
Answers

Section A

1 B

Klaudia

	CZK
Rental income per day	3,000
No. of days in 2019	180
Total annual rental income	540,000
Lump sum expenses – 30%	(162,000)
Rental tax base	378,000
Tax 15%	56,700
Personal tax credit	(24,840)
Tax payable	31,860

2 C

Okruhy, a.s.

	CZK
EU sales	1,200,000
Local sales	2,000,000
Exports	500,000
Rental of storage space to individuals	600,000
Total 2019 sales	4,300,000
Exempted sales without right to deduction	600,000
Numerator	3,700,000
Denominator	4,300,000
2020 value added tax (VAT) advance coefficient	0.86

3 A

Scenarios which will create a permanent establishment of the foreign company in the Czech Republic:

- (1) A Russian company with a sales office in Olomouc, Czech Republic, through which it sells products to Czech customers.
- (3) A senior manager seconded from a Hungarian headquarter company to a Czech sister company to provide management services for 15 months.
- (4) A representative of a German company who concludes contracts in the Czech Republic which are legally binding for the German company.

Scenario which will **NOT** create a permanent establishment of the foreign company in the Czech Republic:

- (2) A Slovak company which rents out a warehouse facility (including logistical services) in Brno, Czech Republic, for the storage of products which are sold to Czech customers.

4 B

Livia must present her paid life insurance and interest documents to her employer by 15 February 2020.

5 C

The tax office for Moravian-Silesian region seated in Ostrava is the locally competent authority for non-established foreign entities registered for value added tax (VAT) in the Czech Republic.

6 A

	CZK
Tax base	1,200,000
Item increasing the tax base	150,000
Adjusted tax base	1,350,000
10% of the tax base	135,000

Tutorial note: The tax base figure given in the question is stated as being 'before any adjustments' in respect of the donation. Therefore, the correct approach was to first add the value of the donation of CZK 150,000 to the tax base and then to calculate 10% of the tax base.

7 D

Exempt income for 2019 personal income tax purposes

- (1) House inherited from grandfather.
- (3) Occasional income of CZK 10,000 from personal car rental to a friend.

8 B

Salde, s.r.o.

	CZK
2018 tax residual value	250,000
Technical appreciation – 2019	80,000
	330,000
Depreciation costs $2 \times (250,000 + 80,000)/10$	66,000

9 C

Gumarny, s.r.o. has a financial year ending 31 July 2019, and because its accounts are audited, the deadline for submission of its 2019 corporate income tax return is six months following the end of the financial year, i.e. on 1 February 2020.

10 B

Halibaria, a.s.

	CZK	Share	CZK
Halibaria, s.r.o.	500,000		500,000
Volomar, v.o.s.	700,000	30%	210,000
2019 tax base			710,000

11 D

Offices, a.s.

	CZK	CZK
Rental services	100,000	21,000
Reconstruction work – output	50,000	10,500
Reconstruction work – local reverse charge	50,000	(10,500)
VAT payable		21,000

12 A

Richard

	CZK
Business income taxable base	1,350,000
Tax base allocated to Albert – maximum CZK 180,000	(180,000)
Tax base after allocation	1,170,000
SSC base – 50% of taxable base	585,000
SSC – 29.2%	170,820

13 A

Filip

	CZK
2018 tax liability payable	80,000
No. of days of late payment	120
Interest rate valid as of 1 January 2019	15.75%
$(80,000 \times 0.1575 \times (120/365))$	4,143

14 A

Daniel is Czech tax resident and his worldwide income is taxed in the Czech Republic, unless the Czech/German double tax treaty stipulates otherwise.

15 C

The place of taxable supply is where the educational conference takes place, i.e. in the Czech Republic.

