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# Answers

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Section A

1 A

2 C

3 A

Hynek's partial tax base from other income:

	CZK
Rent of computer – exempt	0
Proceeds from sale of copyright	120,000
Settlement amount – taxed by withholding	0
Proceeds of sale of car (tax loss cannot be used)	0
Partial tax base	<u>120,000</u>

4 D

The lump sum expense for the car will be CZK 48,000 (80% of 5,000\*12); tax depreciation CZK 44,800 (80% of 56,000); and other expenses CZK 21,000 (100% road tax; 80% of compulsory insurance; 80% of commercial insurance; 80% of repairs).

5 A

	CZK
Business income	560,000
Percentage expenses at 60%	336,000
Assessment base (560,000 – 336,000)/2	112,000

6 B

In 2014	add	15,000 + 1,500
	minus	16,900
Total adjustment		minus 400
In 2015	add	16,900 (already applied as tax expense in 2014)
	minus	14,000 (already taxed in 2014)
		1,500 (already taxed in 2014)
Total adjustment		add 1,400

7 B

8 D

$$(1,040,000 + 450,000 + 300,000)/(1,040,000 + 450,000 + 300,000 + 560,000) = 0.77$$

9 C

	CZK
Dvur salary	1,340,000
Atrium salary	150,000
Total base	<u>1,490,000</u>
Cap for social security	1,277,328
Difference	212,672
Employee's social security premium from the difference which shall be claimed back $212,672 \times 0.065 = 13,823.68$	13,824

Employer is not entitled to claim back any amount over the cap.

10 B

	CZK
Financial lease total value	1,350,000
Monthly tax expense $1,350,000/54$	25,000
2015 tax expense – 10 months	250,000

11 A

**Tutorial note:** *Andrea is a non-resident, from another EU state. She can only use more than the basic personal credit if her income from sources in the Czech Republic is more than 90% of her worldwide income  $[(1,450,000/1,450,000 + 240,000 + 2,000) = 0.86]$ .*

12 A

13 C

14 D

Total profit:  $(2,190,000 - 1,000,000) = \text{CZK}1,190,000$   
 50% is CZK 595,000, which is more than 540,000.

Computation of allowable revenue:  $[(2,190,000/1,190,000)*540,000] = \text{CZK} 993,782$

Computation of allowable expense:  $(993,782 - 540,000) = \text{CZK} 453,782$

**Tutorial note:** *The maximum amount which can be transferred is 50% of the revenues and expenses, limited to a maximum profit of CZK 540,000.*

15 B

2 marks each

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 30
 

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## Section B

## Marks

## 1 (a) Karolina

(i) 10 June 2015. 1

5 June 2015, plus the five days which were remaining from the eight-day time limit, i.e. the number of days between the day of filing the extension request and the original deadline.

1

2

(ii) No, she cannot appeal the decision. 1

## (b) Jiri

(i) Jiri is obliged to file an additional tax return by 30 September 2015 (i.e. the end of the month following the month in which the new circumstances were discovered). 1

(ii) The additional tax payable is CZK 38,700 (258,000\*15%). 0.5

The tax authority will assess default interest, starting from the fifth working day from the due date, including the day of payment (taking into account that 6 April was Easter):

Days of delay: from 9 April to 30 August = (22 + 31 + 30 + 31 + 30) = 144 days.

(38,700\*(14% + 0.05%)\*144)/365 = CZK 2,146 1.5

2

## (c) Projekt, a.s.

(i) Additional tax due: CZK 98,000 (1,250,000 – 1,152,000) 0.5

Penalty payable at 20%: CZK 19,600 (98,000\*20%) 0.5

1

(ii) Both the additional tax and the penalty and tax are payable by the 15th day from the delivery of the assessment, i.e. by 14th September 2015. 1

(iii) The tax authority may remit up to 75% of the penalty amount. 0.5

The conditions to be satisfied before a remission of penalty can be requested are:

– that the tax arrears have been paid; and 0.5

– if the penalty is higher than CZK 3,000, the request is accompanied by an administration fee of CZK 1,000.

1

2

10

## 2 Katerina

## Payroll tax deducted for the month of January by Kortés, s.r.o.

	CZK	
Monthly salary plus 2014 bonus	108,500	0·5
Contribution to pension and life insurance (within the annual limit of CZK 30,000)	0	0·5
Vitamin package and vaccination (exempt)	0	0·5
Contribution to vacation (24,300 – 20,000 limit)	4,300	1
Base	112,800	
Social security paid by employers at 34%	38,352	0·5
Tax base	151,152	
Rounded up to '00	151,200	0·5
Tax 15%	22,680	0·5
Base for solidarity surcharge (112,800 – (1,277,328/12)) = 6,356		1
Solidarity surcharge at 7%	444·92	0·5
Total tax	23,124·92	
Total tax rounded	23,125	
Personal tax credit (24,840/12)	2,070	0·5
Tax credit for second child (15,804/12)	1,317	0·5
Tax credit for third child (17,004/12)	1,417	0·5
Tax credit for pre-school facility (cannot be applied within monthly payroll)	0	0·5
	(4,804)	
January advanced payroll tax payable	18,321	

