 marks)

- 5 Intermont, a. s. ('Intermont') is a steel manufacturing and warehouse company with its registered seat in Most. Intermont has 615 full-time employees and 34 employees working based on an agreement on work done (*Dohoda o provedení práce*). Intermont applies the calendar year as the fiscal year.

The executive director of Intermont, Mr Jirak, is one of the company's full-time employees. Mr Jirak is a Czech tax resident, he is married and he has three daughters: 5-year-old Klara, 8-year-old Miroslava and 9-year-old Hana. Mrs Jirakova, his wife, is a teacher who is employed part time and earned CZK 15,800 per month for the whole of the year 2012. Mr Jirak signed the declaration of a taxpayer with Intermont and agreed with his wife that he would be claiming the tax credits for all of their children.

The following information is applicable to Intermont, Mr Jirak and the month of February 2012.

- (1) Mr Jirak received a monthly salary of CZK 85,000 and director's fees of CZK 45,000.
- (2) Mr Jirak went to a trade fair in Chicago. His travel allowances amounted to the equivalent of CZK 18,500, but only CZK 12,000 was within the statutory limit.
- (3) Intermont contributed CZK 1,800 per month to Mr Jirak's pension plan. All Intermont's full-time employees receive an identical contribution. Mr Jirak contributes another CZK 24,000 annually to his pension plan himself.
- (4) Mr Jirak receives a non-monetary contribution of CZK 1,000 per month from Intermont for his sports activities. He uses this for his private tennis lessons. All Intermont's full-time employees receive an identical contribution from Intermont's social fund based on the trade union agreement.
- (5) Mr Jirak's permanent home is in Decin and he commutes to Most weekly. Intermont rents an apartment where Mr Jirak can stay during the week. Intermont pays monthly rent of CZK 8,000 for this apartment.
- (6) Mr Jirak's 50th birthday was on 15 February 2012. As a special gift on this occasion, he received a cheque for CZK 5,000 from Intermont to be spent at the shop Astra in Decin, which sells golf equipment.
- (7) Mr Jirak has a mortgage loan on his house in Decin. His monthly instalment amounts to CZK 27,400, of which CZK 3,290 is the interest.

Required:

- (a) **Calculate the payroll tax Intermont, a. s. was obliged to withhold from the employment income Mr Jirak received in February 2012, claiming the maximum allowable deductions.** (10 marks)
- (b) **Describe the documentation that Intermont, a. s. is obliged to keep as regards its employees' payroll tax, stating the minimum information the documentation must contain and for what periods it must be kept.** (4 marks)
- (c) **State by when Intermont, a. s. is obliged to submit its annual reconciliation of the 2012 payroll tax.** (1 mark)

(15 marks)

End of Question Paper