2 marks each

30

Section B

Marks

1	(a)	(i)	Direct taxes are imposed directly on the income of individuals and corporations or are taxing property. The person who bears the tax and the person who pays the tax to the tax authorities is in most cases the same person. Indirect taxes (also known as consumption taxes) are imposed on goods or services and are borne by the end customer. The tax is paid to the tax authorities by an intermediary.	1 2																																										
		(ii)	<table><thead><tr><th></th><th>Person who bears the tax</th><th>Person who pays the tax</th></tr></thead><tbody><tr><td colspan="3">Examples of direct taxes</td></tr><tr><td>Personal income tax</td><td>Individual</td><td>Individual</td></tr><tr><td>Corporate income tax</td><td>Company</td><td>Company</td></tr><tr><td>Road tax</td><td>Car owner</td><td>Car owner</td></tr><tr><td>Real estate tax</td><td>Real estate owner</td><td>Real estate owner</td></tr><tr><td>Tax on acquisition of immovable property</td><td>Acquirer of immovable property</td><td>Acquirer of immovable property</td></tr><tr><td colspan="3"><i>Any two examples of direct taxes (max 1·5 per example)</i></td></tr><tr><td colspan="3">Examples of indirect taxes</td></tr><tr><td>Value added tax (VAT)</td><td>End customer</td><td>Person performing economic activity</td></tr><tr><td>Excise duty</td><td>End customer</td><td>Person operating tax warehouse, recipient or sender or producer of specific products</td></tr><tr><td>Customs duty</td><td>End customer</td><td>Importer</td></tr><tr><td>Energy taxes</td><td>End customer</td><td>Energy supplier, energy seller to end customers, operator of distribution or transmission systems</td></tr><tr><td colspan="3"><i>Any two examples of indirect taxes (max 1·5 per example)</i></td></tr></tbody></table>		Person who bears the tax	Person who pays the tax	Examples of direct taxes			Personal income tax	Individual	Individual	Corporate income tax	Company	Company	Road tax	Car owner	Car owner	Real estate tax	Real estate owner	Real estate owner	Tax on acquisition of immovable property	Acquirer of immovable property	Acquirer of immovable property	<i>Any two examples of direct taxes (max 1·5 per example)</i>			Examples of indirect taxes			Value added tax (VAT)	End customer	Person performing economic activity	Excise duty	End customer	Person operating tax warehouse, recipient or sender or producer of specific products	Customs duty	End customer	Importer	Energy taxes	End customer	Energy supplier, energy seller to end customers, operator of distribution or transmission systems	<i>Any two examples of indirect taxes (max 1·5 per example)</i>			3 6
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	(b)	Tax audit On-the-spot investigation (<i>místní šetření</i>) Procedure to clear doubts (<i>postup k odstranění pochybností</i>) Explanation Search activity (<i>vyhledávací činnost</i>) <i>1 mark for each tax administration procedure up to</i>		2 10																																										

2 Ramona

Payroll tax calculation for November 2019

	CZK	
Hobouklid, s.r.o.		
1 Gross salary	27,000	0·5
2 Public transport ticket	850	0·5
3 Work clothes – exempt	0	0·5
4 Meal vouchers – exempt	0	0·5
4 Free influenza vaccination – exempt	0	0·5
5 <i>Per diems</i> (1,500 – 1,000)	500	0·5
6 Execution fee – exempt	0	0·5
7 Interest free loan – interest exempt on loans up to CZK 300,000	0	1
8 Free non-alcoholic drinks at client – not relevant	0	0·5
9 Private life insurance contribution	1,000	0·5
10 Book voucher – exempt	0	0·5
Base	29,350	
Social security paid by employer at 34%	9,979	0·5
Tax base	39,329	
Tax base rounded up to '00	39,400	0·5
Total tax at 15%	5,910	0·5
Personal tax credit (24,840/12)	(2,070)	0·5
Disability individual tax credit (2,520/12)	(210)	1
11 Pre-school expense – applied within annual payroll	0	0·5
12 First child tax credit – applied by husband	0	0·5
Total payroll tax	3,630	
		10

3 Digihouse, s.r.o.

Value added tax (VAT) payable for April 2019

	VAT base CZK	VAT CZK	
Outputs			
1 Web hosting services to Czech customers	250,000	52,500	0·5
2 Web hosting services to Norwegian customer (export of services)	100,000	0	0·5
3 Supply of microprocessor to:			
– Czech customer (local reverse charge)	300,000	0	1
– Danish customer (EU supply of services)	200,000	0	1
4 Sale of server located in Prague to employee	35,000	7,350	1
5 Software licence paid to German parent company (acquisition of services from EU)	80,000	16,800	0·5
6 New server from Italian supplier (acquisition of goods from EU)	150,000	31,500	0·5
7 Fees to US software engineering company (acquisition of services from third country)	60,000	12,600	0·5
9 Mobile phones (local reverse charge)	75,000	15,750	0·5
Total outputs	1,250,000	136,500	
Inputs			
5 Software licence to German parent company (acquisition of services from EU – reverse charge)	80,000	16,800	0·5
6 New server from Italian supplier (acquisition of goods from EU)	150,000	31,500	0·5
7 Fees to US software engineering company (acquisition of services from third country)	60,000	12,600	0·5
8 Locally acquired office supply	13,000	2,730	0·5
8 Transport by taxi (non-VAT payer so out of scope of Czech VAT)	0	0	0·5
9 Mobile phones (local reverse charge)	75,000	15,750	0·5
10 Foods and drinks (non-deductible VAT on whole amount)	15,000	0	1
Total inputs	393,000	79,380	
VAT payable		57,120	
			10

Tutorial note: In relation to item 9, it was also a valid approach to claim input VAT only, if candidates assumed that Digihouse, s.r.o. had not voluntarily applied the local reverse charge treatment. Candidates who took this approach were awarded equal credit.

