
Answers

Section B

Marks

1 (a) Leboslavia, a.s. (Leboslavia)

- (i) The shortest time period the tax office may set for Leboslavia to provide the supplier invoice and contract is 15 days from the delivery of the call on the removal of doubts. 0·5

Therefore the earliest date the tax office can require Leboslavia to provide the supplier invoice and contract is 29 August 2017. 0·5

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(ii) Late payment interest

	CZK	
Original VAT refund amount for the second quarter (Q2) 2017	(77,600)	
Input VAT denied	124,000	
Q2 2017 VAT payable	46,400	0·5

Original due date (fifth working day after the original deadline of 25 July 2017) 1 August 2017 0·5

Date of payment 30 September 2017

No. of outstanding days 60 0·5

CNB REPO plus 14% 0·1405 0·5

Late payment interest (46,400*14·05%*60/365) CZK 1,072 0·5

The due date for payment of this late payment interest is 25 October 2017. 0·5

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(b) Jana

- (i) Jana is not obliged to file a personal income tax return as she only had employment income and income subject to withholding tax and no other income exceeding CZK 6,000. 1

- (ii) The inherited jewellery represents exempt income exceeding the amount of CZK 5 million, so Jana is obliged to submit a notification of this inheritance to the tax office by 1 April 2018. 1

(c) Karty, s.r.o. (Karty)

The tax of CZK 107,000 should have been paid by Karty on 3 July 2017 (1 July 2017 was Saturday). 0·5

Late payment interest

Original due date (fifth working day after the original deadline of 3 July 2017) 12 July 2017 0·5

Date of payment 25 September 2017

No. of outstanding days 76 0·5

CNB REPO plus 14% 0·1405 0·5

Late payment interest (107,000*14·05%*76/365) CZK 3,131 0·5

Late filing penalty

Original due date (sixth working day after the original deadline of 3 July 2017) 13 July 2017

Date of submission of the return 25 August 2017

No. of outstanding days 44 0·5

Penalty rate per day 0·0005 0·5

Late filing penalty (107,000*0·05%*44) CZK 2,354 0·5

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2 Bonifác

(a) June 2017 payroll tax base

	CZK	
Director's fees	86,000	0·5
Golf course fees (exempt)	0	0·5
Company car (580,000*0·01)	5,800	0·5
Travel allowances (6,500 – 4,500)	2,000	0·5
Business dinner expense (not subject to tax)	0	0·5
Base	93,800	
Social security paid by employer at 34%	31,892	0·5
Tax base	125,692	
		<u>3</u>

(b) 2017 personal income tax liability

	CZK	CZK	
Employment income – EULOG			
Annual income	1,440,000		0·5
Social security paid by employer	420,000		0·5
Total employment income		1,860,000	
Capital income			
Loan received (not subject to tax)		0	0·5
Other income			
Occasional rent of grass-cutter (exempt up to CZK 30,000)		0	1
Golf set (subject to final withholding at 15%)		0	0·5
Tax base		1,860,000	
Life insurance in Spain		(18,000)	0·5
Life insurance in Canada (not an EU state)		0	0·5
Tax base after allowances		1,842,000	
Tax base rounded (down to nearest hundred)		1,842,000	
Total tax at 15%		276,300	0·5
Solidarity surcharge ((1,440,000 – 1,355,136) = 84,864*7%)		5,941	1
		282,241	
Personal tax credit		(24,840)	0·5
Tax credit for spouse (income higher than CZK 68,000)		0	0·5
		257,401	
Advance payroll tax paid		(225,000)	0·5
Final tax liability payable		32,401	
			<u>7</u>
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3 (a) Mobilehouse, s.r.o

