

Fundamentals Level – Skills Module

Taxation (Czech)

Tuesday 2 June 2015



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.

Tax rates and allowances are on pages 2–5.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F6 (CZE)

ACCA

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need to be made to the nearest CZK if the law does not require otherwise.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and allowances for 2014 are to be used in answering the questions.

Corporate income tax rate

19%

Corporate income tax credits (CZK)

Disabled employees	18,000/60,000
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Personal income tax rate

15%

7% surcharge

Personal income tax credits – annual amounts (CZK)

Personal tax credit	24,840
Dependent spouse credit	24,840
Child credit	13,404
	(maximum bonus CZK 60,300)
Student credit	4,020
Disabled employees	18,000/60,000

Social security and health care contributions

Cap for social security purposes CZK 1,245,216

Employment

Health care	Employee's contributions	4·5%
	Employer's contributions	9·0%
Social security	Employee's contributions	6·5%
	Employer's contributions	
	Pension scheme	21·5%
	Illness insurance	2·3%
	Unemployment insurance	1·2%
	Total	25·0%

Private entrepreneur

Health care contributions 13·5%

Minimum monthly assessment base CZK 12,971

Social security contributions

Pension scheme	28·0%
Illness insurance	2·3%
Unemployment insurance	1·2%
Total	31·5%

Minimum monthly assessment base for the main activity CZK 6,486

Minimum monthly assessment base for the secondary activity CZK 2,595

Threshold limit for obligatory participation in social security
in the case of the secondary activity CZK 62,261

Value added tax (VAT)

Standard rate 21%

Reduced rate 15%

Threshold registration limit CZK 1,000,000

Repo interest rate

Applicable on 1 January 2014 0·05%

Minimum wage

CZK 8,500 per month or CZK 50·60 per hour

Tax Depreciation

Tax depreciation periods for tangible assets from 1999 to 2004

Group 1	4 years
Group 2	6 years
Group 3	12 years
Group 4	20 years
Group 5	30 years

Tax depreciation periods for tangible assets from 2005

Group 1	3 years
Group 1a	4 years (cancelled in 2008)
Group 2	5 years
Group 3	10 years
Group 4	20 years
Group 5	30 years
Group 6	50 years

Tax depreciation periods for intangible assets from 2005

Audiovisual work	18 months
Software and R&D results	36 months
Start-up costs	60 months
Other intangible assets	72 months

Depreciation rates under the straight-line method from 2005

	1st year	following years	for increased input price
Group 1	20	40	33·3
Group 1a	14·2	28·6	25 (cancelled in 2008)
Group 2	11	22·25	20
Group 3	5·5	10·5	10
Group 4	2·15	5·15	5·0
Group 5	1·4	3·4	3·4
Group 6	1·02	2·02	2

Where the depreciation rates for the first three groups are increased by 10% in the first year:

	1st year	following years	for increased input price
Group 1	30	35	33·3
Group 1a	24·1	25·3	25 (cancelled in 2008)
Group 2	21	19·75	20
Group 3	15·4	9·4	10

Depreciation rates under the accelerated method from 2005

	1st year	following years	for increased input price
Group 1	3	4	3
Group 1a	4	5	4 (cancelled in 2008)
Group 2	5	6	5
Group 3	10	11	10
Group 4	20	21	20
Group 5	30	31	30
Group 6	50	51	50

Tax deductible provisions limits valid up to the end of 2013

Due time after the maturity date of a qualifying provision

More than	
6 months	20%
12 months	33%
18 months	50%
24 months	66%
30 months	80%
36 months	100%

Tax deductible provisions limits valid from 2014

Due time after the maturity date of a qualifying provision

More than	
18 months	50%
36 months	100%

Tax reserves

Creation of tax reserves – maximum number of years for creation

Group 2	3 years
Group 3	6 years
Group 4	8 years
Group 5	10 years
Group 6	10 years

ALL FIVE questions are compulsory and MUST be attempted

- 1** Material, a.s. (Material) is a Czech tax resident, production company seated in Prague. Material is 91% owned by Material BV, a Netherlands tax resident and 9% owned by Production Ltd, a United Kingdom tax resident. Material has owned a 20% share in a Slovak tax resident company Material SK, a.s. since December 2012.

