
Answers

			<i>Marks</i>
1	Inspira GmbH's permanent establishment (Inspira CZ)		
	(a) 2013 Corporate income tax liability		
	CZK	CZK	
Accounting revenues			
Proceeds from sales of goods and services		36,161,000	
Claim towards Mr Novak		189,000	
Total accounting revenues		<u>36,350,000</u>	1
Accounting expenses			
Purchased goods	7,588,250		
Management fees	2,530,000		
Salaries and wages	13,105,000		
Fine for late payment	75,000		
Employees' life insurance (19,000*25)	475,000		
Meal vouchers	355,000		
Cultural and social fund	87,000		
Petrol (business)	214,000		
Employees' private petrol	148,000		
Social security and health care contributions on private petrol (148,000*0.34)	50,320		1
Depreciation charge on cars (Working 1)	1,236,000		2
Social security and health care contributions on employment income from cars (515,000*1%*12*10*0.34)	210,120		1.5
Contractual penalty to Hotel Ida	245,000		
Patent depreciation charge (Working 2)	30,000		1.5
Depreciation charge on remaining assets	320,000		
Stolen products and cash (124,000 + 65,000)	189,000		
Donations (50,000 + 15,000)	65,000		
Total accounting expenses	<u>26,922,690</u>		1.5
Accounting profit	9,427,310		0.5
<i>Add</i> back tax non-deductible expenses			
Fine	75,000		1
Meal vouchers (45%*355,000)	159,750		0.5
Cultural and social fund	87,000		0.5
Employees' petrol	148,000		1
Contractual penalty to Hotel Ida	245,000		1
Donations	65,000		1
Total tax non-deductible expenses	<u>779,750</u>		
<i>Less:</i>			
2012 social security contributions paid late	(284,000)		1
Tax base	9,923,060		
Gift allowance (maximum 5% of CZK 9,923,060)	(65,000)		1
Reduced tax base	9,858,060		
Rounded tax base (down to thousands)	<u>9,858,000</u>		0.5
Tax at 19%	1,873,020		0.5
<i>Less:</i> 2013 corporate income tax advances	(750,500)		1
Tax due	<u>1,122,520</u>		
The tax return shall be submitted and the tax due paid by 1 July 2014.			1
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Workings:

1. Depreciation charge on cars

		CZK
Per car:		
2011 depreciation charge	515,000/5	103,000
2012 depreciation charge	2*(515,000 – 103,000)/6 – 1	164,800
2013 depreciation charge	2*(515,000 – 103,000 – 164,800)/6 – 2	123,600
Annual charge	10*123,600	1,236,000

2. Patent depreciation charge

		CZK
Input price	150,000 + 15*20,000	450,000
2013 depreciation charge	450,000/15	30,000

(b) 2014 Corporate income tax advances

Inspira CZ's corporate income tax liability is higher than CZK 150,000, therefore tax advances will be due quarterly during 2014.

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Tax advance amount	(1,873,020/4)	CZK 468,255
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The advances of CZK 468,300 (rounded up to hundreds) will be due on:

15 September 2014

15 December 2014

15 March 2015

15 June 2015

13**(c) Monthly payroll withholding**

The salary of Mr Nielsen is exempt from tax. Though his salary is attributable to the Czech tax resident employer, he spent less than 183 days in the Czech Republic in 2013.

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Mr Holan and Ms Groves

	CZK	
Salary	65,000	
Social security and health care insurance contributions at 34%	22,100	0·5
Supergross salary	87,100	
Rounded tax base	87,100	0·5
Payroll to be withheld at 15%	13,065	0·5

The total tax withheld of CZK 26,130 (2*13,065) per month should be paid to the tax authority by the 20th day of the month following the month for which the salary was paid.

14**(d) Permanent establishment definition**

A permanent establishment (PE) is a fixed place of business such as premises, office, workshop, and mining or construction site on the territory of the Czech Republic, through which the business of a non-resident taxpayer is carried out.

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In the case of construction sites and provision of services, a PE is deemed to exist even without the existence of a fixed place of business, if the construction lasts for more than six months in any 12-month period.

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A PE is also deemed to exist without the existence of a fixed place of business, if there is a person acting for a non-resident as a dependent agent with the competence to conclude contracts on behalf of the non-resident in the Czech Republic.