August 2017 value added tax (VAT) payable

	Tax base CZK	VAT at 21% CZK	
Outputs			
(1) Transfer of goods from the German warehouse to the Czech warehouse	80,000	16,800	0.5
(2) Goods sold to the Czech customers	150,000	31,500	0.5
(2) Goods sold to German and French customers (outside the scope of Czech VAT)	1,100,000	0	0.5
(3) Consultancy provided to a French customer	1,200	252	0.5
(6) Purchased goods from Poland shipped to the Czech warehouse	250,000	52,500	0.5
(7) Purchased IT services from a Slovak IT company	25,000	5,250	0.5
(8) Construction works (local reverse charge)	70,000	14,700	0.5
		<u>121,002</u>	
Inputs			
(1) Transfer of goods from the German warehouse to the Czech warehouse	80,000	16,800	0.5
(4) Purchase of packaging services from a Czech VAT payer	55,000	11,550	0.5
(5) Monthly webhosting fees paid to a Czech VAT payer	36,000	7,560	1
(6) Purchase of goods from Poland shipped to the Czech warehouse	250,000	52,500	0.5
(6) Purchase of goods from Poland shipped to the French warehouse (outside the scope of Czech VAT)	350,000	0	0.5
(7) Purchase of IT services from a Slovak IT company	25,000	5,250	0.5
(8) Construction works (local reverse charge) (note)	70,000	14,700	0.5
		<u>108,360</u>	
VAT payable		12,642	0.5
			<u>8</u>

Note: Candidates were given equal credit for treating the construction works as not subject to VAT provided they stated an assumption that the supplier was a non-VAT payer.

(b) Georgius and Partners, k.s.

Georgius and Partners, k.s. is obliged to register as an identified person (*identifikovaná osoba*) for value added tax (VAT) within 15 days of the delivery of the service to the Belgian business client, i.e. by 22 March 2017 (15 days after 7 March).

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Georgius and Partners, k.s.'s cumulative turnover exceeds the compulsory registration threshold of CZK 1 million in April 2017, so it must register for VAT no later than 15 May 2017.

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4 (a) HAWA, AS

(i) Permanent establishment

A permanent establishment (PE) is created under Czech domestic tax law in the case of:

- a fixed place of business, workshop, mine for the extraction of natural sources, office, place of sale, or construction site, where a non-resident carries on their activities in the Czech Republic;
- a building site, assembly and further places where activities are carried out by a non-resident for more than six months in any 12-month period;
- a non-resident renders services in the Czech Republic for a duration lasting for more than six months in any 12 successive calendar months;
- a dependent agent, who acts in the Czech Republic on behalf of a non-resident has the authority to conclude contracts on its behalf;
- the income of a non-resident general partner in a limited partnership (*komaditní společnost*) in respect of income from participation in the partnership (*veřejná obchodní společnost*)

Any TWO items required, 1 mark each maximum

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	Marks
(ii) Treatment of 2017 income and cost items	
(1) Revenue from the sale of wallpapers and wallpapering services will be subject to Czech corporate income tax at the tax rate of 19%.	0·5
(2) Salary costs of the employees will be a tax deductible expense.	0·5
	Marks
(3) The 2016 Czech corporate income tax paid will be deductible from HAWA, AS's Norwegian tax liability (also taking into consideration Norwegian tax legislation) based on the credit method of double taxation elimination as stipulated by the double tax treaty between the Czech Republic and Norway.	1
(4) The licence fees paid to the US company by HAWA, AS will have no impact on the tax payable in the Czech Republic.	1
(5) Dividends are exempt from taxation in the Czech Republic because HAWA owns more than 10% of the Czech shares (holding period of 12 months is required but can be met retroactively).	2
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Note: In respect of item (4), candidates were given credit for any valid comments regarding the tax treatment of the licence fees based on relevant assumptions.

(b) Lunava, s.r.o.

2017 final tax liability			
	CZK	CZK	
Tax base before adjustments		350,000	
Slovakia PE revenues	710,000		
Slovakia PE costs	(500,000)		
	<u>210,000</u>		0·5
Proportion of Slovak tax available for credit (210,000/350,000)	0·60		1
Tax at 19%		66,500	0·5
Credit for tax paid in Slovakia (66,500*0·60)		<u>(39,900)</u>	1
Final tax liability		<u>26,600</u>	
			<u>3</u>
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5 Lukáš

(a) 2017 personal income tax liability

	CZK	CZK	
Business income			
Czech athletic club (90,000*9)		810,000	0·5
Flat rentals (25,000*7)		175,000	0·5
Income from media sport campaign (amount received)		360,000	1
Branded sport clothes		145,000	0·5
Prize from Ostrava championship (12,000*27)		324,000	0·5
Total business income		1,814,000	
Less: Costs			
Sport equipment and nutrition	280,000		0·5
Referral fee	40,000		0·5
		(320,000)	
Business income tax base		1,494,000	
Capital income			
Dividend income from Monaco (7,400*27)		199,800	0·5
Other income			
Inherited business share		0	0·5
Sale of business share (530,000 – (1·2 million*0·4))		50,000	1
Tax base		1,743,800	
Donation (up to 15% of the tax base)		(20,000)	0·5
Tax base after deduction		1,723,800	
Tax base rounded (down to nearest hundred)		1,723,800	
Tax at 15%		258,570	0·5
Solidarity surcharge ((1,494,000 – 1,355,136)*7%)		9,721	1
		268,291	
Personal tax credit	24,840		0·5
Spouse credit	24,840		0·5
First child credit	13,404		0·5
Second child credit	19,404		0·5
Pre-school facility expense – 1st and 2nd child (1,300*7*2)	18,200		1
		(100,688)	
Final tax liability		167,603	
			<u>11</u>

