
Answers

Section B

Marks

1 MBTX, s.r.o.

- (a) MBTX, s.r.o. is obliged to submit a 2015 additional corporate income tax return and pay any outstanding additionally declared tax by 31 October 2016.

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- (b) Additional return and payment on 1 January 2017

	CZK	
Originally declared tax loss	(70,000)	
Omitted sales	350,000	
Corrected 2015 tax base	280,000	0.5
Tax at 19%	53,200	0.5
Original due date	12 July 2016	0.5
Date of payment	1 January 2017	
Number of outstanding days	174	0.5
CNB REPO plus 14% (0.05% + 14%)	0.1405	0.5
Late payment interest	CZK 3,563	0.5
		<u>3</u>

- (c) Assessment by tax authority and payment on 15 April 2018

Additional tax (as in (b))	CZK 53,200	
Original due date	12 July 2016	
Date of assessment and payment	15 April 2018	
Number of outstanding days	643	0.5
CNB REPO plus 14%	0.1405	
Late payment interest	CZK 13,168	0.5
	CZK	
Penalty for lower tax loss:		
1% of tax loss of CZK 70,000	700	1
Penalty for additionally assessed tax:		
20% of CZK 53,200	10,640	1
Total penalty	11,340	<u>3</u>

- (d) Due date for 2015 corporate income tax return 1 July 2016
Original date for statute of limitation 1 July 2019
Additional 2015 corporate income tax return submitted on 5 December 2018
New date for statute of limitation 1 July 2020

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Tutorial note: Normally, the statute of limitation is 1 July 2019, i.e. three years from the due date for the filing of the corporate income tax return. The original statute of limitation is prolonged by one year if additional tax return is submitted in the last 12 months of the original statute of limitation, as in this case. The additional tax return was submitted on 5 December 2018, therefore the new statute of limitation is 1 July 2020.

- (e) The taxpayer's statutory representative (*jednatel*)
The person nominated by the statutory representative (e.g. finance director, chief accountant)
A person with a power of attorney representing the taxpayer (usually a tax adviser or other appointed person)
The tax administrator and tax officials (*úřední osoby*)
Witnesses
Specialist consultants
Third persons

Only TWO items required, 0.5 marks each, maximum

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2 Erik – Payroll tax for the months of February and June 2016

	February 2016	June 2016	
	CZK	CZK	
Salary	62,000	62,000	0.5
Bonus		300,000	0.5
Company car (0.01*700,000)	7,000	7,000	0.5
Life insurance contribution exempted	0	0	1
Gift for 20th anniversary (7,500 – 2,000)	5,500		1
English course in London		35,000	1
Travel allowance above the limit (6,000 – 3,500)		2,500	1
Interest free loan – exempt	0	0	0.5
Base	74,500	406,500	
Social security contributions paid by employer at 34%	25,330	138,210	0.5
Tax base	99,830	544,710	
Tax base rounded up to '00	99,900	544,800	0.5
Tax at 15%	14,985	81,720	0.5
Solidarity surcharge (406,500 – 1,296,288/12)*7%		20,893	1
Total tax	14,985	102,613	
Total tax rounded	14,985	102,613	0.5
Personal tax credit (24,840/12)	(2,070)	(2,070)	0.5
Tax credit for Nada (13,404/12)	(1,117)	(1,117)	0.5
Advance payroll tax payable for month	11,798	99,426	
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3 Valeta, a.s.

- (a) Valeta, a.s. cannot claim the value added tax (VAT) on the purchase of the machine in its May 2016 VAT return, because a claim for pre-registration VAT must be made in the month when the VAT payer is first registered, in Valeta, a.s.'s case in February 2016.

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Tutorial note: The machine would satisfy the other conditions for a claim for pre-registration VAT, i.e. the expenditure was incurred within 12 months of registration and the asset was still the property of Valeta, a.s. at the date of registration.

(b) VAT return for May 2016

	Tax base	VAT at 21%	
	CZK	CZK	
Export of goods to China (exempt)	900,000	0	0.5
Consultancy services to Italian customer (place of supply is Italy)	180,000	0	1
Meeting room rental fee (exempt – rental longer than 48 hours to a non-payer)	26,000	0	1
Sale of goods to Polish customer (delivered in CZ)	630,000	132,300	0.5
Building reconstruction	50,000	10,500	0.5
Import of raw material from Brazil (including customs duty)	157,500	33,075	0.5
Purchase from Slovak supplier	50,000	10,500	0.5
Total output VAT		186,375	
Building reconstruction (reverse charge)	50,000	10,500	0.5
Import of raw material from Brazil (including customs duty)	157,500	33,075	1
Purchase from Slovak supplier (reverse charge)	50,000	10,500	0.5
Purchase of material from Czech VAT non-payers (not included in VAT return)	0	0	0.5
Purchase of chairs and tables (34,000*0.21*0.85)	34,000	6,069	1
Total input VAT		60,144	
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4 ELENA CZ, s.r.o.

