

Fundamentals Level – Skills Module

Taxation (Czech)

Thursday 7 December 2017



Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX questions are compulsory and MUST be attempted

Tax rates and allowances are on pages 2–5.

Do NOT open this question paper until instructed by the supervisor.

Do NOT record any of your answers on the question paper.

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

Finance
Paper F6 (CZE)

Think Ahead



The Association of
Chartered Certified
Accountants

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 in Section B.

TAX RATES AND ALLOWANCES

The following tax rates and allowances for 2016 are to be used in answering the questions.

| Corporate income tax rate | |
|---|----------------------------|
| Rate | 19% |
| Corporate income tax credits (CZK) | |
| Disabled employees | 18,000/60,000 |
| Personal income tax rate | |
| Rate | 15% |
| Solidarity surcharge on income over CZK 1,355,136 | 7% |
| Personal income tax credits – annual amounts (CZK) | |
| Personal tax credit | 24,840 |
| Dependent spouse credit | 24,840 |
| First child credit | 13,404 |
| | (maximum bonus CZK 60,300) |
| Second child credit | 19,404 |
| Third and further child credit | 24,204 |
| Student credit | 4,020 |
| Credit for expense in preschool facility | 11,000 |
| Disabled employees | 18,000/60,000 |

| Social security and health care contributions | | | |
|--|--------------------------|--|---------------|
| Cap for social security purposes | | | CZK 1,355,136 |
| 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/annual assessment base | | | CZK 14,116/169,392 |
| Social security contributions | | | |
| Social security | | | 29·2% |
| Illness insurance | | | 2·3% |
| Minimum monthly/annual assessment base for the main activity | | | CZK 7,058/84,696 |
| Minimum monthly/annual assessment base for the secondary activity | | | CZK 2,824/33,888 |
| Threshold limit for obligatory participation in social security in the case of the secondary activity | | | CZK 67,756 |

| Value added tax (VAT) | | | |
|------------------------------|--|--|---------------|
| Standard rate | | | 21% |
| Reduced rates | | | 10% and 15% |
| Threshold registration limit | | | CZK 1,000,000 |

| Repo interest rate | | | |
|------------------------------|--|--|-------|
| Applicable on 1 January 2017 | | | 0·05% |

| Minimum wage | | | |
|---------------------|--|--|------------|
| | | | CZK 11,000 |

Tax depreciation
Tax depreciation periods for tangible assets

| | |
|---------|----------|
| Group 1 | 3 years |
| 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

| | |
|--------------------------|-----------|
| Audiovisual work | 18 months |
| Software and R&D results | 36 months |
| Other intangible assets | 72 months |

Depreciation rates under the straight-line method

| | 1st year | following years | for increased input price |
|---------|----------|-----------------|---------------------------|
| Group 1 | 20 | 40 | 33.3 |
| 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 2 | 21 | 19.75 | 20 |
| Group 3 | 15.4 | 9.4 | 10 |

Depreciation rates under the accelerated method

| | 1st year | following years | for increased input price |
|----------------|----------|-----------------|---------------------------|
| Group 1 | 3 | 4 | 3 |
| 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

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 deductible provisions limits valid from 2015

Due time after the maturity date of a qualifying provision

| | |
|-----------|------|
| More than | |
| 18 months | 50% |
| 30 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 |

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

1 (a) Leboslavia, a.s. (Leboslavia) operates a retail chain of book stores in the Czech Republic. Leboslavia is a Czech quarterly value added tax (VAT) payer and its second quarter (Q2) 2017 VAT return shows total output VAT of CZK 254,000 and a VAT refundable position of CZK 77,600. Leboslavia filed its Q2 2017 VAT return on 28 July 2017. On 14 August 2017 it received a call on the removal of doubts (výzva k odstranění pochybností) from the tax office, which requested Leboslavia to provide the supplier invoice and contract relating to the supply of storage shelves. As a result of this call, the tax office has denied Leboslavia the total input VAT of CZK 124,000 in relation to the invoice for the supply of shelves. This has resulted in Leboslavia now having a VAT payable position for the second quarter 2017.

