
Answers

Marks

1 Material, a.s.

(a) 2014 corporate income tax liability

	CZK	CZK	CZK	
Accounting revenues				
Sales of goods and services		89,000,000		
Sale of land		1,200,000		
Insurance compensation for stolen Car 2		65,000		
Proceeds from sale of Car 1		90,000		
Dividends from Material SK, a.s. (Slovak company)		900,000		
Total accounting revenues		91,255,000		1
Accounting expenses				
Purchased goods and services	34,000,000			
Acquisition price of sold land	1,500,000			
Salaries and wages (including mandatory contributions)	15,000,000			
Royalties to Material BV	2,750,000			
Accounting depreciation (W1)	574,500			0·5
Provisions for receivables (W3)	171,860			
Accounting residual value of stolen Car 2	0			
Gifts to charity	55,000			
Accounting residual value of sold Car 1	200,000			
Total accounting expenses	54,251,360			1
Accounting profit			37,003,640	0·5
<i>Add back</i>				
Difference between accounting and tax depreciation (W2) (574,500 – 546,168)		28,332		0·5
Gifts to charities		55,000		1
Liability due for over 36 months		100,000		1
5% allowance ref dividends from Material SK, a.s.		45,000		1
Total add backs			228,332	
<i>Less</i>				
Exempt dividends received		900,000		0·5
Social security for 2013 paid late		85,000		0·5
Tax residual value of stolen Car 2		115,200		1
Difference between the accounting and tax residual value of sold Car 1 (W2) (416,000 – 200,000)		216,000		1
Total deductions			(1,316,200)	
Adjusted tax base			35,915,772	
Tax loss			(500,000)	1
Tax base after tax loss			35,415,772	
Gift allowance (maximum 10% of 35,415,772)			(55,000)	1
Reduced tax base			35,360,772	
Reduced tax base rounded (down to thousands)			35,360,000	0·5
Tax at 19%			6,718,400	0·5

Workings:

Working 1: Accounting depreciation

$(4 \times 21,000) + 162,500 + 228,000 + 100,000$

CZK 574,500

Working 2: Tax depreciation**Notebooks**

		CZK	
Input price (per unit)		42,000	
2013 depreciation charge	$42,000/3 + 4,200$	(18,200)	1
Residual value		23,800	
2014 depreciation charge	$(2 \times 23,800)/(4 - 1)$	(15,867)	0.5
		<u>7,933</u>	
Depreciation charge for four notebooks	$4 \times 15,867$	63,468	0.5

Car 1

		CZK	
Input price		650,000	
2013 depreciation charge	$650,000/5$	(130,000)	0.5
Residual value		520,000	
2014 depreciation charge	$(2 \times 520,000)/(6 - 1)/2$	(104,000)	1
Residual value		<u>416,000</u>	

Car 2

		CZK	
Input price		800,000	
2012 depreciation charge	$800,000/5$	(160,000)	0.5
Residual value		640,000	
2013 depreciation charge	$(2 \times 640,000)/(6 - 1)$	(256,000)	0.5
Residual value		384,000	
2014 depreciation charge	$(2 \times 384,000)/(6 - 2)/2$	(96,000)	0.5

Administrative building

		CZK	
Input price (original)		5,700,000	
Technical appreciation		850,000	0.5
		<u>6,550,000</u>	
2014 depreciation charge	$6,550,000 \times 0.034$	222,700	1

Software

		CZK	
Input price		360,000	
2014 depreciation charge (6 months)	$(360,000/36) \times 6$	60,000	1
Total 2014 depreciation charge	$63,468 + 104,000 + 96,000 + 222,700 + 60,000$	546,168	

Working 3 – Provision for receivables

Marks

		CZK	
Alfa, s.r.o.	42,000*0.33	13,860	0.5
Material SK, a.s.	190,000*0.2	38,000	1
Delta, s.r.o.		0	1
Gama, s.r.o.	750,000*0.66	495,000	1.5
Provision created in 2013	750,000*0.5	375,000	
Provision which can be additionally created in 2014	495,000 – 375,000	120,000	
Total	13,860 + 38,000 + 120,000	171,860	
			<u>24</u>

