Answers

Marks

1 Haj Połer Softłer Sp. z o.o.

(a) Corporate income tax (CIT) for the year to 30 June 2013

		PLN	PLN	
	Income per accounts		1,840,000	
1	Products provided in June invoiced in July		250,000	1
2	Polish dividend (excluded from taxable revenue)	200,000		1
3	Interest receivable	55,000		1
4 (i)	EU grant	300,000		1
(ii)	Refund of guarantee	15,000		1
5	Commission costs relating to future years 48,000*18/24		36,000	1
6 (i)/(ii)	Additional depreciation (W1)	191,000		W
(i)	Commission on IT purchase		30,000	0·5
(ii)	Development of software		40,000	0·5
(iii)	Donation		250,000	0·5
(iv)	Low value fixed assets – 100% deductible	25,000	500	1·5
7 (i)	Loss on sale of loan		300,000	1
(ii)	Loss on sale of trade receivable (deductible)		0	1
(iii)	Waiver of trade receivable (deductible)		0	1
	Sum of adjustments	786,000	2,746,500	
			(786,000)	
	Taxable income		1,960,500	
	Donation 10%*1,960,500		(196,050)	1
	New technology 50%*(890,000 + 40,000)		(465,000)	2
	Tax loss brought forward from 2011 50%*90,000		(45,000)	1
	Tax basis		1,254,450	
	Tax at 19%		238,346	0·5
	Instalments paid (W2)		(304,000)	W
	Tax refundable		(65,654)	

Workings:

1. Additional depreciation

	PLN	
Licence		
Acquisition cost	890,000	
Activation	40,000	
	930,000	1
Amortisation 50%*4/12	155,000	1
Know how		
Acquisition cost	240,000	
Interest	30,000	
	270,000	1
Amortisation 20%*8/12	36,000	1
Total additional depreciation	PLN 191,000	

2. Simplified advances paid

	PLN	
Tax for 2009/10 financial year (2,400,000*19%)	456,000	1
Months in 2009/10 financial year	18	
Monthly instalment per 2009/10 financial year	25,333	1
Instalments for current financial year (12)	304,000	0·5
		23

Marks

(b) Under the simplified CIT instalments method, the tax instalments are paid during the year based on the tax results accounted for two or three years in the past. If the profits of the company are growing year to year, the method has a clear cash flow advantage as, during the year, the tax paid is calculated based on lower tax results, and any difference is not due until three months after the year end. If profits are falling, the opposite is true and there is a cash flow disadvantage. 1·5

HPS could consider using the simplified method for the years of expected software release (high profits) and switching back to the standard method for the years of development (lower profitability). 1

In relation to the monthly profit fluctuations, the simplified method is not cash flow efficient for companies which account for the majority of their profits at the end of the financial year as, in case of the standard method, low or no advances would be due during the initial months of the year. 1·5

One solution to this problem could be the readjustment of the tax year of the company so that periods of higher sales and profitability would fall into the same tax year as periods of product development and lower profitability, thereby bringing down the average taxable income recorded. 1

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(c) Under the standard method, the penalty interest on any unpaid tax is calculated from the moment the particular monthly instalment was understated, i.e. from the 20th day of the following month, but in the case of the simplified method, interest is calculated only from the deadline for payment of the yearly tax settlement. Thus, using the simplified method will usually save the taxpayer several months' payments of penalty interest. 2

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2 Zdzisław Chamlet

(a) Own social security and health service contributions (HSC)

	PLN	
Social security		
1,500*30%*12*34·35%	1,855	2·5
HSC		
3700*75%*12*9%	2,997	1·5
		4

Tutorial note: *Considering the current level of minimum thresholds for work fund contributions (knowledge thereof is not required for this exam) and the minimum salary level, the part of the contribution relating to the work fund is not charged for a newly started activity in practice. Therefore, equal marks were given to candidates using the reduced 31·9% rate in their calculations*.