Material started its business in 2010 when it suffered a tax loss of CZK 850,000. In 2011 it suffered a tax loss of CZK 200,000. In 2012 and 2013 Material used tax losses of CZK 550,000 as a tax allowance. Material's fiscal year is the same as the calendar year and it is subject to statutory audit review.

The following information is applicable to Material for the year 2014.

- (1) Revenues from the sale of products and services of CZK 89,000,000.
- (2) Revenues from the sale of land of CZK 1,200,000. The land had been acquired in 2012 for CZK 1,500,000 with the intention to build another factory, but in 2014 Material's management decided not to expand production and to sell the land.
- (3) Cost of received services and purchased goods of CZK 34,000,000.
- (4) Salaries and wages of CZK 15,000,000 paid, inclusive of mandatory social security and health care contributions which were all paid within statutory limits. In addition, on 1 February 2014 Material paid social security payments owed in respect of December 2013 salaries of CZK 85,000.
- (5) Royalties of CZK 2,750,000 paid to Material BV for the use of production know-how. The applicable rate of withholding tax according to the Czech/Netherlands double tax treaty is 5%. The payment was made on 1 September 2014.
- (6) Material's liabilities as of 31 December 2014 included the following amounts due to Comp s.r.o.:
 - (i) An invoice for CZK 100,000 for the delivery of components, which was payable on 15 February 2011.
 - (ii) A liability for a contractual penalty of CZK 15,000 payable in September 2011.
- (7) Depreciation of fixed assets was calculated as follows:

Asset	Date of acquisition	Acquisition price per unit CZK	Tax group	Method of depreciation	Accounting depreciation per unit in 2014 CZK
Four computer notebooks	20 August 2013	42,000	1	Accelerated	21,000
Car 1	16 September 2013	650,000	2	Accelerated	162,500
					accounting residual value
					200,000
Car 2	9 March 2012	800,000	2	Accelerated	Nil
Administrative building	1 February 2011 (original purchase)	5,700,000	5	Linear	228,000
	1 January 2012 (technical appreciation)	850,000			
Computer software	1 June 2014	360,000			100,000

Car 1 was sold in September 2014 for CZK 90,000, when its accounting residual value was CZK 200,000.

Car 2 was stolen in October 2014. The police issued a certificate about an unknown trespasser and Material's insurance company paid compensation of CZK 65,000. The car's tax residual value on 1 January 2014 was CZK 115,200 and its accounting residual value was zero.

(8) Unpaid receivables as of 31 December 2014 were as follows:

Debtor	Payable on	Nominal value CZK	Additional information
Alfa, s.r.o.	15 December 2013	42,000	Invoice for services; court proceedings have been initiated
Material SK, a.s.	1 April 2013	190,000	Invoice for the delivery of components; no court proceedings have been initiated. An accounting provision of 30% was created in 2013; no tax provision was created in 2013
Delta, s.r.o.	1 February 2014	68,000	Invoice for services; no court proceedings have been initiated
Gama, s.r.o.	1 September 2012	850,000	Invoice for goods. Gama s.r.o. had paid CZK 100,000 of the amount due in 2013. A 50% accounting provision against the remaining balance was created in 2013. Court proceedings were initiated in September 2014

(9) Gifts made in 2014 were as follows:

- (i) To a church charity seated in the Czech Republic of CZK 50,000.
- (ii) To an Austrian charitable association which cares for abandoned animals of CZK 5,000. The Austrian association meets the conditions according to the Czech Income Tax Act.

(10) Dividends were received from Material SK, a.s. in the gross amount of CZK 900,000. The tax on dividends in Slovakia according to the law is 15% but the Czech/Slovakia double tax treaty stipulates a rate of 5% in the case of holdings of 10% and more of the share capital. Material has certain administrative expenses connected with its shareholding in Material SK a.s., but it does not keep any relevant documentation.