(b) 2017 Social security and health care contributions

	CZK	
Total business income less costs (from (a))	1,494,000	
Social security base (50%)	747,000	1
Social security contributions at 29·2%	218,124	0·5
Health care contributions at 13·5%	100,845	0·5
Total	318,969	<u>2</u>

(c) Lukáš can obtain an extension to the deadline for submission of his health care contribution overview for 2017 by:

- submitting the decision of the tax office on extending the deadline for submission of his 2017 personal income tax return to the health care insurance company
- by 30 April 2018.

The latest date by which Lukáš will be obliged to submit his health care contribution overview for 2017 is 1 December 2018 (i.e. one month after the extended deadline for submission of his 2017 personal income tax return which is 1 November 2018).

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6 KOGOS, s.r.o.

(a) Profit share

The profit share of Mr Jacek will be CZK 96,000 ($240,000 \times 40\%$).

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Withholding tax of 15% applies, therefore, Mr Jacek will receive a net income of CZK 81,600 ($96,000 \times 85\%$).

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(b) 2017 corporate income tax liability

Accounting loss	Adjustments		CZK (200,000)	
	up CZK	down CZK		
Contribution to employees' life insurance	0			0.5
Free non-alcoholic drinks	570,000			0.5
Costs of canteen operation	0			0.5
Membership fee for the Kolín auto club	250,000			0.5
Donation of cables	170,000			0.5
Internet connection costs of the payroll accountant	7,000			0.5
Contractual penalties not received by KOGOS		4,000		0.5
Asset depreciation (W1)		146,400		3
Sale of assembling machine (159,800 (tax residual value) – 180,000)	20,200			1
Creation of tax provisions (W2) (note)		195,000		3
Release of accounting provisions		83,000		0.5
Previously written-off receivable received in 2017		24,000		0.5
	<u>1,017,200</u>	<u>452,400</u>		
			564,800	
Donation of cables (cannot be claimed as a deductible item)			<u>0</u>	0.5
Tax base after adjustments			<u>364,800</u>	
Tax base rounded (down to nearest thousand)			<u>364,000</u>	0.5
Tax liability at 19%			69,160	0.5
				<u>13</u>
				<u>15</u>

Note: Three marks were allocated to the calculation of the tax provisions as shown in (W2). No marks were allocated to the adjustment of these tax provisions in the calculation of the tax base. Therefore, candidates were not penalised for not adjusting the tax provisions.

(W1) Asset depreciation

	CZK	
Company car		
Acquisition price	650,000	
2016 tax depreciation ($650,000/5$)	<u>(130,000)</u>	0.5
Residual value	<u>520,000</u>	
2017 tax depreciation ($2 \times (520,000 + 45,000)/5$)	226,000	0.5
Assembling machine		
Acquisition price	200,000	
Tax depreciation rate increased by 10%		
2016 tax depreciation ($200,000 \times 0.154$)	<u>(30,800)</u>	0.5
2017 tax depreciation ($200,000 \times 0.094/2$)	<u>(9,400)</u>	0.5
Tax residual value	<u>159,800</u>	
Difference between accounting and tax depreciation ($226,000 + 9,400 - 89,000$)	<u>146,400</u>	1
		<u>3</u>

			Marks
(W2) Tax provisions for receivables			
	Nominal value CZK	Tax provision CZK	
Xenia, v.o.s. (50% tax provision available for 2017, overdue more than 18 months)	260,000	130,000	1
Yvona, s.r.o. (50% tax provision available for 2017, overdue more than 30 months)	74,000	37,000	1
Mrs Zumba (receivable up to CZK 30,000 overdue more than 12 months)	28,000	28,000	1
Total tax provision		<u>195,000</u>	<u>3</u>