Answers

Marks

1 Speedy Gonzales Sp. z o.o.

(a) Corporate income tax 2012

		PLN	PLN	Marks
Income per accounts			185,000	
Advance payment		40,000		1
Dividend		300,000		1
Forex		210,000		1
Interest	(230,000 – 150,000)		80,000	1
Insurance claim		75,000		1
Costs related to future works			30,000	1
Salaries paid after due date	(210,000 – 90,000 – 80,000)		40,000	1·5
Bad debts	W1		720,000	2
Depreciation building	(2,000,000*2·5%*1·2*3/12)	15,000		1·5
Depreciation computers	W2		165,000	2
Interest not paid	(450,000 – 430,000)		20,000	1
VAT unrecoverable			0	1
Donation			100,000	1
		640,000	1,340,000	
			(640,000)	
Taxable income			700,000	
Donation relief	(maximum 10% of taxable income)		(70,000)	1
Tax basis			630,000	
Tax	19%		119,700	0·5
Advances paid			(180,000)	0·5
Tax (refundable)			(60,300)	
				18

Workings:

W1 – Bad debts

	PLN	
Increase in general provision	300,000	
Loan to employee	20,000	
Loan to business partner	400,000	
	720,000	
Certified	500,000	allowed
Low value	70,000	allowed

W2 – Computers

		PLN
Tax depreciation (from March)	300,000*30%*2*9/12	135,000
Less deducted		(300,000)
		(165,000)

(b) Treatment of value added tax (VAT)

(i) Input VAT which is not recoverable due to the VAT regulation is allowed as a corporate income tax (CIT) deductible cost.

However, if an expense to which the VAT is related is not connected to the business of the taxpayer and does not fulfil the general tax cost definition, then the VAT will not be a deductible CIT cost either. 2

(ii) Yearly VAT corrections allowing for the additional recovery of input VAT result in the necessity to increase the taxable income declared. Corrections forcing the taxpayer to recognise an additional decrease in input VAT result in the crystallisation of a tax deductible cost. 2

(iii) Yearly corrections of input VAT connected to the acquisition of fixed assets are handled in the same manner as corrections related to other purchases of goods or services. Such corrections do not impact the tax depreciation charge but impact directly on the CIT income/loss declared. 2

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		Marks
(c)	In principle, costs should be recognised in the year in which the corresponding revenues are recognised.	
	For tax purposes, costs which are related to a given year and are documented after the year end but before either the date the CIT return is filed, or the deadline for filing the return, or the financial statement is accepted (whichever occurs sooner) are accounted for and reported in the CIT return for the given year.	
	Costs documented after any of these deadlines are reported in the next year.	3
	Tutorial note: *For CIT purposes, costs may be documented other than by means of an invoice.*	
(d)	Salaries paid after the year end may still be attributed to the year ended to which they relate, provided the salary was paid within the deadline specified in the employees' labour agreement or in the employer's labour regulations. If the salary is paid after this deadline, it must be attributed to the reporting period in which it is actually paid.	1·5
	Similar treatment applies to social security contributions; in this case contributions for a given year may still be attributed to that year if the remitter pays them within the statutory deadline for social security contributions. Contributions paid past this deadline must be allocated to the next reporting period.	1·5
		3
		30

2 Mona Lisa Turbo

(a)	**Items excluded from the consolidated tax base**	
	Sale of apartment – sold more than five years from its acquisition, thus sale is not taxed.	1
	Bank interest received – tax at 19% withheld and remitted by the bank.	1
	Insurance receipts – PIT exempt (outside economic activity).	1
	Casino winnings – tax exempt.	1
	Lottery winnings – usually subject to tax at 10%, withheld and remitted by the lottery organiser.	1
		5

(b) Personal income tax 2012

		PLN	Marks
Gross salary	(8,000 + 5,000)*12	156,000	0·5
Free medical package	200*12	2,400	0·5
Excess *per diem*	400 – (8*23)	216	1
Hotels	800 – (8*23*1·5)	524	1
Gift		400	0·5
Training related to duties	exempt	0	0·5
Training not related to duties		1,200	0·5
Total emoluments		160,740	
Social security			
13·71% on PLN 105,780		(14,502)	0·5
2·45% on excess over PLN 105,780		(1,347)	1
HSC basis		144,891	
Costs of employment	statutory cap	(2,502)	1·5
Sale of copyrights	45,000*50%	22,500	1·5
Rent of apartment	(3,000*12) – (900*12) – (4,000*80*1·5%) – 8,640	11,760	3·5
Trade by auction			
(items bought within 6 months)	3,600 – 2,200	1,400	2
Total income		178,049	
Half income		89,025	1
Tax			
First PLN 85,528		14,839	
32% on excess over PLN 85,528		1,119	1
Tax		15,958	
x 2		31,916	1
less			
Child relief	(2 x 1,112)	(2,224)	1
HSC on employment	114,891*7·75%	(11,229)	1
Tax for the year		18,463	
Advances withheld		(21,000)	0·5
Tax refund		(2,537)	
			20
			25