## Payroll tax deducted for the month of January by BYTY, s.r.o.

	CZK	
Remunerations as executive director	5,600	0·5
Contract on work done (taxed by withholding (limit CZK 10,000))	0	0·5
Use of car (330,000*0·01)	3,300	0·5
Base	8,900	
Social security paid by employer at 34%	3,026	0·5
Tax base	11,926	
Rounded up to '00	12,000	
January advanced (payroll) tax payable at 15%	1,800	0·5

10

## 3 Drevovyroba, s.r.o. – Value added tax (VAT) return for the month of January 2015

	Value of supply CZK	VAT CZK	
<b>Output supplies</b>			
Sale of products to a Czech final customer	35,000	7,350	0·5
Sale of products to a Slovak distributor (exempt)	140,000	0	0·5
Sale of products to a company in Austria, with a VAT establishment registered in the Czech Republic	190,000	39,900	0·5
Consultancy services rendered to a German company registered for VAT in Germany (exempt)	23,000	0	0·5
Rental of premises for a two-day conference	34,000	7,140	1
Lease of a part of the production hall for one year (exempt)	45,000	0	0·5
Sale of a business car	100,000	21,000	0·5
Reverse charge for materials purchased from a German supplier	290,000	60,900	0·5
Total output		<u>136,290</u>	
<b>Input supplies</b>			
Purchased materials from Czech suppliers	90,000	18,900	0·5
Purchase of materials from German suppliers	290,000	60,900	0·5
Clearance invoice for legal services from a Czech lawyer (34,000/1·21) – 13,000)	15,099	3,171	1
Purchase of a car used partly for business purposes (350,000*0·8)	280,000	58,800	1
100 gift items for CZK 250 each	25,000	5,250	0·5
30 gift items for CZK 800 each (no claim – cost > CZK 500)	24,000	0	0·5
Purchase and installation of a new heating system (full claim as the coefficient is 0·95)	60,000	12,600	1
Total input		<u>159,621</u>	
VAT refundable		<u>23,331</u>	0·5
			<b><u>10</u></b>

## 4 Avera, s.r.o. – Adjustments to the 2015 tax base

## (1) Loan from Mr Klepeta

Mr Klepeta is a related person of Avera, s.r.o., therefore the loan should be included in the thin capitalisation computation. But interest on the loan is on an arm's length basis, so there will be no transfer pricing adjustment.

1·5

## (2) Loan from a commercial bank

The bank is not a related entity, therefore neither the transfer pricing nor the thin capitalisation rules apply.

0·5

## (3) Loan from AVERA SK s.r.o.

AVERA SK s.r.o. is a non-resident related entity of Avera, s.r.o. The interest on the loan is on an arm's length basis, so there will be no transfer pricing adjustment. A thin capitalisation adjustment does not apply to the interest of CZK 173,250 included in the input price of the building, but the December interest treated as an expense will be included in the thin capitalisation computation.

2

## (4) Loan from Mr Noha

Mr Noha is a related person of Avera, s.r.o. but as the loan is from a shareholder to the company, there is no need for a transfer pricing adjustment even if the loan is not on an arm's length basis. Also as the loan is free of interest, it will not be included in the thin capitalisation computation.

1·5

## Calculation of thin capitalisation adjustments

Computation of the shareholder's capital (*vlastni capital*):

$$(6,650,000 \cdot 128 + (6,650,000 - 3,500,000 - 1,500,000) \cdot 237) / 365 = \text{CZK } 3,403,425$$

2

Computation of the average daily amount of credits and loans:

$$((14,000,000 \cdot 365) + (2,100,000 \cdot 1) + ((2,100,000 - 450,000) \cdot 30)) / 365 = \text{CZK } 14,141,370$$

1·5

Thin capitalisation computation:	<b>Marks</b>
$(4 \times 3,403,425 / 14,141,370) = 0.9627$	0.5
Interest not allowed as a tax expense (tax base increasing item):	
$((14,000,000 \times 12\%) + 15,750) \times (1 - 0.9627) = \text{CZK } 63,251$	0.5
	<b>10</b>

