
Answers

Marks

1 Składowisko Sp. z o.o.

(a) New Warehouse

(i) Initial tax value of fixed assets

The land should be entered into tax fixed assets register on 1 February 2011 and warehouse building as of 31 October 2011.

Land	PLN	
Land purchase	5,000,000	0.5
Notary public cost	11,000	0.5
Interest accrued until purchase $10\% \times 10/360 \times 5,000,000$	13,889	1
Legal advisory costs	92,000	0.5
Total	<u>5,116,889</u>	
Building	PLN	
Architectural design	2,000,000	0.5
Construction services	22,000,000	0.5
Insurance during construction $75,000 \times 9/11$	61,364	1
Interest capitalised on construction $10\% \times 20,000,000 \times 8/12$	1,333,333	1
Construction supervisory services	35,000	0.5
	<u>25,429,697</u>	
		<u>6</u>

Tutorial note: Some tax interpretations allow interest capitalised on the land to be calculated for the whole of the construction period.

(ii) Tax depreciation for 2011

Tax depreciation of the warehouse building should start in November 2011.

	PLN	
Building $25,429,697 \times 2.5\% \times 1.4 \times 2/12$	148,340	<u>2</u>

(iii) Operational expenses which are tax deductible:

	PLN	
Insurance post construction $75,000 \times 2/11$	13,636	0.5
Repairs	20,000	1
Lease agent commission	300,000	0.5
Interest on land purchase loan post the commencement of construction $10\% \times 5,000,000 \times 11/12$	458,333	0.5
Interest on construction loan post completion $10\% \times 20,000,000 \times 2/12$	333,333	0.5
	<u>1,125,302</u>	

Operational expenses which are non-deductible:

Hospitality served to celebrate the completion of construction	<u>8,000</u>	<u>1</u>
		<u>4</u>

(b) Corporate income tax (CIT) for the year 2011

	PLN	PLN	
Loss per accounts		(570,000)	
Revenue/income			
Exclude New Warehouse lease income 660,000*2/3	(440,000)		1
Exclude PL dividend income	(150,000)		1
Interest received in bank account 600,000 – 150,000	<u>450,000</u>		
		(140,000)	1
Costs			
Deductible operating expenses related to construction, from (iii)	1,125 302		0.5
Depreciation 2,100,000 + 148,340, from (ii)	2,248 340		1
Environmental penalty	(45,000)		1
Donation	(30,000)		0.5
Penalty interest on late payment of VAT	(20,000)		0.5
Interest paid from bank account 250,000 – 100,000	150,000		1
Revaluation of property	<u>(4,300,000)</u>		1
		<u>871,358</u>	
Taxable income		161,358	
Donation 10%*161,358		<u>(16,136)</u>	1
Tax base		<u>145,222</u>	
Tax at 19%		<u>27,592</u>	0.5
			<u>10</u>

- (c)** Foreign exchange differences crystallised on the purchase of assets for foreign currency, or related to the financing of the acquisition or construction of such assets with foreign currency loans, are capitalised as part of the initial value of fixed assets, increasing or decreasing the depreciation base. 1
- Based on the CIT regulations, foreign exchange differences realised or accrued until completion of an asset are capitalised. 1
- Foreign exchange differences accrued and realised after completion of the asset are treated as a cost/revenue of the given tax year. 1
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Tutorial note: Considering the significant number of recent tax interpretations claiming that only foreign exchange differences actually realised during the construction of assets should be capitalised, answers based on these interpretations are acceptable.

2 Marian Wokulski**(a) Real estate transactions****Sale of Gdańsk apartment**

Exempt – acquired in 2002, hence sale occurs more than five years after the end of the year of acquisition. 1.5

Sale of Warsaw apartment

Exempt – registered tenancy as Marian's permanent residence for more than 12 months. 1.5

Sale of plot of land in Mazury

No exemption applies. 0.5

	PLN	
Sale price	140,000	0.5
Cost of acquisition	(95,000)	0.5
Costs of sale	<u>(2,000)</u>	0.5
Income	<u>43,000</u>	
Tax at 19%	<u>8,170</u>	0.5

