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# Answers

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Section B

Marks

1 Żaczek Student Cooperative

(a) Mandatory value added tax (VAT) mixed supplies correction for 2016

Non-qualifying item: Land because no input VAT arises on a donation.

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	PLN	PLN	
<b>Building</b>			
VAT recovered on acquisition (10,000,000 x 23% x 65%)	1,495,000		0.5
VAT recoverable under year end proportion (10,000,000 x 23% x 74%)	1,702,000		0.5
Difference	<u>(207,000)</u>		
Correction due in 2016 additional input VAT recoverable (1/10th)		20,700	1
<b>Machinery and equipment</b>			
VAT recovered on acquisition ((1,000,000 + 180,000) x 23% x 65%)	176,410		1
VAT recoverable under year end proportion (1,180,000 x 23% x 74%)	200,836		1
Difference	<u>(24,426)</u>		
Correction due in 2016 additional input VAT recoverable (1/5th)		4,885	1
<b>Telephones</b>			
VAT recovered on acquisition (200 x 100 x 23% x 65%)	2,990		0.5
VAT recoverable under year end proportion (20,000 x 23% x 74%)	3,404		0.5
Difference	<u>(414)</u>		
Correction due in 2016 additional input VAT recoverable (100%)		414	1
Total additional input VAT recoverable in 2016 as a result of the year end correction		<u>25,999</u>	
			<u>8</u>

(b) In the case of a finance lease, the transaction is treated as a sale, hence the whole amount of the VAT is charged and deducted as input VAT (subject to potential corrections) on the commencement of the lease.

0.5

However, in the case of an operational lease, the agreement is treated as a service and VAT is charged on each subsequent lease payment. In such a case the VATable to total sales proportion valid for 2016 would be applicable only to the down payment and the instalments actually paid during the year (again subject to potential corrections).

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## 2 Jan Zaradny

## Personal income tax (PIT) instalment to be remitted for August 2016

	PLN	
Emoluments		
Gross salary	14,000	0.5
Bonus	5,000	0.5
Food basket (social fund)	0	0.5
Kindergarten (social fund)	0	0.5
Sales training	0	1
Mileage allowance (company car – whole amount)	1,000	1
Daily allowance (400 – (30 x 4))	280	1
Hotel allowance (1,200 – 4 x 30 x 150%)	1,020	1
Taxable revenue	21,300	
Social security contributions (ZUS) (21,300 x 13.71%)	(2,920)	1
Health service contribution (HSC) base	18,380	
Costs	(111)	0.5
Income	18,269	
Tax at 18%	3,288	1
Less: (556/12)	(46)	0.5
Tax	3,242	
Less: HSC (18,380 x 7.75%)	(1,424)	1
Tax due	1,818	
		<b>10</b>

**Tutorial note:** Advance tax payments for salary are calculated by the employer at the same rate throughout the month. Since in the previous month Jan was still in the first PIT threshold, this rate was used throughout the month of August. Starting from the next month the higher second threshold rate will be used.

## 3 Personal income tax (PIT) treatment of other types of income

## (a) Income from undeclared sources

If the tax authorities discover that a taxpayer has received income from a source which is not declared (i.e. the taxpayer has cash or assets but refuses to reveal how/where it was earned), such income may be taxed at the punitive rate of 75%. However, the tax authorities should take into account the standard tax rate for the given source of income if such is identified in the proceedings. 1

The tax base is assessed as the difference between the total value of taxpayer assets and the value of assets which were financed or acquired in a manner which allows the source of the respective income item to be tracked. 1

The tax authorities can charge tax on such income within a period of five years starting from the year end in which the tax obligation arose. 1  
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## (b) Income from the sale of immovable property (real estate)

Revenue derived from the sale of real estate property is exempt from taxation if the property is sold after a period of five years from the end of the year in which the property was acquired. 1

Where the property has been used in a business activity (except for private apartments partially used for such an activity) the five-year period (as above) is extended to a period of ten years from when the property ceased to be used for the business activity and was removed from the fixed assets register. 1

In the case of a non-business property sold within the five-year period, the profit from the sale is subject to non-cumulative taxation at the rate of 19%. However, if all or part of the revenue derived from the sale of the property is used to finance the taxpayer's own housing needs (e.g. to purchase a home or apartment or to repay a mortgage), then all or the respective part of the income is exempt from tax. 1.5

In the case of a sale of property used for a business activity, the profit from the sale is cumulated with the business's other profits/losses and taxed accordingly. 0.5  
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**(c) Income from prizes**

Income from State lottery winnings above PLN 2,280 are subject to a withholding tax of 10% on revenue. Lottery winnings of less than this amount are exempt from tax. Such revenue is not cumulated with the taxpayer's other income.

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Casino winnings are neither cumulated with the taxpayer's other income nor taxed at source.

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Prizes in TV contests worth up to PLN 760 are exempt from tax, prizes of more than this amount are cumulated with the taxpayer's other income.