Tutorial note: The 'old' rules apply to the amounts due from Alfa, s.r.o., Material SK, a.s. and Gama, s.r.o. The Alfa, s.r.o. receivable is 13 months overdue and court proceedings have been initiated. Material SK, a.s. is not related according to the Income Tax Act (less than 25% holding), but the receivable is less than CZK 200,000 and no court proceedings have been initiated, therefore only a 20% allowance is available even though it is 21 months overdue. The receivable from Gama, s.r.o. is more than 27 months overdue and court proceedings have been initiated. The 'new' rules apply to the amount due from Delta, s.r.o., so no provisions may be created until the debt is 18 months overdue. Overdue liability for contractual penalty shall not be added back, as this is tax deductible only when it is paid. Therefore we assume that it increased the tax base in the year it was accounted for.

(b) Dividends paid to shareholders

Material BV is a Netherlands resident company owning more than 10% of Material, a.s., therefore the dividend is exempt from withholding tax under the EU parent–subsidiary directive. 1

Although Production Ltd is a UK resident company, its holding is only 9%, therefore withholding tax is payable at 15% (or a reduced rate under the double tax treaty): 1

		CZK	
Dividend paid	1,760,000*0.09	158,400	0.5
Tax withheld from payment	158,400*0.15	23,760	0.5
The tax should be paid to the financial authority by 31 August 2014.			<u>1</u>
			<u>4</u>

(c) Royalties paid to Material BV

The payment of royalties to Material BV is subject to the EU interest and royalties directive, so as Material BV's holding in Material, a.s. is more than 25% the payment is exempt from withholding tax. 1

However, Material, a.s must apply for the exemption and submit a tax residency certificate and confirmation of beneficial ownership to the tax authorities. 1

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Tutorial note: If they do not apply for the exemption, they will proceed according to the double tax treaty and withhold 5% tax.

2 Ivan Prochazka

(a) 2014 individual income tax

		CZK	CZK	CZK	
Employment income					
Annual	(80,000*12)		960,000		0.5
Travel allowance within limit	(exempt)				0.5
Travel allowances over limit			12,000		0.5
Gift of watch	(11,000 – 2,000)		9,000		1
Contract on work done – March			12,000		1
Contract in work done – September (taxed by withholding)			0		1
Social security paid by employer (993,000*34%)			<u>337,620</u>		1
Partial tax base				1,330,620	
Business income					
Income		790,000			0.5
Lump sum expenses at 60% (trade licence)		<u>(474,000)</u>			1
Partial tax base				316,000	
Rental income					
Income from rent		144,000			0.5
Clearance payment (not income)		0			1
Lump sum expenses at 30%		<u>(43,200)</u>			0.5
Partial tax base				100,800	
Other income					
Inherited house	(exempt)		0		0.5
Sale of car	(held for more than one year – exempt)		0		0.5
Sale of shares in a limited liability company (s.r.o.)	(held for less than five years)	350,000			
Less: acquisition price		<u>(250,000)</u>			
			100,000		1
Sale of ABC, a.s. shares:					
80 shares purchased in February 2013	(acquired before 2014 and held for more than 6 months – exempt)		0		1
20 shares acquired in February 2014	(acquired in 2014, not held for three years, but proceeds less than CZK 100,000 (20*1,500 = 30,000))		0		1
Partial tax base				100,000	
Total tax base				1,847,420	
Mortgage interest deduction		76,000			0.5
Pension insurance (limit)		<u>12,000</u>			1
				(88,000)	
Tax base after deductions				1,759,420	
Rounded tax base (down to hundreds)				<u>1,759,400</u>	0.5
Tax at 15%				263,910	0.5
Surcharge at 7% (993,000 + 316,000 = 1,309,000)	(1,309,000 – 1,245,216)*7%			<u>4,465</u>	1.5
Total tax				268,375	
Personal tax credit		24,840			0.5
Spouse credit	(her income is over the limit)	0			1
Child credit	(2*13,404)	<u>26,808</u>			
				(51,648)	0.5
Tax after credits				216,727	
Foreign tax credit (W)				<u>(33,000)</u>	2
Tax due after foreign tax credit				<u>183,727</u>	
					<u>21</u>

Working: foreign tax credit

		CZK	
Foreign income (3*80,000)		240,000	
Social security at 34%		81,600	
Tax base		<u>321,600</u>	
Ratio foreign income/total income	321,600/1,847,420	0.17	
Maximum tax for credit	17%*268,375	45,624	
The tax paid abroad is lower, therefore credit the tax actually paid		33,000	

Tutorial notes: The taxpayer may opt to include income from 'Dohoda' under CZK 10,000 to income tax return and clear the withholding tax against the final tax liability. If this alternative was given with explanation, marks were also available.