(11) On 5 June 2014, Material's general meeting decided to pay a dividend to its shareholders totalling CZK 1,760,000. These dividends were paid out on 30 July 2014.

Required:

- (a) Prepare the 2014 corporate income tax return of Material, a.s. (24 marks)
- (b) State, with reasons, whether the dividends paid to Material, a.s.'s shareholders will be subject to tax in the Czech Republic, and if so, calculate the tax payable and state when it should have been paid. (4 marks)
- (c) Explain how the royalties paid to Material, BV will be taxed, including any conditions which must be met. (2 marks)

(30 marks)

- 2 Ivan Prochazka is a software consultant living in Prague. He has two children: 15-year-old Jana and 17-year-old Petr, both studying at a grammar school in Prague. Petr has occasional income from part-time work in a café. Both children live in a common household. His wife is handicapped, does not work and receives an annual disability pension of CZK 78,000.

Ivan is employed by Future, s.r.o., where he has signed the declaration for tax allowances. He also renders services as an independent consultant. He is not a value added tax (VAT) payer but keeps tax documentation for the purposes of income tax.

The following information relates to Ivan for 2014:

- (1) He received a monthly salary of CZK 80,000 based on the employment contract concluded with Future, s.r.o. He was employed with Future, s.r.o. for all 12 months of 2014 but was sent to work in the company's Austrian branch for the three months April to June 2014. The salary relating to the three months' work he performed in the Austrian branch was taxed in Austria. The Austrian tax amounted to the equivalent of CZK 33,000. The Czech/Austria double tax treaty provides for the elimination of double taxation by the credit method.
- (2) He received travel allowances from his employer within the statutory limit of CZK 34,000 and of CZK 12,000 above the limit.
- (3) He received a gift of a watch from his employer in March 2014 with a value of CZK 11,000 on the occasion of his 50th birthday.
- (4) He gave a lecture for Educa, s.r.o. based on contract on work done (*dohoda o provedeni prace*) in March 2014 and received remuneration of CZK 12,000. He gave another lecture for Educa, s.r.o. in September 2014 for which he received CZK 8,200.
- (5) He earned CZK 790,000 from services he rendered based on his trade licence. He uses lump sum expenses for this activity.
- (6) He inherited a flat from his deceased mother in February 2014. The value of the flat was assessed as CZK 2,500,000. He has been renting the flat since then, and received rental income in 2014 totalling CZK 144,000. Payments received for services which will be cleared at the end of the clearance period amounted to CZK 18,000.
- (7) He sold a car for CZK 110,000 in March, which he had acquired in January 2012 for CZK 350,000. He had always held the car as a private asset.
- (8) He had the following transactions in capital investments:
 - (i) Sale proceeds of CZK 350,000 from the sale of shares in a limited liability company in April 2014. He had purchased the shares in January 2010 for CZK 250,000.
 - (ii) Sale proceeds of CZK 150,000 from the sale of 100 shares in ABC, a.s. in December 2014. He had acquired 80 shares in ABC, a.s. in February 2013 for CZK 600 each and another 50 shares in February 2014 for CZK 800 each.
- (9) He paid annual premiums for additional pension savings of CZK 25,000.
- (10) In 2012, he had taken a mortgage credit to repair the house where he permanently lives with his family. The annual interest he paid on this credit in 2014 was CZK 76,000.

Required:

- (a) **Prepare Ivan Prochazka's 2014 tax return and calculate his individual income tax liability using all possible tax allowances.** (21 marks)
- (b) **Calculate the health care contributions and social security contributions to be paid by Ivan in 2014 in addition to the contributions withheld by his employer, if he did not participate in the illness insurance.** (4 marks)

(25 marks)

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Question 3 begins on page 10.**

- 3 (a) Stefan Chyba was employed until 30 March 2014. On 1 April 2014, he started his own business as a sole entrepreneur. He was not registered as a value added tax (VAT) payer. He had the following income and expenses in the period 1 April to 30 September 2014.