		Marks
Sale of Kraków apartment		
Exempt – to the extent that the proceeds have been reinvested for his own housing needs.		1·5
	PLN	
Sale price	350,000	0·5
Cost of acquisition	(310,000)	0·5
Costs of sale	(3,500)	0·5
Income	<u>36,500</u>	
Tax at 19%	6,935	0·5
Proportion of revenue reinvested for own housing needs 120,000/350,000		
Tax due:		
6,935*120/350	2,378	1·5
Sale of Poznań apartment		
No exemption applies.		0·5
	PLN	
Sale price	390,000	1·0
Cost of acquisition	(300,000)	0·5
Costs of permanent fixtures (integral parts of apartment)	(62,000)	1·0
Costs of interest	(8,000)	1·0
Income	<u>20,000</u>	
Tax at 19%	3,800	0·5
		<u>15</u>

Tutorial note: No exemption applies to the sale of the Poznań apartment as Marian's own housing needs have been fully covered by the payment of the 120,000 PLN from the sale of the Kraków apartment.

(b) Personal income tax (PIT) for 2011

	PLN	PLN	
Gross salary 20,000*12		240,000	0·5
Gross bonus		30,000	0·5
Company car allowance		600	1
Hotel bills		0	1
Excess <i>per diem</i> 792 – 23*8		608	1
Medical package		3,500	1
Training related to duties		0	1
Total emoluments		274,708	
Social security 100,770*13·71%	13,816		0·5
(274,708 – 100,770)*2·45%	<u>4,261</u>	<u>18,077</u>	1
HSC base		256 631	
Costs of employment 111,25*12		(1,335)	0·5
Sale of car		0	1
Sale of furniture/equipment (in Poznań apartment) 85,000 – 82,000		3,000	1
Total income		<u>258,296</u>	
Half income		<u>129,148</u>	0·5
Tax (18%*85,528) – 556·02		14,839	
32%*(129,148 – 85,528)		<u>13,958</u>	1
		<u>28,797</u>	
x 2		57,594	0·5
Less:			
Child relief 2 x 1,112		(2,224)	1
HSC on employment 256,631 x 7·75%		<u>(19,889)</u>	1
Tax for the year		<u>35,481</u>	
Interest income taxed separately by bank withholding 19%*50,000		<u>9,500</u>	1
			<u>15</u>
			<u>30</u>

Tutorial note: The company car allowance is taxable in full because the car is not a private car used for the employing company's needs.

3 Stefan Dziuplarz

(a) Output/input value added tax (VAT) for October 2011

		Output VAT PLN	Input VAT PLN	
Sales of car parts (local)	340,000 x 23/123	63,577		0.5
Sales of services to PL individuals	140,000 x 23/123	26,179		0.5
Sales of services to EU individuals	210,000 x 23/123	39,268		1
Export of goods	350,000 x 0%	0		0.5
Sale of private car		0		0.5
Goods given free of charge >10 PLN	70*321 x 23%	5,168		1
Goods given free of charge <10 PLN		0		1
Intra community purchase of services	200,000 x 23%	46 000	46 000	1
Import of goods	140,000 x 23%	32,200	32,200	1
Purchase of materials (local)	420,000 x 23/123		78,537	0.5
Leasing (operational)	3,500 x 23/123		654	1
Leasing (financial)	250,000 x 23/123		46,748	1.5
Goods purchased and used for private purposes			0	1
Purchase from private person			0	1
				<u>12</u>

Tutorial note: Although the question does not state it, candidates should have assumed that the leasing companies were registered for VAT because it would be unrealistic to expect that their sales would not exceed the registration threshold.

(b) Where in a given month the amount of input VAT exceeds the amount of output VAT:

either

(i) the difference may be carried forward to decrease the amount of output VAT (and VAT due) in the next (and, if necessary, future) months;

or

(ii) the taxpayer may claim a refund of the excess VAT in cash. 1.5

Where a refund is granted, it will be made in 60 days, unless the purchase invoices underlying the input VAT in the given VAT return have been paid and an application filed for the refund period to be shortened to 25 days. 1.5

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4 Nasza Sprawa Sp. z o.o.