Required:

(i) State, with reason(s), the earliest date by which the tax office can require Leboslavia, a.s. to provide the supplier invoice and contract based on the call on the removal of doubts. (1 mark)

(ii) Assuming that Leboslavia, a.s. fully accepted the results of the call on the removal of doubts and paid the value added tax (VAT) due for the second quarter (Q2) 2017 on 30 September 2017:

- calculate the late payment interest due; and
- state by when it will be payable if the assessment was delivered to Leboslavia, a.s. on 10 October 2017. (3 marks)

(b) In 2017 Jana has employment income of CZK 365,000. In December 2017, she also received dividend income of CZK 68,000 from her shareholding in Gregy, s.r.o. and inherited gold jewellery from her uncle, valued at CZK 7,250,000.

Required:

(i) State, with reason(s), whether Jana is obliged to submit a personal income tax return for the year 2017, and if so, state the relevant deadline. (1 mark)

(ii) State, with reason(s), Jana's obligations with respect to the inherited jewellery and state the relevant deadline. (1 mark)

(c) Karty, s.r.o. (Karty) submitted its 2016 corporate income tax return on 25 August 2017 and paid the 2016 corporate income tax due of CZK 107,000 on 25 September 2017. Karty's accounts are subject to statutory audit.

Required:

Calculate the late payment interest and penalty, if any, the tax office can levy on Karty, s.r.o. with respect to its 2016 corporate income tax return.

Note: 5 July 2017 (Wednesday) and 6 July 2017 (Thursday) were public holidays. (4 marks)

(10 marks)

2 Bonifác is the managing director (*předseda představenstva*) of EULOG, a.s. (EULOG), a Czech logistic company. Bonifác lives in Pardubice, Czech Republic with his spouse, Beata, who does not have any income except for a scholarship of CZK 120,000 received from Madrid University for her research in art history.

The following information is relevant to Bonifác with respect to June 2017:

- (1) Bonifác received director's fees of CZK 86,000.
- (2) EULOG paid Bonifác's golf course total fees of CZK 14,000. The golf club invoiced the fees directly to EULOG which treated them as a tax non-deductible expense.
- (3) EULOG provides Bonifác with a company car for both private and business purposes. The acquisition price of this company car was CZK 580,000.
- (4) EULOG reimbursed Bonifác with the following travel expenses in respect of his business trip to Spain:
 - a travel allowance of CZK 6,500, of which CZK 4,500 met the conditions of the Czech Labour Code
 - business dinner expenses of CZK 2,000.

No cash advance was provided to Bonifác for this trip.

The following further information is relevant to Bonifác for the year 2017:

- (1) In February 2018, Bonifác received confirmation of his 2017 employment income from EULOG stating his total 2017 employment income as CZK 1,440,000, the total social security and health care contributions paid by EULOG as CZK 420,000 and the total tax advances withheld as CZK 225,000.
- (2) In September Bonifác was the winner at a golf tournament in Kunětická Hora and he received a branded golf set worth CZK 17,000.
- (3) Bonifác helped out his neighbour by renting the neighbour his special grass-cutter for CZK 25,000. Bonifác does not rent out his special grass-cutter on a regular basis.
- (4) In January 2017, Bonifác received a bank loan of CZK 430,000, which he used to buy shares in EULOG.
- (5) In 2017 Bonifác contributed CZK 18,000 to his life insurance in Spain and CZK 14,000 to his life insurance in Canada. As regards the insurance terms, both of these life insurances meet all the criteria as defined by the Czech tax legislation.

Required:

(a) **Calculate Bonifác's June 2017 tax base for payroll tax purposes.** (3 marks)

(b) **Calculate Bonifác's personal income tax liability payable for the year 2017.** (7 marks)

Note: In both parts of your answer indicate clearly by the use of zero (0) any items which are not taxable or not deductible.