- (1) Salary from his employment of CZK 120,000 paid to him on 8 April 2014.
- (2) Sale of goods to Czech customers of CZK 400,000 on 1 May 2014.
- (3) Sale of goods to customers in other EU countries of CZK 150,000 on 10 May 2014.
- (4) Sale of goods to USA costumers of CZK 120,000 on 1 June 2014.
- (5) Rendering of consultancy services to a Slovak VAT payer of CZK 50,000 on 2 June 2014.
- (6) Renting of land to a non-VAT payer of CZK 5,000 on 5 July 2014.
- (7) Rendering of consultancy services to a Norway company which has a registered VAT branch in the Czech Republic of CZK 350,000 on 1 August 2014.

Required:

- (i) **Determine the date from which Stefan Chyba will be liable to register as a value added tax (VAT) payer; and state the date when Stefan will become a VAT payer and the date for filing his first VAT tax return as a monthly VAT payer.** (4 marks)
- (ii) Stefan failed to register as a VAT payer and became registered only on the basis of a decision by the financial authority on 15 October 2014.

Required:

Explain the sanction which will be assessed by the tax authority assuming that Stefan's taxable supplies in September and October 2014 were CZK 120,000 and CZK 320,000 respectively. State whether this sanction will be tax deductible for income tax purposes. (2 marks)

- (b) The following information is relevant to Kosa, s.r.o., a quarterly value added tax (VAT) payer for the first quarter of 2014:

- (1) Rendered services in respect of the building real estate for CZK 445,000.
- (2) Sold flats to a real estate company, a VAT payer, for CZK 15,350,000 on 1 March 2014. The flats had been approved by the building authority on 12 July 2010.
- (3) Sold a car for CZK 200,000, inclusive of VAT. The car had been acquired in June 2013 for CZK 350,000 from a VAT payer, and had always been used in Kosa, s.r.o.'s business.
- (4) Received CZK 145,000 from a charity association for the rent of part of its premises. The charity association is not a VAT payer and the rent is VAT exempt.
- (5) Exported products to customers in Canada for CZK 1,250,000 and to customers elsewhere in the EU for CZK 1,800,000.
- (6) Rendered services to a Switzerland company which has a VAT branch in the Czech Republic for CZK 89,000. The services included consultancy in the field of real estate business in the Czech Republic and representing the company before the Czech government authorities.
- (7) Purchased goods and materials from Czech firms for CZK 650,000.
- (8) Purchased goods and materials from suppliers in other EU countries for CZK 480,000.
- (9) Purchased certain materials for use in the repair of all its premises (that part rented to the charity association (as in (4) above) and those used for the making of taxable supplies) for CZK 280,000.
- (10) Paid for electric energy for the premises used for the making of taxable supplies of CZK 95,000.
- (11) Paid for electric energy for the premises rented out to the charity association of CZK 50,000.
- (12) Received a credit note in respect of reclaimed services, which had been purchased from Czech suppliers in October 2013. The price reduction was CZK 350,000.

Unless stated otherwise, all amounts are exclusive of any applicable VAT at the standard rate.

Kosa, s.r.o. used its 2013 coefficient of 0.89 as an advance coefficient for the purposes of reduced inputs.

Required:

Prepare Kosa, s.r.o.'s value added tax (VAT) return for the first quarter of 2014.

(9 marks)

(15 marks)

- 4 (a) The tax authority called upon company Rex, s.r.o. to explain certain figures stated in its 2014 income tax return. The company was given a 15-day limit in which to respond but did not reply at all.

Required:

State the sanction the tax authority has against Rex, s.r.o., together with the time limit for the sanction and the effect of any appeal against it. (2 marks)

- (b) Aurix, s.r.o. is not represented by a tax adviser and does not have an obligation to have a statutory accounting audit. The company filed its 2014 income tax return on 15 April 2015 and paid the tax liability due of CZK 56,000 on the same day.