Marks

(b) Tax payable using the standard (progressive rate) method of personal income tax (PIT)

	PLN	
Revenue 75,000 + 115,000 + 12,000	202,000	1
Costs:		
Salaries 1,500*2*12*1,2074	(43,466)	2
Rent 2,000*12	(24,000)	0·5
Materials	(30,000)	0·5
Own social security (from (a))	(1,855)	1
Taxable income	102,679	
Donation 6%*102,679	(6,161)	1
Tax basis	96,518	
Half basis	48,259	0·5
Tax at 18%	8,687	0·5
Less: tax free amount	(556)	0·5
	8,131	
	*2	0·5
	16,262	
Child relief	(1,112)	1
HSC at 7·75% (2,997*7·75/9)	(2,581)	1
Tax payable	12,569	
		10

Tutorial note: *In joint taxation reconciliation the tax rate used is applied to tax basis, i.e. after the original basis was divided by 2.*

(c) Tax payable using the flat rate revenue method

		PLN	
Services (client materials)		75,000	
Production (own materials)		115,000	
Trade		12,000	
Total revenue		202,000	1
Own social security (from (a))		(1,855)	1
Costs (no costs allowed)		0	1
Donation (as per (b))		(6,161)	1
Taxable revenue		193,984	
Tax			
75,000*193,984/202,000	at 8·50%	6,122	1
115,000*193,984/202,000	at 5·50%	6,074	1
12,000*193,984/202,000	at 3%	346	1
		12,542	
Less HSC (as in (b))		(2,581)	1
Tax payable		9,961	
			8

Tutorial note: *Based on some interpretations, it is not entirely clear if the limit for the donation is 6% of income as calculated according to the PIT regulations or 6% of revenues being the basis for the flat rate tax. Both interpretations were accepted and given equal marks.*

(d) Tax payable using the flat income taxation method

	PLN	
Income (as in (b))	102,679	1
Tax at 19%	19,509	1
Less HSC (as in (b)	(2,581)	1
	16,928	
		3
		25

Marks

3 Mieszacz Sp. z o.o.

(a) **Input value added tax (VAT) correction on sale of assets**

		PLN	
Land and building			
VAT recovered on acquisition	1,500,000*23%*65%	224,250	1·5
VAT recoverable under 100% proportion	1,500,000*23%	345,000	0·5
Difference		(120,750)	
Corrections performed prior to sale	(2010, 2011 year ends)	2	0·5
Correction due on sale – additional input VAT recoverable	120,750*8/10	96,600	0·5
Machinery			
VAT recovered on acquisition	45,000*23%*65%	6,728	1·5
VAT recoverable under 100% proportion	45,000*23%	10,350	0·5
Difference		(3,623)	
Corrections performed prior to sale	(2010, 2011 year ends)	2	0·5
Correction due on sale – additional input VAT recoverable	3,623*3/5	2,174	0·5
Computer and telephone – no corrections as assets worth less than PLN 15,000			1
			7

Tutorial note: *In the case of fixed assets used for both VATable and exempt activity (so called mixed supplies), taxpayers have to proportionally adjust the amount of VAT deducted on purchase. As a proportion of VATable sales to total sales in a given year or month may be unjust for items used over the years, the VAT Act requires the taxpayer to spread the correction over the years. Each year 1/5 (1/10 in the case of land and buildings) of the VAT recovered on input is adjusted to the actual proportion for the year just ended. When the asset is sold, the corrections remaining are accumulated and done together in the following month (in case the sale was with VAT, it is assumed that all remaining corrections would be done using a factor of 100% and if the sale was exempt, a 0% factor is used).*

(b) **Input VAT correction if the sale of the land and building is VAT exempt**

		PLN	
VAT recovered on acquisition	(as in (a))	224,250	0·5
VAT recoverable under exempt sale		0	1
Difference		224,250	
Corrections performed prior to sale	(as in (a))	2	0·5
Correction on sale – reduction of input VAT recoverable	224,250*8/10	179,400	1
			3

(c) The taxpayer is not obliged to make the input VAT correction if:

– the VATable sales are above 98% and input VAT related to exempt supplies is less than PLN 500. In such cases the proportion is deemed to be 100% of VATable sales; or

– the VATable sales are below 2%. In such cases the proportion is deemed to be 0% of VATable sales. 2

(d) The standard deadline for a cash refund of input VAT is 60 days from the filing of the return.