(10 marks)

3 (a) Mobilehouse, s.r.o. (Mobilehouse) is a monthly Czech value added tax (VAT) payer with its seat in Cheb, Czech Republic. Mobilehouse is also registered for VAT in Germany and in France. In all three countries Mobilehouse rents a warehouse and sells mobile phones and electronic devices to its final customers, who order its products on the three country-specific web pages operated by Mobilehouse in the Czech Republic. The goods sold to all customers (Czech, German or French) are always shipped directly from the warehouse located in the same state as the customer, i.e. from the Czech, German or French warehouse respectively. Except for the two warehouses, Mobilehouse does not have any employees or operations, located in either Germany or France.

In August 2017, Mobilehouse had the following transactions with respect to its European operations. All amounts are stated exclusive of any applicable VAT and all of Mobilehouse's customers are private individuals with no VAT registration.

- (1) Goods with a value of CZK 80,000 were transferred from the German warehouse to the Czech warehouse.
- (2) Sales made to customers were:
 - CZK 150,000 to its Czech customers;
 - CZK 650,000 to its German customers;
 - CZK 450,000 to its French customers.
- (3) Provided consultancy on mobile device installation to a French customer for CZK 1,200.
- (4) Purchased packaging services from a Czech VAT payer for CZK 55,000. These packaging services related to stock in the Czech warehouse.
- (5) Paid monthly webhosting fees of CZK 36,000 to a Czech company, which is a Czech VAT payer. The webhosting fees related equally to all three country-specific web pages operated by Mobilehouse.
- (6) Purchased goods from Poland for CZK 600,000. Goods worth CZK 250,000 were shipped directly to the Czech warehouse and the remaining goods worth CZK 350,000 were shipped directly to the French warehouse.
- (7) Purchased IT services from a Slovak IT company, which is a Slovak VAT payer, with its seat in Slovakia for CZK 25,000. The IT consultant came to Cheb for one day in order to install the necessary applications.
- (8) Renovated the warehouse in the Czech Republic and paid CZK 70,000 for the construction works.

Required:

Calculate the Czech value added tax (VAT) payable by or refundable to Mobilehouse, s.r.o. for August 2017.

Note: Your answer should include all items listed in transactions (1) to (8), and state if any of the transactions are zero-rated, exempt or outside the scope of Czech VAT. (8 marks)

(b) Georgius and Partners, k.s. (G&P) is a small legal firm with its seat in Telč, Czech Republic. G&P started its business in February 2017 and had the following sales transactions in the period to the end of April 2017:

- In February 2017, it provided legal services to its Czech customers for CZK 370,000 and Czech legal services to a newly acquired Austrian private individual with no value added tax (VAT) registration for CZK 150,000.
- In March 2017, it provided legal services to its Czech customers for CZK 270,000 and Czech legal services of CZK 130,000 to a Belgian business client, with a seat in Brussels, Belgium who is a Belgian VAT payer. The date of the taxable supply of the legal services provided to the Belgian client was 7 March 2017.
- In April 2017, it provided legal services only to its Czech customers for CZK 320,000.

All amounts are stated excluding any applicable VAT.

Required:

State, with reason(s) the registration obligations of Georgius and Partners, k.s. under the Czech value added tax legislation, including all relevant deadlines. (2 marks)

(10 marks)

4 (a) HAWA, AS (HAWA) is a limited liability company with its seat in Norway, which produces wallpapers and provides wallpapering services to customers across Europe. In September 2016 HAWA opened a small shop in Prague, Czech Republic. The shop sells wallpaper products and serves as a point of contact for customers ordering wallpapering services in the Czech Republic. Two employees of HAWA have worked at the shop since it opened and a further three employees provide wallpapering services to customers in the Czech Republic.

HAWA has registered for corporate income tax purposes in the Czech Republic. The double taxation agreement between the Czech Republic and Norway states that:

- a 'service' permanent establishment exists where services are provided for at least six months in any 12-month period; and
- double taxation should be eliminated by the credit method.

HAWA recorded the following income and costs in the Czech Republic for the year 2017:

- (1) Revenue from the sale of wallpapers and wallpapering services in the Czech Republic.
- (2) Salary costs of the employees working at the shop in Prague.
- (3) 2016 corporate income tax paid by HAWA in the Czech Republic.
- (4) Licence fees paid by HAWA to a US company for the use of its trade mark.
- (5) Dividends received from a Czech company in which HAWA has a 25% shareholding.