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2 Mr Vladimir Srb

(a) 2013 individual income tax

		CZK expenses	CZK income	
Employment income				
March	8,000		8,000	0.5
May	2,000 (subject to final WHT at 15%)		0	0.5
June	6,000		6,000	0.5
September	4,000 (subject to final WHT at 15%)		0	0.5
Separate tax base			<u>14,000</u>	
Rental income				
Summer house			114,286	0.5
Expenses	(lump-sum at 30% 34,286)			1
Actual expenses		110,000		
Apartments	(35,000*12)		420,000	0.5
Lump sum expenses	(420,000*30% 126,000)			1
Actual expenses including mortgage interest	105,000 + 15,000	120,000		
Separate tax base			<u>304,286</u>	
Other income				
Public pension	(18,400*12 = CZK 220,800 but exempt up to 36 times the minimum wage, i.e. CZK 288,000)		0	1.5
Private pension	(subject to final WHT at 15%)		0	1
Sale of shares				
Travela, a. s.	23*(100,000 – 10,000)		2,070,000	1.5
Londa, a. s.	5*(72,000 – 45,000)			
	– shareholding below 5% held for more than 6 months therefore exempt		0	1
Gulliver, a. s.	50*(1,205 – 1,726)			
	— shareholding below 5% held for more than 6 months therefore loss not included in the tax base		0	1
EMG, a. s.	10*(510 – 450)		600	1
Indiana, a. s.	22*(1,800 – 1,650)		3,300	1
Service fee	sensible allocation rule across taxable and exempt income must be worked out, e.g. (2,300,000 + 5,100 + 39,600)/(2,300,000 + 360,000 + 60,250 + 5,100 + 39,600)*78,000	66,145		1.5
Separate tax base			<u>2,007,755</u>	
Total tax base			2,326,041	
Mortgage interest deduction		0		1
Rounded tax base (down to hundreds)			<u>2,326,000</u>	0.5
Tax at 15%			348,900	0.5
Personal tax credit		0		1
Spouse credit		0		1
Child credit		0		1
Tax after credits			<u>348,900</u>	
Tax prepayments by Travela, a.s.	Working		(2,100)	1.5
Tax due			<u>346,800</u>	
				<u>21</u>

Working:**Payroll prepayments made by Travela, a. s.**

	CZK
March	
Income	8,000
Tax credits	0
Prepayment at 15%	1,200
September	
June	6,000
Tax credits	0
Prepayment at 15%	900
Total	<u>2,100</u>

Tutorial notes:

1. Mr Srb cannot claim the mortgage interest allowance as he has never lived in the acquired apartments.
2. Proceeds from the sale of shares in Travela, a. s. are taxable as the shares were part of his business assets before 2008.

- (b) Mr Srb must fill in and submit his tax return by 1 April 2014. 1
The tax due must be paid by the same date. 1
2
- (c) Social security and health care insurance contributions are not payable on contracts on work done. Therefore, Mr Srb does not have to pay any social security or health care insurance contributions on any of his income (employment, rental and other income) in 2013. 2
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3 (a) Place of supply of transactions for value added tax (VAT)

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|---|-----------|
| (1) Hungary for HULA and the Czech Republic for Premium, s. r. o. | 1·5 |
| (2) Hungary | 1 |
| (3) Slovakia | 1 |
| (4) Slovakia | 1 |
| (5) Czech Republic | 1 |
| (6) Poland | 1 |
| (7) Slovakia (for all delegates) | 1·5 |
| (8) Czech Republic | 1 |
| (9) Czech Republic | 1 |
| | <u>10</u> |

(b) Falka, a. s. – refund of VAT

Falka, a. s. will be refunded automatically within 30 days of the tax assessment. 2

(c) NEVA, a. s. – penalty on reassessment of VAT

The penalty will be 20% of the difference between the amount of tax in the original VAT return and the tax reassessed.

Penalty amount	(155,000 – 140,000)*20%	CZK 3,000	1·5
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NEVA, a. s. is obliged to pay the difference together with the penalty within 15 days from the day when the reassessment entered into force, i.e. by Monday, 8 July 2013. 1·5

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Tutorial note:

In addition to the penalty, NEVA will be obliged to pay the interest for the due period at the rate of the repo interest rate plus 14% per day.