The taxpayer may use an exemption method under domestic law instead of credit method under the double tax treaty. If this alternative used, marks were also available.

The taxpayer may apply child credit even though he uses lump sum expenses for business income, because tax base from business income is less than 50% of the total tax base.

(b) Social security and health care contributions for business activity

		CZK	
Tax base (from part (a))		316,000	0.5
Cap on social security contributions (993,000 + 316,000) – 1,245,216 = 63,784			1
Assessment base for social security contributions	(316,000 – 63,784)/2	126,108	1
Social security contributions at 29.2%		36,824	0.5
Assessment base for health care contributions	316,000*0.5	158,000	0.5
Health care contributions at 13.5%		21,330	0.5
		<u>4</u>	
		25	

3 (a) Stefan Chyba**(i) Registration for value added tax (VAT)**

Taxable supplies with a place of supply in the Czech Republic which are not exempt without a claim for VAT input:

	CZK	
(2) Sale of goods to Czech customers on 1 May 2014	400,000	0.5
(3) Sale of goods to customers in other EU countries on 10 May 2014	150,000	0.5
(4) Sale of goods to USA customers on 1 June 2014	120,000	0.5
(7) Rendering services to a Norway company which has registered VAT branch in the Czech Republic on 1 August 2014	350,000	0.5
Total	<u>1,020,000</u>	

Relevant taxable supplies in the 12-month period exceed CZK 1 million. Therefore, Stefan is obliged to register for VAT by 15 September 2014 and will become a VAT payer as of 1 October 2014.

He should file his first VAT return by 25 November 2014.

Tutorial note: Based on rendering services to Slovak VAT payer (point 5), Stefan Chyba has to be registered as identified person. However, for purposes of Czech VAT supplies, he is considered a non-VAT payer until he exceeds turnover of supplies with place in CR of CZK 1 mill.

(ii) Sanction for failure to register

Stefan exceeded the threshold for registration in August and therefore should have registered by 15 September. However, he becomes a VAT payer from 1 October 2014 and he shall file his first VAT return by 25 November 2014. If the financial authority registered him in an official capacity on 15 October, the registration is valid retrospectively as of 15 September. The financial authority can impose a fine for late registration up to CZK 50,000.

1

If he files the first tax return and pays the tax late, he will be assessed a fine for late filing and default interest.

$(320,000 - \text{input supplies}) \times (14\% + 0.05\%) \times \text{number of days delay}$

$(320,000 - \text{input supplies}) \times 0.0005 \times \text{number of days delay}$

0.5

Sanctions are not tax deductible for income tax purposes.

0.5

2
(b) Kosa, s.r.o.**Value added tax (VAT) return for the first quarter of 2014**

	CZK	VAT CZK	
Output supplies			
Services in respect of building real estate	445,000	93,450	0.5
Sale of flats (exempt – more than three years since approval)	15,350,000	0	1
Sale of car	$200,000 \times 0.1736$	34,720	1
Rent received from charity (exempt)	145,000	0	0.5
Export to Canada (exempt)	1,250,000	0	0.5
Delivery to other EU countries (exempt)	1,800,000	0	0.5
Services to Swiss company with Czech branch	89,000	18,690	0.5
Reverse charge	480,000	100,800	0.5
Total output tax		247,660	
Input supplies			
Purchase of goods and services from Czech firms	650,000	136,500	0.5
Purchase of goods from other EU suppliers	480,000	100,800	0.5
Material used to repair all premises	280,000		
(claim reduced – $58,800 \times 0.89$)		52,332	1
Electric energy for taxable supplies	95,000	19,950	0.5
Electric energy for premises leased to charity (not recoverable)	50,000	0	0.5
Credit note	350,000	(73,500)	0.5
Total input tax		236,082	
VAT payable		11,578	0.5
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			15

Tutorial note: As regards services in respect of building real estate, it is assumed they were rendered to non-VAT payers. Otherwise local reverse charge would apply, and this alternative treatment would be acceptable.