Required:

- (i) **List ANY TWO circumstances in which a permanent establishment is created under the terms of the Czech income tax legislation.** (2 marks)
- (ii) **State the Czech tax treatment of each of the items (1) to (5) recorded by HAWA AS for the year 2017.** (5 marks)

(b) Lunava, s.r.o. (Lunava) is a Czech resident company, which also operates in Slovakia through a permanent establishment. In the year 2017, the revenues of this permanent establishment in Slovakia were CZK 710,000 and the attributable costs CZK 500,000. The tax paid by Lunava in Slovakia for the year 2017 was CZK 58,000. Lunava's tax base in the Czech Republic for 2017, based on its world-wide income and costs, was CZK 350,000.

The double tax treaty between the Czech Republic and Slovakia states that double taxation should be eliminated by the credit method.

Required:

Calculate Lunava, s.r.o.'s final tax liability for the year 2017. (3 marks) (10 marks)

5 Lukáš is a world class athlete, he is married to Laura and they have two children, aged three and five years. From 1 April 2017 Lukáš has been working for a Czech athletic club located in Plzeň. The family have lived in Germany since November 2015 but from 1 June 2017 Lukáš decided to move with all his family to Plzeň.

Lukáš is considered to be a Czech tax resident for the year 2017 and the following information is relevant to his activities and income in 2017:

- (1) Lukáš signed a long-term business contract with the Czech athletic club and with effect from 1 April 2017 Lukáš received a monthly fee of CZK 90,000.
- (2) As part of the contract with the Czech athletic club, from 1 June 2017 the club paid CZK 25,000 a month rent for a flat for Lukáš and his family in Plzeň.
- (3) On 2 May 2017, Lukáš signed a long-term contract for a TV and social media sport marketing campaign with a Czech agency. Lukáš's total remuneration under this contract for the year 2017 is CZK 540,000, of which CZK 360,000 was paid to him on 30 September 2017 and the remaining CZK 180,000 is due to be paid on 25 January 2018.
- (4) As part of the sport campaign Lukáš received branded sport clothes worth CZK 145,000.
- (5) In August 2017, Lukáš ranked among the winners at the world championship in Ostrava, Czech Republic, and received a prize of €12,000.
- (6) Lukáš has decided to apply actual costs against his business income.

In 2017 his costs were as follows:

- cost of sport equipment and special sport nutrition of CZK 280,000;
- a donation of CZK 20,000 to a sports club in Prague. The sports club meets all the criteria for charities as defined by the Czech tax legislation; and
- a one-off referral fee of CZK 40,000 paid to Lukáš's marketing agent.

- (7) Lukáš has a long-term financial investment in Monaco from which he received dividend income of €7,400 in the year 2017. There is no double tax treaty in place between the Czech Republic and Monaco.
- (8) In February 2017, Lukáš inherited a 100% business share in Kamery, s.r.o. worth CZK 1·2 million from his aunt in Ostrava. In November 2017, Lukáš sold 40% of this business share for CZK 530,000.

Additional information:

- (1) Since June 2017 both of Lukáš's children have attended a kids club operated by the Czech athletic club in Plzeň. Lukáš contributes CZK 1,300 per month for each child to the kids club. The kids club meets all the criteria for a pre-school facility as defined by the Czech tax legislation.
- (2) Lukáš's wife Laura did not have any income in year 2017.
- (3) On 28 February 2018, Lukáš asked the tax office in Plzeň for an extension to the deadline for the submission of his 2017 personal income tax return due to fact that he has foreign income. Based on this request, Lukáš has been granted the maximum possible number of months extension by the tax office.

Required:

(a) Calculate Lukáš's final personal income tax liability for the year 2017, taking into consideration all possible tax allowances.