Required:

Calculate the total amount of the sanctions which the tax authority can apply to Aurix, s.r.o.

Note: 1 April 2014 was a Tuesday. (4 marks)

- (c) Beta, s.r.o. declared a tax loss of CZK 568,000 in its 2011 income tax return. The tax authority during its tax audit excluded certain expenses as tax non-deductible and reassessed the tax loss as CZK 210,000.

Required:

Calculate the penalty to be assessed by the tax authority on Beta, s.r.o. (1 mark)

- (d) **State the time limit for the tax authority to reassess a value added tax (VAT) return submitted by the due date by a monthly VAT payer for the month of July 2014.** (1 mark)

- (e) **List any FOUR situations in which a taxpayer may ask the financial authority for a ruling and state whether the taxpayer can appeal such a decision.** (5 marks)

- (f) In 2014, Martina had annual employment income of CZK 700,000, dividends of CZK 15,000 received from Czech companies, income from a contract on work done (*dohoda o provedeni prace*) of CZK 5,000 and income from giving occasional lectures of CZK 50,000.

Required:

State, with reasons, whether Martina is obliged to file a tax return for 2014. (2 marks)

(15 marks)

- 5 Tomas Vokatý is married and has two children: a 9-year-old daughter and a 12-year-old son. His main employment is with Nabytek, s.r.o., and he has the declaration for tax allowances and applies the children allowances with Nabytek, s.r.o.

The following information is applicable to Tomas' monthly income for September 2014:

- (1) He was paid his regular monthly salary of CZK 28,000.
- (2) He received CZK 14,000 as compensation for vacation not taken.
- (3) He was ill and received CZK 2,100 sick leave compensation in accordance with the sick benefit law and Labour Code and a further CZK 8,400 in accordance with his employer's internal regulations as compensation for the first three days of illness.
- (4) He used a company car for private purposes. The car was acquired in 2010 for CZK 350,000 as a business asset of Nabytek, s.r.o.
- (5) His permanent home is in Ostrava and he was assigned to work in Prague in 2014. Nabytek, s.r.o. rents a flat for him in Prague, for which it pays a monthly rent of CZK 12,000, including services.
- (6) Nabytek, s.r.o. contributes CZK 500 per month to his additional pension saving (*doplňkové penzijní spoření*).
- (7) He was given a vitamin package with a value of CZK 500 and was vaccinated against flu at a cost of CZK 480. Both the vitamin package and the vaccination were paid for by Nabytek, s.r.o. from its fund of cultural and social needs (FKSP).
- (8) Nabytek, s.r.o. made him an employee loan of CZK 800,000 free of interest for dwelling purposes in January 2014. The loan is for three years and he pays CZK 2,000 each month as a principal instalment.
- (9) In addition to his main contract, he has concluded a contract on work done (*dohodu o provedení práce*) with Nabytek, s.r.o.. He was paid CZK 8,400 under this contract in September 2014.

Nabytek, s.r.o. pays out salaries on the eighth day of each month.

Required:

- (a) **Calculate the payroll tax, social security contributions and health care contributions to be withheld from Tomas Vokatý's income for the month of September 2014, and state by when the payroll tax due must be sent to the competent tax authority.** (10 marks)
- (b) In 2014 in addition to his income from Nabytek, s.r.o., Tomas also received the following income:
- interest from a current bank account of CZK 600;
 - dividends from Czech companies of CZK 1,000;
 - inherited income from his deceased father of CZK 40,000; and
 - income from a contract on work done (*dohodu o provedení práce*) from Design, s.r.o. of CZK 9,000.

Required:

State, with reasons, whether Nabytek, s.r.o. can prepare Tomas Vokatý's annual tax reconciliation (*roční zúčtování*). (2 marks)

- (c) **State whether the expenses relating to the items referred to in points (3), (5), (6) and (7) will be tax deductible for Nabytek, s.r.o.** (3 marks)

(15 marks)

End of Question Paper