(a) Taxpayers should possess transfer pricing documentation if they are involved in transactions with related parties or entities resident in so called 'tax havens'. 1

The documentation must be presented to the tax authorities within seven days of a request for such documentation being received. 1

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(b) Additional tax chargeable

	PLN	PLN	
Materials acquisition			
Reported costs	3,500,000		
Market price	<u>2,400,000</u>		1
Difference	<u>1,100,000</u>		
Tax at 19% (transfer pricing (TP) documentation present)		209,000	1
Products sold			
Reported revenue	4,300,000		
Arm's length price 9,200,000*55%	<u>5,060,000</u>		1
Difference	<u>760,000</u>		
Tax at 50% (no TP documentation)		380,000	1
Payment related to Il Padrone business: Cost	<u>340,000</u>		
Tax at 50% (no TP documentation)		170,000	1
Free of charge benefits received from Il Padrone	<u>240,000</u>		
Tax 50% (no TP documentation)		<u>120,000</u>	1
Total additional tax		<u>879,000</u>	<u>6</u>

Tutorial note: *In the case of the stewardship costs or the additional income from the free of charge benefits, it may be argued, based on the wording of the CIT Act, that, even if the transfer pricing documentation is not present, the tax may still be charged only at the 19% rate.*

- (c)** If Nasza Sprawa Sp. z o.o. (NS) receives a negative tax decision from the Head of the Tax Inspection Office charging it with additional tax, such a decision may be appealed to the Head of the Tax Chamber. 1
- A negative decision of the Head of the Tax Chamber may be appealed to the Regional Administrative Court (WSA). 1
- A negative verdict of the Regional Administrative Court may ultimately be appealed to the Supreme Administrative Court (NSA). 1
- 3

(d) The Tax Office (formally the Head of the particular tax office) is responsible i.a. for:

- day to day collection of tax returns,
- verification thereof,
- basic tax inspections,
- handling the requests of the taxpayers,
- issuing one tier tax decisions.

*1 mark each
maximum* 2

The Tax Chamber is responsible for:

- administrative supervision of Tax Offices
- recognising appeals from decisions of Tax Offices
- recognising appeals from decisions of Tax Inspection Office
- issuing tax decisions and resolutions in selected matters.

*1 mark each
maximum* 2

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5 Stefan Karłosz

(a) Tax card

January to April 2011

	Employee	Ancillary % increase	No effect	% Decrease	
Stefan <i>Owner, though older than 60 years, employs other persons thus no decrease</i>			X		1
Wiesław <i>Son living together in same household</i>			X		1
Barnaba <i>Partially disabled employee</i>	X			X	1
Eberhard <i>Sales only</i>		X			1
Pafnucy <i>Standard employee</i>	X				1
Pakostaw <i>Trainee</i>			X		1
	<u>2</u>	<u>1</u>	<u>-</u>	<u>1</u>	
May to December 2011					
Mscisław <i>Cleaning only</i>		X			
	<u>2</u>	<u>2</u>	<u>-</u>	<u>1</u>	<u>1</u>
					<u>7</u>

(b) Personal income tax (PIT), social security and health service contributions for 2011

PIT

January to April

	PLN	PLN	
Per tax card table for two employees	1,027		0.5
Increased by 20% due to one ancillary worker	205		0.5
	<u>1,232</u>		
Decrease by 10% due to one disabled person	(123)		0.5
	<u>1,109</u>		

4 months

4,436 0.5

May to December

Additional ancillary worker increases the table rate by a further 20%,
but $1,027 \times 140\% = 1,438$ PLN, which is greater than the net tax
value in the table of 1,303 PLN.

1.5

Thus:

Tax per month: $1,303 \times 90\%$	<u>1,173</u>		0.5
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8 months		<u>9,382</u>	0.5
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Total PIT		13,818	
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Social security

$3,000 \times 60\% \times 29.64\% \times 12$		6,402	1.5
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Health service contribution (HSC)

$3,100 \times 75\% \times 9\% \times 12$		<u>2,511</u>	1.5
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Total tax, social security and HSC due for 2011		<u>22,731</u>	0.5
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Tutorial note: Where tax is paid according to the tax card, the tax payable is not affected by the social security. The HSC paid is deductible against tax at standard 7.75%. It should be noted that despite some simplifications in recent years with respect to calculation of basis for social security and HSC, these are still calculated on two different bases, being respectively projected average nationwide salary (social security) and average salary in private sector (HSC).