Note: The average EUR/CZK exchange rate for the year 2017 is CZK 27 to €1. (11 marks)

(b) Calculate the Czech social security and health care contributions payable by Lukáš for the year 2017 with respect to his sport activities. (2 marks)

(c) Advise Lukáš whether the deadline for the submission of the health care contribution overview for 2017 can be extended, and if so, what action he needs to take, including the relevant deadline; and state the latest date by which his health care contribution overview for 2017 can be submitted. (2 marks)

(15 marks)

6 KOGOS, s.r.o. (KOGOS) is a Czech company, which produces cables for the automotive industry. KOGOS has two shareholders, Mr Jacek who has a 40% shareholding and Helmy, s.r.o. which has a 60% shareholding.

KOGOS reported an accounting loss of CZK 200,000 for the year 2017. The following information is relevant to the preparation of KOGOS's 2017 corporate income tax computation:

- (1) In May 2017, KOGOS decided to pay out a 2016 profit share to its shareholders totalling CZK 240,000. In September 2017, Mr Jacek decided to increase his capital share in KOGOS and contributed an amount of CZK 65,000 to the company.
- (2) KOGOS has an extensive employee benefit plan and provided its employees with the following benefits in 2017:
 - contributions to life insurance of employees, totalling CZK 240,000. The life insurances met all the criteria as defined by the Czech tax law;
 - free non-alcoholic drinks and food at the workplace for a total cost in 2017 of CZK 570,000. None of the drinks met the requirement of protective drinks provided to employees;
 - free lunches in KOGOS's own canteen. The cost (excluding the costs for food) incurred with respect to the operation of the canteen in 2017 was CZK 1,480,000.
- (3) KOGOS is an honorary member of the Kolín auto club and in 2017 its annual membership was CZK 250,000. As part of a beneficiary event held by the club, KOGOS donated some of its own manufactured cables. The residual value of these cables in KOGOS's accounting was CZK 170,000. The donation of the cables did not qualify for the purposes stated by the Czech tax legislation.
- (4) KOGOS employs a payroll accountant who works from home if previously agreed by her supervisor. KOGOS has agreed to cover the home internet connection costs of CZK 7,000 for this payroll accountant. There is neither a formal agreement between KOGOS and the accountant nor any internal ruling of KOGOS in place regarding this cost.
- (5) KOGOS invoiced a supplier for contractual penalties of CZK 4,000 for the late delivery of materials. This invoice remained unsettled as at 31 December 2017.
- (6) The assets used in KOGOS's business in 2017 included the following:

| Asset | Acquisition value | Depreciation method | Note |
|---------------------------------|-------------------|---------------------|--|
| Company car (group 2) | CZK 650,000 | Accelerated | The car was acquired in May 2016. In February 2017 a new navigation system was installed in the car for CZK 45,000. |
| Assembling machine (group 3) | CZK 200,000 | Linear | The machine was acquired in October 2016 and sold in March 2017 for CZK 220,000, when its accounting residual value was CZK 180,000. |

Total accounting depreciation for the year amounted to CZK 89,000.

- (7) KOGOS had the following receivables for which it wishes to create the maximum possible tax provisions in 2017:

| Debtor | Nominal value of receivable | Payable on | Note |
|---------------|-----------------------------|-----------------|--|
| Xenia, v.o.s. | CZK 260,000 | 15 April 2016 | Invoice for material, no court proceedings have been initiated. |
| Yvona, s.r.o. | CZK 74,000 | 8 February 2015 | Invoice for services, court proceedings have been initiated. A tax provision of 50% was created in 2016. |
| Mrs Zumba | CZK 28,000 | 18 July 2016 | The receivable has not been written off. |

Total accounting provisions of CZK 83,000 were released during 2017. When created in previous tax periods, these accounting provisions were treated as tax non-deductible items.

In June 2017, KOGOS received CZK 24,000 from a customer in respect of a receivable which had been written off in the taxable period 2015 as a tax non-deductible item.

Required:

(a) Calculate the net income received by Mr Jacek as a result of the dividends paid out to him by KOGOS, s.r.o. in May 2017. (2 marks)

(b) Calculate KOGOS, s.r.o.'s corporate income tax liability for the year 2017.

Note: Your answer should indicate clearly by the use of zero (0) any of the items referred to in the question for which no adjustment is required. (13 marks)

(15 marks)

End of Question Paper