## 5 Pavel

### (a) 2015 income tax return

	CZK	CZK	
<b>Employment income</b>			
Salary $((45,000 \times 11) + 20,000 + 12,000)$		527,000	1
Illness compensation $(16,700 - 8,000 \text{ limit})$		8,700	1
<i>Dohoda o provedení práce</i> – over CZK 10,000 monthly limit for withholding tax $(8,000 + 7,500)$		15,500	1
Lump sum compensation for amortisation (exempt)		0	0.5
Total employment income		551,200	
Social security paid by employer at 34%		187,408	0.5
Partial tax base		738,608	
<b>Business income</b>			
50% share of Reality v.o.s. $(488,000 - 660,000)$		(172,000)	1
Independent consultancy $(845,000 - (443,400 - 31,000))$		432,600	1
Partial tax base		260,600	
<b>Rental income</b>			
Income from rent		150,000	
Lump sum expenses CZK 45,000 $(150,000 \times 30\%)$ – use actual expenses			0.5
Depreciation $(2,000,000 \times 0.034)$	68,000		0.5
Mortgage interest	65,000	(133,000)	0.5
Partial tax base		17,000	
<b>Other income</b>			
Sale of shares $(120,000 - 67,000)$		53,000	1
Partial tax base		53,000	
Tax base		1,069,208	
Pension insurance (maximum)		(12,000)	0.5
Tax base after deductions		1,057,208	
Rounded tax base		1,057,200	0.5
Tax at 15%		158,580	0.5
Solidarity surcharge base: CZK 811,800 $(551,200 + 260,600)$ – less than CZK 1,277,328, so does not apply			0.5
Personal tax credit	24,840		0.5
Spouse credit from March $(24,840 / 12) \times 10$	20,700		1
(Spouse's income CZK 60,000 $(45,000 + 15,000)$ – less than CZK 68,000)			
First child credit from March $(13,404 / 12) \times 10$	11,170		0.5
Second child credit from March $(15,804 / 12) \times 10$	13,170		0.5
Third child credit (new born) from April $(17,004 / 12) \times 9$	12,753		0.5
		(82,633)	
Tax after credits		75,947	
Tax prepayments		(38,500)	0.5
Tax payable		37,447	
			<b>14</b>

**Tutorial note:** Pavel could alternatively use lump sum expenses of 60% for business income. In such a case, he has to judge whether he can use spouse and children credits. The rule is that the tax base for the income for which the taxpayer uses lump sum expenses (this holds also for rental income) is more than 50% of the total tax base, he cannot use these credits.

(b) As Pavel does not use a tax adviser, the due date for filing his 2015 income tax return is 1 April 2016.	<b>Marks</b>
	<u>1</u>
	<b>15</b>

**6 ArchStudio, s.r.o.**

**(a) 2015 corporate income tax return**

	<b>CZK</b>	<b>CZK</b>	
Accounting profit		879,000	
<i>Add backs</i>			
(1) Member fees to the Czech Chamber of Architects (no adjustment)	0		0·5
(2) Motivation contributions (no adjustment)	0		0·5
(3) Theatre tickets for employees	14,300		0·5
(6) Difference between accounting and tax depreciation of copy machine (Working 1)	4,000		1
(7) Difference between accounting and tax depreciation of the sold car (CAR 1) (55,000 – 48,000)	7,000		0·5
(8) Gift to school	50,000		0·5
(10) 2015 social security paid after 31 January 2016	35,200		0·5
(12) Kindergarten expenses (no adjustment)	0		0·5
Total add backs		110,500	
<i>Deductions:</i>			
(4) Difference between tax and accounting residual value of stolen van	70,000		0·5
(7) Difference between tax and accounting residual value of sold car (CAR 1) (Working 3)	42,000		1·5
(11) Difference between tax and accounting residual value of crashed car (CAR 2) up to insurance compensation (Working 4)	30,000		1
(9) Default interest (not paid)	15,000		1
Total minus		(157,000)	
Adjusted tax base		832,500	
(8) Gift allowance (maximum 10% of CZK 832,500)		(50,000)	0·5
(2) Education allowance (2*79*200)		(31,600)	1
Reduced tax base		750,900	
Reduced tax base rounded down to thousands		750,000	0·5
Tax at 19%		142,500	0·5
		<b>CZK</b>	
<b>Working 1 Depreciation of copy/print machine</b>			
Input price		180,000	
2015 tax depreciation (180,000*0·2)		36,000	
2015 accounting depreciation		40,000	
Difference		4,000	
<b>Working 2 – Receivables</b>			
Tax provisions were booked as a tax deductible cost and there are no adjustments needed as they were included in the accounting result as follows:			
			<u>2</u>
			<b>13</b>
Mr Kratky (more than 24 months overdue; 33% created in 2014) [(580,000*0·66) – (580,000*0·33)]		191,400	
Mr Dlouhy (more than 18 months overdue) (380,000*0·5)		190,000	
Total minus		381,400	

	CZK	Marks
<b>Working 3 – CAR 1 sold</b>		
Input price	300,000	
2014 tax depreciation (300,000/5)	(60,000)	
Residual value	240,000	
2015 tax depreciation $(((2 \times 240,000) / (6 - 1)) / 2)$	(48,000)	
Residual value	192,000	
Accounting residual value	150,000	
Difference	42,000	
<b>Working 4 – CAR 2</b>		
Tax residual value	120,000	
Accounting residual value	65,000	
Difference	55,000	
Tax deductible only up to the insurance compensation (95,000 = 65,000 + 30,000)	30,000	
<b>(b)</b> The filing deadline for ArchStudio, s.r.o.'s 2015 tax return is 1 July 2016.		1
Their tax adviser is obliged to file the return in the obligatory electronic form through his/her databox or the Ministry of Finance web EPO.		1
		2
		<b>15</b>