In respect of sale of flats, it is assumed the VAT payer did not opt to subject the supply to VAT. Credit would also be available if the alternative was assumed.

4 (a) Rex, s.r.o.

The financial authority can levy a fine of up to CZK 50,000 for non-compliance. The administrator will judge the actual amount according to the weight of the infringement.

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The fine is payable within 15 days.

0.5

Appeal against the fine will have a deferring effect.

0.5

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(b) Aurix, s.r.o.

The tax should have been paid on 1 April 2014. Therefore, the default interest will be calculated from Tuesday 8 April (the fifth working day from the due date including the day of payment).

The default interest will be $(56,000 \times (14\% + 0.05\%) \times 8 \text{ days}) / 365 = \text{CZK } 173$.

If the default interest does not exceed CZK 200 for one type of tax in respect of one taxable period, the tax authority does not impose it.

Aurix, s.r.o. will also be assessed to a penalty for the late filing of the tax return of 0.05% of the tax due from Tuesday 8 April.

$56,000 \times 0.0005 \times 7 = \text{CZK } 196$. The penalty is below CZK 200, so it will not be assessed.

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(c) Beta, s.r.o

The penalty is calculated at 1% of the difference between the original and the reassessed tax loss: $(568,000 - 210,000) \times 0.01 = \text{CZK } 3,580$.

1

(d) The time limit for the reassessment will expire on 24 August 2017 (three years from the due date of submission of the return).

1

(e) A taxpayer may ask the financial authority for a ruling in the following situations:

1. The determination of transfer prices between associated enterprises.
2. The allocation of expenses in the case of exempt and non-taxable income.
3. The allocation of expenses related to real estate which is partly used to generate taxable income and partly used as a private asset.
4. A judgement as to whether changes made on a real estate property are technical appreciation or repairs.
5. A judgement about the expenses which could be classed as research and development (R&D) expenses.
6. A judgement as to whether in the case of the restructuring of a business a tax loss may be used as an allowance.
7. The assignment of a certain supply to a particular value added tax (VAT) rate.

FOUR items only requires, 1 mark each, maximum

4

An appeal cannot be filed against a decision of the tax administrator.

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(f) Martina is obliged to file a tax return because her other taxable income is more than CZK 6,000.

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5 Tomas Vokatý

(a) Payroll tax, social security and health care contributions for September 2014

		CZK	
Payroll tax			
Gross salary		28,000	0·5
Vacation compensation		14,000	0·5
Illness compensation under the law	(exempt)	0	0·5
Compensation from employer (above the limit)		8,400	0·5
Use of car	(350,000*0·01)	3,500	1
Flat rent	(12,000 – 3,500)	8,500	1
Contribution to pension savings	(exempt)	0	0·5
Vitamin package and flu vaccination	(exempt)	0	0·5
Interest free loan	(no impacts)	0	0·5
Base		62,400	
Employers contributions at 34%		21,216	0·5
Tax base		83,616	
<i>Plus:</i>			
Income from contract on work done (without social security)		8,400	1
Total monthly tax base		92,016	
Rounded up to hundreds		92,100	0·5
Tax withheld at 15%		13,815	0·5
The advanced tax is payable by 20 October 2014.			
Social security and health care contributions			
Base		62,400	0·5
Social security contributions at 6·5%		4,056	0·5
Health care contributions at 4·5%		2,808	0·5
			10

(b) Annual reconciliation

Nabytek, s.r.o. can prepare Tomas' annual tax reconciliation as even though he has other income, this income is either taxed by withholding (interest, dividends, contract for work done with Design, s.r.o.) or is exempt (inherited income).

2

(c) Deductibility for Nabytek, s.r.o.

Illness compensation under the law	Tax deductible	0·5
Illness compensation from employer	Tax deductible	0·5
Flat rent	Tax deductible	0·5
Pension contribution by employer	Tax deductible	0·5
Vitamin package and flu vaccination	Tax non-deductible	1
		3
		15