13**10****4 Oczy Zielone Sp. z o.o.****Corporate income tax (CIT) expense and tax depreciation for 2016****Amounts to be expensed directly**

	PLN	
Computer program licence fee (profit related part)	450,000	1
Repairs to mixer table	34,000	0·5
Franchise yearly fee (32,000 x 9/12)	24,000	1
Laptops (< PLN 3,500 each)	9,600	1
Rent for studio (3,000 x 12)	36,000	0·5
	<u>553,600</u>	

**Tax depreciation**

	PLN	
<b>Assets acquired in 2016</b>		
Licence for music (350,000 x 50% x 11/12)	160,417	1
Know-how (60,000 x 20% x 9/12)	9,000	1
<b>Assets acquired in 2015</b>		
Mixer table ((480,000 – 480,000 x 2 x 14% x 10/12) x 2 x 14%)	103,040	1·5
Mainframe computer ((26,000 – 26,000 x 30% x 3 x 10/12) + 4,000 x 30% x 3 x 9/12)	9,200	2·5
	<u>281,657</u>	
		<b><u>10</u></b>

**5 Janusz Buła****Personal income tax (PIT) for 2016****(a) Flat rate taxation method**

Social security contributions (ZUS)	(1,850 x 30% x 29·45% x 12)	PLN 1,961	1·5
Health service contributions (HSC)	(4,100 x 75% x 9% x 12)	PLN 3,321	1·5

**Tax calculation**

	PLN	
Total revenue (24,000 + 14,000 + 5,000 + 4,000)	47,000	1
Less: ZUS	(1,961)	0·5
Taxable revenue	<u>45,039</u>	

Flat rate tax payable				Marks
	Base PLN	Rate	Tax PLN	
Igniter production	22,999	5.5%	1,265	1.5
Service and adjustments	13,416	8.5%	1,140	1.5
Translations	4,791	20.0%	958	1.5
Car carriage sale	3,833	3.0%	115	1.5
Total	<u>45,039</u>		<u>3,478</u>	
Less: HSC ( $3,321/9\% \times 7.75\%$ )			<u>(2,860)</u>	0.5
Tax due			<u>618</u>	
				<u>11</u>

**(b) Standard progressive rate method**

	PLN	
Total revenue	47,000	1
ZUS	(1,961)	0.5
Costs (13,000 + 5,200)	<u>(18,200)</u>	1
Taxable income	<u>26,839</u>	
Tax at 18%	4,831	0.5
Less:	<u>(556)</u>	0.5
Tax	<u>4,275</u>	
Less: HSC	<u>(2,860)</u>	0.5
Tax due	<u>1,415</u>	
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## 6 Uff-Ostatnia Sp. z o.o.

## (a) Corporate income tax (CIT) for 2016

	Increase costs/decrease revenues PLN	Increase revenues/decrease costs PLN	
Net income per accounts		1,300,000	0.5
Advance payment	14,000		0.5
Payment in kind (8,000 – 7,500)		500	1
Dividend from Wanda Sp. z o.o.		0	1
Dividend from Wendy Ltd (90,000 x 100/90)		100,000	1
Debt written off recovered		53,000	1
Increase in bad debt general provision	0		0.5
Mileage paid within limits (2,000 – 1,000)	1,000		1
Donation	0		0.5
	<u>15,000</u>	<u>1,453,500</u>	
		(15,000)	
Taxable income		1,438,500	
Donation (maximum – 10% of income)		(143,850)	1
Tax loss available (50% x 800,000)		(400,000)	1
Tax base		<u>894,650</u>	
Tax at 19%		169,983	0.5
Tax credit for withholding tax (100,000 x 10%)		(10,000)	0.5
Tax		<u>159,983</u>	
Instalments paid (140,000 – 10,000)		(130,000)	1
Tax due		<u>29,983</u>	
			<u>11</u>

## (b) Tax rulings

General tax rulings are issued by the Minister of Finance on his own initiative to address matters which in the Ministry's view give rise to tax controversy. General rulings are published and are binding on the tax authorities. 1

Where a taxpayer disagrees with a general ruling, they may simply choose to ignore it (it is not binding law for a taxpayer) but they must be prepared in such a case to face a potential court dispute with the tax authorities who are bound to follow the ruling. 1

An individual tax ruling is issued by the Tax Chamber in the name of the Minister of Finance only on the request of a taxpayer within three months from the date of filing such an application. An individual ruling will be not issued if there is a general ruling issued on the same topic. 1

Where a taxpayer disagrees with an individual ruling, they may demand the Tax Chamber to reconsider the ruling and if they are still not satisfied, appeal to the Administrative Court asking it to change the ruling. Alternatively, the taxpayer may simply choose to ignore the ruling (it is not binding law for a taxpayer) but again they must be prepared in such case to face a potential court dispute with the tax authorities who are bound to follow the ruling. 1

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**Tutorial note:** From 2017 a general tax ruling may also be issued at the request of entities not being public administration authorities and an interpretation of an individual tax ruling issued by the Director of State Treasury Information.