
Answers

Marks

1 Zgrzytające Wrzeciono SA

(a) Corporate income tax (CIT) for 2013

	PLN	PLN	
Loss per accounts		(940,000)	
Goods sold in 2012 returned in 2013	528,900*100/123	430,000	1·5
Periodic services	50%*180,000	90,000	1
Income from SWAP (not enacted)		(120,000)	1
Interest from foreign customer (unpaid)		(70,000)	1
Donation within the group		0	1
Statistical costs of production	3,150,000 – 2,715,000	435,000	1
Salaries	2,200,000/12*100/120·74	151,841	2
Loss on sale of a trade receivable		0	0·5
Loss on sale of a loan receivable		50,000	1
Depreciation adjustments:			
– machine	3,000,000*14%*1/12	35,000	1·5
– small item of PLN 3,000	< PLN 3,500	0	0·5
– small item of PLN 4,200	4,200 – 4,200*14%*5/12	3,955	1·5
– leased office equipment	124,000*20%*6/12	(12,400)	1·5
Lease rental payments		75,000	0·5
Lease finance charges	40%*30,000	(12,000)	1
Environmental penalty		600,000	1
Contractual penalty		0	0·5
Donations		13,000	0·5
Taxable income		729,396	
Less: Donations to: local church	3,000		0·5
Swiss based charity	0		0·5
Total allowable donations	< 10% of taxable income	(3,000)	0·5
Less: Losses from 2012	50%*40,000	(20,000)	1
Tax base		706,396	
Tax at 19%		134,215	0·5
Less: Credit for foreign withholding tax (10% clearly < 19%)	10%*30,000	(3,000)	1
CIT payable		131,215	
Less: Payments on account	625,000*19%	(118,750)	1·5
Tax payable		12,465	
			24

- (b) CIT is reconciled yearly. The taxpayer must file the tax return and pay the final amount of tax due by the end of the third month following the end of the tax year. 2
- During the year, monthly tax instalments should be paid by the 20th day of the following month; however, no returns are filed. 2
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- (c) A company may become a CIT remitter when it makes payment of any of the following to a non-resident:

- interest;
- royalties;
- dividends;
- payments for intangible services;
- payments for sea transport from Poland;
- payments for air transport from Poland;
- payments for entertaining or sport activities in Poland.

FOUR items only required, 0·5 mark per item, maximum 2

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2 Olgierd Blech

(a) (i) Taxable and non-taxable benefits

		Taxable PLN	Non-taxable PLN	
Medical health care package	150*12	1,800		0·5
Gym membership	450*12	5,400		0·5
Training course			6,400	0·5
Business trip allowance:				
– Within <i>per diem</i>	30*14		420	0·5
– Excess	2,000 – 30*14	1,580		0·5
Hotel accommodation reimbursed	400*14		5,600	0·5
Laptop		300		1
		<u>9,080</u>	<u>12,420</u>	<u>4</u>

(ii) Personal income tax (PIT) – 2013 advance instalments deductible by employer

		PLN	
January to August			
Salary	12,000*8	96,000	1
Taxable benefits	(150 + 450)*8 + 1,580 + 300	6,680	1
Social security base		102,680	0·5
Social security at 13·71%		(14,077)	0·5
Health service contribution (HSC) base		88,603	0·5
Flat rate costs	111·25*8	(890)	0·5
Taxable income		<u>87,713</u>	
Tax at 18%		15,788	
Less: 556*8/12		(371)	
		<u>15,417</u>	1
Less: HSC at 7·75%	(88,603 at 7·75%)	(6,867)	1
Advances paid		<u>8,550</u>	
September to December			
Salary	12,000*4	48,000	1
Taxable benefits	(150 + 450)*4	2,400	0·5
Social security base		50,400	
Social security (111,390 – 102,680) at 13·71%		(1,194)	1
Social security on excess of 41,690 at 2·45%		(1,021)	1
HSC base		48,185	
Flat rate costs	111·25*4	(445)	0·5
Taxable income		<u>47,740</u>	
Tax at 32%		15,276	
Less: 556*4/12		(185)	
		<u>15,091</u>	1
Less: HSC at 7·75%	(48,185 at 7·75%)	(3,734)	0·5
Advances paid		<u>11,357</u>	
Total advances paid		<u>19,907</u>	0·5
			<u>12</u>

- (b) (i) As the party ordering a service from a person not employed nor running a business, Olgierd will have to remit personal income tax (PIT), social security and health service contributions.

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				Marks
(ii) Amounts to be remitted in respect of the gardener 2013				
		PLN		
Fees paid	500*12	6,000	0.5	
Social security at 13.71% (to be remitted)		(823)	1	
		5,177		
Cost allowance at 20%		(1,035)	1	
		4,142		
Tax at 18%		746	1	
HSC	5,177*7.75%	(401)	1	
Tax (to be remitted)		345	0.5	
		466	1	
HSC	5,177*9% (to be remitted)		1	
			6	
(iii) Social security contributions should be remitted by an employer by the 15th day of the following month.				1
Social security contributions of a person running their own business activity should be remitted by the 10th day of the following month.				1
				2
				25

3 Roman

(a) Value added tax (VAT) for May 2013

	PLN		PLN	
Output VAT				
Polish sales	340,000	*23/123	63,577	0.5
EU sales	45,000	*23/123	8,415	1
Asia sales	115,000		0	1
Goods imported (self-charge)	100,000	*23%	23,000	1
Car sale (no VAT deducted on purchase)			0	1
Total			94,992	
Input VAT				
Goods purchased in Poland	320,000	*23/123	59,837	0.5
Goods imported	100,000	*23%	23,000	1
Computers	7,000	*23/123	1,309	1
Electricity (no invoice issued to Roman)			0	1
Total			84,146	
				8

- (b) A VAT taxpayer is any entity or individual performing VATable supplies (typically sales of goods or services) within its business activity. 2

Tutorial note: Candidates providing definitions of specific cases of entities/persons being taxpayers (e.g. import, ICA, new car purchases in EU, etc) were also granted marks.