4 Filmoteka, a.s. (Filmoteka)

(a) Corporate income tax liability for 2019

	CZK	
Accounting profit	1,900,000	0·5
Items increasing the tax base	250,000	0·5
Tax non-deductible interest costs (working)	36,400	
Items decreasing the tax base	(150,000)	0·5
Tax base	2,036,400	
2 Tax loss	(400,000)	0·5
3 Research and development (R&D) direct costs	(320,000)	1
Tax base after adjustments	1,316,400	
Rounding down '000	1,316,000	0·5
Final tax liability at 19%	250,040	0·5

Working – thin capitalisation calculation**Marks**

	CZK	
Shareholder's capital as at 1 January 2019	2,000,000	
Reserve fund released on 30 November 2019	500,000	
Computation of the shareholder's capital (<i>vlastní kapitál</i>):		
$(2,000,000 \times (365 - 31)/365 + (2,000,000 - 500,000) \times 31/365)$	1,957,534	2
Loan amount	9,000,000	
Thin capitalisation computation:		
$(4 \times 1,957,534/9,000,000)$	0.87	1
Interest not allowed as a tax expense (2019 tax base increasing item):		
$(280,000 \times (1 - 0.87))$	36,400	<u>1</u>
		8

Tutorial note: *The loss from 2012 cannot be utilised in 2019, since more than five years has passed since the loss was incurred.*

(b) Tax losses

The Czech tax legislation stipulates that corporations can offset tax losses against their corporation tax base in five subsequent years, provided there is no significant change of shareholding.	1
Filmoteka could offset its 2012 tax loss of CZK 2.6 million against its tax base in subsequent tax years until the year 2017 at the latest.	0.5
Filmoteka can offset its 2017 tax loss of CZK 700,000 against its tax base in subsequent tax years until the year 2022 at the latest.	0.5
	<u>2</u>
	10

5 Erik

Personal income tax payable for 2019

	CZK	CZK	
Business income			
Revenues			
1 Total revenues		2,500,000	0·5
Expenses			
2 Advertisement expenses	(52,350)		0·5
4 Rental costs (240,000 x 90%)	(216,000)		1
5 Fees to franchisor	(135,000)		0·5
6 Salary costs	(180,000)		0·5
7 Lump sum for tools	(18,000)		0·5
8 Tax depreciation costs (working)	(37,400)		
9 Ski grinder	0		0·5
		(638,750)	
Tax base		1,861,250	
3 Skis donated		(24,000)	1
14 Blood donation		(3,000)	0·5
12 Mortgage interest (300,000 (max) x 10/12)		(250,000)	1
13 Life insurance – Erik		(17,000)	0·5
Life insurance – Svetlana		0	0·5
Tax base		1,567,250	
Tax base rounded down to '00		1,567,200	0·5
Tax 15%		235,080	0·5
Solidarity tax (1,861,250 – 1,569,552) x 7%		20,419	1
Total tax		255,499	
Personal tax credit		(24,840)	0·5
First child credit		(15,204)	0·5
11 Second child tax credit (not applicable in case of language school)		0	1
10 Spouse tax credit (not applicable as Svetlana has income from the sale of the cottage above CZK 68,000)		0	1
Total tax		215,455	
15 Tax advances paid in 2019 (September and December 2019 tax advances = 53,200 x 2)		(106,400)	1
Total tax payable		109,055	

Working – tax depreciation costs

	CZK	
Four branded bikes (85,000 x 4)	340,000	0·5
1st year depreciation rate of 11%	11%	0·5
Annual depreciation	37,400	0·5
	15	

6 Staraliance, a.s.

Corporate income tax liability for 2019

	CZK	CZK	
Accounting profit		12,000,000	0·5
Items increasing the tax base			
5 Write-off of receivables (CZK 0·5 million is tax deductible in line with the created reserves for receivables with a nominal value less than CZK 30,000 in 2018)	1,000,000		1
6 Unpaid liability to Spanish vendor	620,000		1
9 Director insurance costs	60,000		1
10 Indirect costs related to subsidiary	30,500		1
Total items increasing the tax base		1,710,500	
Items decreasing the tax base			
1 Tangible assets depreciation costs (tax higher than accounting)	1,500,000		1
2 Technical appreciation depreciation costs for rented building	80,000		0·5
3 Software depreciation – working	10,000		0·5
6 Settled liability to Austrian vendor	250,000		1
10 Dividends received from subsidiary	900,000		1
Total items decreasing the tax base		(2,740,000)	
Tax base		10,970,500	
Items which do not require adjustment			
1 Low value assets	0		0·5
4 Loss on sale of land	0		1
4 Legal fees	0		0·5
7 Labour union costs	0		0·5
8 Life insurance contributions	0		0·5
Tax base after adjustments		10,970,500	
Rounding down '000		10,970,000	0·5
Tax liability at 19%		2,084,300	0·5
11 Disabled employees (CZK 18,000 x 4·5)		(81,000)	1
Final tax liability		2,003,300	

Working – software tax depreciation costs

	CZK	
Purchase price	180,000	
Monthly depreciation costs (180,000/36)	5,000	0·5
2019 tax depreciation costs (5,000 x 12)	60,000	0·5
Difference between accounting and tax depreciation (60,000 – 50,000)	10,000	0·5
		15