Marks

3 Przewózex Sp. z o.o.

(a) Value added tax (VAT) – August 2012

Output VAT	**Rate**	**PLN**		**VAT PLN**	
VATable services	23%	1,835,000	x 23/123	343,130	0·5
VAT exempt services	exempt	700,000	x 0%	0	1
Gifts given free of charge (where VAT was deducted)	23%	3,000	x 23%	690	1·5
Goods given free of charge (where VAT was not deducted)	0%	1,500	x 0%	0	1·5
Intra community purchase of services	23%	120,000	x 23%	27,600	1
Total				371,420	
Input VAT					
Purchase of services, products and fixed assets for VATable services	23%	750,000	x 23/123	140,244	0·5
Purchase of services, products and fixed assets for VAT exempt services	23%	350,000	related to exempt services	0	1
Salaries	exempt	1,550,000		0	1
Purchase of goods and services related to both VAT exempt and VATable services	23%	330,000	x 23/123 x 75%	46,280	1
Purchase of fixed assets related to both VAT exempt and VATable services	23%	240,000	x 23/123 x 75%	33,659	1
Intra community purchase of services	23%	120,000	x 23% x 75%	20,700	1
Total				240,883	
Excess of output VAT (payable to tax office)				130,537	
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(b) Correction at the year end

(i) Purchase of goods and services

	PLN	
VAT on mixed supply purchases of goods and services		
330,000 x 23/123 + 27,600	89,307	1
Recovered at 75% ratio	66,980	
Allowed recovery at actual 65% ratio	58,050	
Correction (decrease of input VAT)	8,930	1

(ii) Purchase of fixed assets

	PLN	
VAT on mixed supply purchases of fixed assets		
240,000 x 23/123	44,878	
Recovered at 75% ratio	33,659	
Allowed recovery at actual 65% ratio	29,171	
Difference	4,488	1
Correction (decrease of input VAT) 4,488*1/5	898	1
		4
		15

Marks

4 Mścisław

(a) Net salary as employee

		PLN	
Gross salary		80,000	0·5
Social security employee	at 13·71%	(10,968)	1
Nominal employee costs		(1,335)	1
Tax base		67,697	
Tax	(67,697*18%) – 556	(11,629)	1
Net (cash) salary	80,000 – 10,968 – 11,629	57,403	0·5
			4

(b) Total cost to bank (as employer)

		PLN	
Gross salary cost		80,000	1
Employer social security	at 20·74%	16,592	1
Total expense on salary		96,592	
			2

(c) (i) Total cost to bank (as recipient of services)

	PLN	
Gross salary = initial net service fee	80,000	0·5
23% VAT charged by employee not recoverable (cost)	18,400	1
Total cost	98,400	

(ii) New proportionate service fee

96,592*80,000/98,400	78,530	1·5
		3

(d) Net proceeds as contractor

		PLN	
Net service income (after VAT paid to the tax office)		78,530	1
Social security	3,500*60%*12*34·35%	(8,656)	2
Tax base		69,874	
Tax	(69,874*18%) – 556	(12,021)	1
Net (cash) proceeds		57,853	
			4

(e) Mścisław will be obliged to pay to the tax office monthly instalments for PIT by 20th day of the following month.

By 30 April of the next year, Mścisław must pay the difference between the yearly PIT due and monthly PIT instalments paid during the year. 2

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5 Stefano Sp. z o.o.

(a) Non-deductible interest

		PLN	Marks
Qualifying debt			
Marco Sp. z o.o. (parent)		2,500,000	1
Dino Sp. z o.o. (sister)		2,000,000	1
Romano Sp. z o.o. (< 25% holding)		0	1
		4,500,000	
		4,500,000	
Total qualifying debt at interest payment date (31 August)	4·5m + 4·5m*5%*8/12	150,000	
		4,650,000	2
Qualifying equity	(350,000 + 200,000)/2m*400,000	110,000	2
Debt to equity ratio amount	3*110,000	330,000	1
Excess amount		4,320,000	0·5
Non-deductible ratio	4,320,000/4,650,000	92·90%	1
Interest non-deductible	150,000*92·90%	139,350	0·5
			10

(b) Adjustment for lease contract

		PLN	Marks
Lease fee	(50,000*5) + 20,000	270,000	
less			
Machine value		220,000	
Interest (difference)		50,000	1
Per year/5		10,000	1
Depreciation	14%*220,000*11/12	28,233	2
Correction (increase in taxable income)	50,000 – (28,233 + 10,000)	11,767	1
			5
			15

Marking note – *Some interpretations issued by the tax authorities in relation to leasing claim that the buy out fee should not be accounted for for the purposes of the interest calculation, and/or claim that the interest cost should be recognised over time rather than on the cash basis. Such alternative treatments are also acceptable.*