- (c) VAT is mandatorily applicable only to sales made by a business activity of a certain size. Thus occasional sales are not subject to VAT at all. 1
- Sales made in the course of a small business activity, i.e. within a turnover of less than PLN 150,000, still do not give rise to an obligation to register. 1
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(d) Methods of filing an individual tax return by which the date of filing is formally confirmed are:

- filing the VAT return directly in the tax office and having a copy date stamped;
- sending the VAT return by registered Polish Mail; and
- sending an online VAT return using the Ministry of Finance application.

1 mark each

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4 Marcin Obrotny

(a) (i) Personal income tax (PIT) treatment of June 2013 transactions

Unsold stock at 31 May 2013

The stock sold wholesale will result in taxable income from own business activity of PLN 43,200 ((216,000*20%).

1·5

No PIT consequences will arise from the PLN 4,000 stock retained by Marcin for his personal use.

0·5

Shop furniture

The shop furniture sold will result in taxable income from own business activity of PLN 3,000 (7,000 – (10,000 – 2,000)/2).

1

No PIT consequences (taxable income or allowable loss) will arise from the furniture given for free to Marcin's friend.

0·5

Computer

No PIT consequences will arise from the computer retained by Marcin for his personal use.

0·5

Apartment

No PIT consequences will arise from the sale of the apartment as the use of the room does not make the residential apartment a business asset and Marcin has owned the apartment for more than five years.

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Car

No PIT consequences will arise from the sale of the car as it is a private asset which has been owned by Marcin for more than six months.

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(ii) Output value added tax (VAT) on June 2013 transactions

		PLN	
Stock sold	216,000*1·2*23%	59,616	1
Stock retained	4,000*23%	920	1
Furniture (no input deducted)		0	1
Computer	3,000*23%	690	1
Apartment (private)		0	0·5
Car (private)		0	0·5
			<u>5</u>

(b) Social security and health service contributions

Social security contributions

3,500*60%*6*34·35% PLN 4,328 2

Health service contributions

3,500*6*75%*9% PLN 1,418 1

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5 Zamieć Sp. z o.o. (Zamieć)

(a) Corporate income tax (CIT) implications of transactions

- (1) Zamieć and Sztuki Elektroniczne Sp. z o.o. (SE) are related parties. In such cases, it is necessary to determine whether unrelated parties would enter into such an arrangement. As the only reason for not charging the fee is the common ownership, the answer is no. Thus, Zamieć is at risk of being assessed on the additional revenue which would be due if the services were rendered for an unrelated party. 2·5
- (2) Transactions between related parties should be at arm's length but this does not always mean that the sale must be made at market value. In this case, Zamieć has a valid interest in selling below market price as this should enable them to earn higher profits in the future from the distribution profits. Thus, Zamieć should be able to claim that no additional revenue should be assessed. 2·5
- Tutorial note:** *In practice, the tax authorities may not accept this explanation.*
- (3) Since the services are provided to an unrelated company, there are no grounds to assess Zamieć on additional income. Moreover, as the free of charge service is connected with a potential future contract (and revenue), the costs of rendering this service should be deductible. 2
- (4) Despite the fact that the services are provided by an unrelated party and there is a valid business reason for it doing so, free of charge benefit **received** is considered as a taxable revenue by the CIT Act. 2
- (5) The catering company and Zamieć are unrelated parties, so there should be no risk of additional taxable revenue being assessed on Zamieć. However, CIT Act prevents Zamieć from claiming tax depreciation on the proportion of the building area used for free by another company. 2
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Tutorial note: *In the case of (4) and to some extent (5), it could be argued that some connection with the earning of taxable revenues exists. Candidates presenting sound arguments for this but still mentioning the risk of a dispute with the tax authorities would also have been granted marks.*

- (b) (i) The opinion of the local tax office in the form of a verbal, emailed or even official office letterhead written advice is not formally binding for the taxpayer and may be disregarded by the tax inspectors. 1
- A formally binding individual interpretation can only be obtained by application under the specific procedure to the Ministry of Finance (represented in this respect by the Tax Chambers). General interpretations issued by the Ministry of Finance on selected tax issues are also binding for the tax authorities. 1
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- 2
- (ii) The presence of transfer pricing documentation (as per art. 9a of the CIT Act) does not protect the taxpayer from the risk of the tax authorities challenging the tax treatment of transactions with related parties. The tax authorities may still challenge the level of prices used by the parties. 1·5
- However, formal transfer pricing documentation (if correctly prepared) protects the taxpayer from the application of the punitive 50% CIT rate on underestimated income. 0·5
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- 2
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