4 Trixa, a. s.

(a) Sale of financial assets

ABA, s. r. o.	Exempt as the shareholding exceeds 10% and ABA, s. r. o. is a resident limited liability company.	1
ASTA, a. s.	Taxable as the shareholding is below 10% of the registered capital.	1
BEA Inc	Taxable as the shareholding is below 10% of the registered capital.	1
CLEA	Taxable as there is no double tax treaty between the Czech Republic and Liechtenstein.	1
DONA	Taxable as the shares were held for less than 12 months.	1
ESTA, a. s.	Alienation of bonds is taxable.	1
FOCA	Taxable as the corporate income tax rate in the Bahamas is below 12%.	1
GALA	Exempt as the shareholding exceeds 10% and the Czech Republic has a double tax treaty with India and the corporate income tax in India is above 12%.	1
		<u>8</u>

(b) Taxable (net) income and tax rate

	Deductible expense CZK	Income CZK	Taxable profit/loss CZK	Tax rate	
ASTA, a. s.	312,000	305,000	(7,000)	The loss will be recognised in the general tax base	1
BEA Inc.	27,000	33,000	6,000	Subject to the general tax rate of 19%	1
CLEA	15,600,000	15,650,000	50,000	Subject to the general tax rate of 19%	1
DONA	280,000	352,000	72,000	Subject to the general tax rate of 19%	
ESTA, a. s.	60,000	65,000	5,000	Subject to withholding tax at 15%	1
FOCA	5,400,000	6,000,000	600,000	Subject to the general tax rate of 19%	1
					<u>5</u>

(c) Taxability of profit distributions

BEA Inc	Taxable in a separate tax base at 15% with an ordinary foreign tax credit available for the tax paid in the USA in accordance with the DTT (10%) as the shareholding is below 10% of the registered capital.	1
CLEA	Taxable in a separate tax base at 15% as there is no DTT between the Czech Republic and Lichtenstein.	1
		<u>2</u>
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5 Hana Vostra

(a) (i) Social security and health care contributions for June 2013

	CZK	
Gross salary	75,000	0.5
Bonus	45,000	0.5
Meal vouchers	exempt	0
Pension plan	exempt	0
Statutory travel allowances	exempt	0
Travel allowances over limit	2,400	0.5
Tuition (monetary contribution)	8,000	1
Social and cultural fund	exempt	0
Base	<u>130,400</u>	
Employees contributions (Hana)		
Social security at 6.5%	8,476	0.5
Health care insurance at 4.5%	5,868	0.5
	<u>14,344</u>	
Employers contributions (EXE, s. r. o.) at 34%	44,336	0.5
Super gross salary	130,400 + 44,336	174,736
		0.5
The contributions should be sent to the competent authority by EXE, s. r. o. by 20 July 2013.		1
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(ii) Payroll tax for June 2013

	CZK	
Super gross salary (from (a))	174,736	
Rounded tax base (up to hundreds)	174,800	0·5
Tax at 15%	26,220	0·5
Solidarity surcharge 7%*(130,400 – (1,242,432/12))	1,881	0·5
Personal tax credit (24,840/12)	(2,070)	0·5
Child tax credit (13,404*3/12)	(3,351)	1
Payroll tax to be withheld by EXE, s. r. o. as employer	22,680	
		<u>3</u>

(b) Deductibility of payments

Contribution to pension plan with state subsidy	Tax non-deductible	0·5
Membership fee	Tax non-deductible	0·5
School tuition	Tax non-deductible	0·5
Laptop costs	Tax non-deductible	0·5
Mortgage interest	Tax deductible	0·5
Donation to her doctor	Tax non-deductible	0·5
Donation to a Church	Tax deductible	0·5
Donation to a German political party	Tax deductible	0·5
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Tutorial notes:

1. *The membership is not necessary for her job and so is not deductible.*
2. *The allowance for the mortgage interest is available up to CZK 300,000 per household.*
3. *The donation to her doctor is not deductible because it has a clear connection to her benefits.*
4. *Donations to approved charitable, educational and political organisations are deductible up to 10% of the tax base.*