An accelerated deadline of 25 days is available if certain conditions are met, i.e. the taxpayer applies for the refund to be accelerated, the respective invoices are paid, and/or VAT on certain imports settled. 3

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Marks

4 Para Sp. z o.o.

Corporate income tax (CIT) for 2012

		PLN	
Net revenues		815,000	
Italian dividend (EU)		(75,000)	1
Australian dividend (gross up)	85,000/0·85*15%	15,000	1
Italian interest (gross up)	140,000/0·95*5%	7,368	1·5
Australian interest (gross up)	95,000/0·9*10%	10,556	1
GTBTD royalties (gross up)	180,000/0·9*10%	20,000	0·5
Mogiła royalties (gross up)	240,000/0·9*10%	26,667	0·5
Free of charge benefit		4,000	1
Taxable income		823,591	
Tax at 19%		156,482	0·5
Less credits			
Australian dividend	W1	(19,000)	W
Italian interest		(7,368)	0·5
Australian interest		(10,556)	0·5
GTBTD royalties		(20,000)	0·5
Mogiła royalties	W2	(17,800)	W
Tax due in Poland		81,758	

Workings

1. Australian dividend credit

		PLN	
Withholding tax (WHT)		15,000	0·5
Underlying tax	100,000/0·7*30%	42,857	1·5
Total		57,857	
Polish tax on dividend	100,000*19%	19,000	0·5
Credit capped at lower of two		19,000	0·5

2. *Mogiła* royalties

WHT		26,667	0·5
Polish income (revenue less amortisation in 2012)	266,667 – (345,966*50%)	93,684	2
Tax at 19% of income		17,800	0·5
Credit capped at lower of two		17,800	0·5
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Tutorial note: *According to the CIT Act, the credit is capped as a percentage of income (i.e. revenue less costs); however, some interpretations may be found claiming that the withholding is charged on revenue only.*

Marks

5 Tempus Fugit Sp. z o.o.

(a) Tax deductible costs in respect of assets for 2012

Asset		Tax deductible costs PLN	
Land	(not depreciated)	0	0·5
Usufruct	(yearly fee only)	34,000	1
Building	4,200,000*2·5%*1·2	126,000	1
Rent	20,000*12	240,000	0·5
Leasehold improvement	450,000*10%*9/12	33,750	1
Lease 1 (finance)	W1	27,220	W
Lease 2 (finance)	W2	7,338,400	W
Lease 3 (operating)	21,000*7	147,000	1
		7,946,370	

Tutorial note: *It should be noted that apart from the depreciation rates table, the CIT Act regulations provide for additional factors affecting the ultimate value of the depreciation charge. These are* inter alia*: (i) factors increasing the depreciation of buildings used in worse than normal or bad conditions (by 1·2 and 1·4 respectively) and (ii) limitations on the minimum period of depreciation of certain items (e.g. 10 years for leasehold improvements and some very old buildings).*

Workings:

1. Lease 1: Computers

	PLN	
Depreciation 2012 420,000*2*30%*1/12	21,000	1
Interest 2012 3,166 + 3,054	6,220	1
	27,220	

2. Lease 2: Machinery

	PLN	
Depreciation 2011 23,000,000*2*14%*6/12	3,220,000	1
Depreciation 2012 (23,000,000 – 3,220,000)*2*14%	5,538,400	1
Interest component for 2012 ((24*1,100,000) + 200,000) – 23,000,000)*12/24	1,800,000	2
	7,338,400	
		11

(b) Based on the Tax Ordinance Act, tax events may be proven with any means which can give relevant information about the given event. Thus, in general, any documents may be used in tax proceedings. 1

However, there are additional regulations with respect to the evidencing of certain tax events for both corporate income tax (CIT) and value added tax (VAT).

Based on the CIT regulations, the costs may be evidenced with invoices, receipts and other accounting documents. Thus there is no specific requirement to present the invoice as the only allowed proof of cost. Hence, in the absence of the invoice, the costs may be evidenced by other means, e.g. with an accounting note and bank transfer. 1·5

However, the VAT Act is more formal and specifically requires the invoice (except rare cases when not needed by specific regulation) as the basis for deduction of input VAT. Thus in the absence of the invoice or its duplicate, it will be impossible to claim a deduction for the input VAT on the purchase. 1·5

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