(a) Tax depreciation for the year 2016

	CZK	
(1) Electrical generator Alfa		
Accelerated tax depreciation by Melana, a.s.		
Acquisition price	8,500,000	
2013 tax depreciation (8,500,000/10)	850,000	0.5
Residual value	7,650,000	
2014 tax depreciation (2*(7,650,000)/(11 – 1))	1,530,000	0.5
Residual value	6,120,000	
2015 tax depreciation (2*(6,120,000 + 1,400,000)/10)	1,504,000	1
Residual value	6,016,000	
2016 tax depreciation(2*(6,016,000)/(10 – 1))/2	668,444	0.5
Accelerated tax depreciation by ELENA CZ, s.r.o.		
2016 tax depreciation (2*(6,016,000)/(10 – 1))/2	668,444	0.5
<i>Note: Answer including 10% depreciation increase in the first year of depreciation of Alfa is also acceptable since the question did not state if Alfa is new asset.</i>		
(2) Power line Beta – linear tax depreciation		
Acquisition price	13,200,000	
Tax depreciation rate increased by 10% – year 1	0.0215	
2016 tax depreciation (13,200,000*0.0215)	283,800	0.5
(3) Company cars – accelerated tax depreciation method		
Car retained by ELENA CZ, s.r.o.		
Acquisition price	750,000	
Depreciation period (years)	5	
2016 tax depreciation (750,000/5)	150,000	0.5
Car sold to ELENA BV (no tax depreciation available)	0	1
(4) Software		
Acquisition price	1,540,000	
Tax depreciation of an intangible asset:		
June to November 2016 tax depreciation (1,540,000/36*6)	256,667	1
December 2016 tax depreciation ((1,540,000 + 320,000 – 256,667)/(36 – 6)*1)	53,445	1
Total 2016 tax depreciation	310,112	
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- (b)** ELENA BV holds more than 10% of the shares in ELENA CZ, s.r.o., therefore, any dividends paid to ELENA BV will be exempt from tax in the Czech Republic under the EU Parent-subsidiary Directive once the shareholding has been held for more than 12 months or more, i.e. after 14 February 2016. 2

Dividends paid prior to this date will be subject to withholding tax at the rate of 15%, unless the double tax treaty between the Czech Republic and the Netherlands specifies a lower withholding rate. The dividends can be exempted even before 14 February 2017 provided the 10% shareholding requirement will be met subsequently.

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5 Kamil and Kristina

(a) Kamil – Personal income tax for 2016

	CZK	CZK	
Employment income			
Horystav, s.r.o. ((45,000*3) + 35,000)		170,000	0·5
Polonium, s.r.o.		14,000	0·5
Total employment income		184,000	
Social security contributions paid by employer at 34%		62,560	0·5
		246,560	
Business income – received in 2016	900,000		0·5
– received in 2017	0		0·5
	900,000		
Production costs	(200,000)		0·5
Fuel consumption	25,000		0·5
Operational lease of truck (12,000*7)	(84,000)		0·5
Lump sum fuel (5,000*7)	(35,000)		0·5
		606,000	
Income attributed to Kristina (50%)		(303,000)	1
Rental income (15,000*3)	45,000		1
Rental lump sum costs (45,000*30%)	(13,500)		0·5
		31,500	
Other income:			
Inherited house (exempt)		0	0·5
Sale of shares (loss – not deductible)		0	0·5
Notebook from Hana		20,000	0·5
Mortgage interest deduction (50,000*0·8)		(40,000)	1
Pension premiums (18,000 – 12,000)		(6,000)*	1
Total tax bases		555,060	
Tax base rounded down to '00		555,000	0·5
Tax at 15%		83,250	0·5
Personal tax credit		(24,840)	0·5
Spouse credit (not applicable)		0	0·5
First child credit		(13,404)	0·5
Second child credit (age above 26)		0	0·5
Advance tax payments deducted by Horystav, s.r.o.		(12,500)	0·5
Final 2016 tax liability		32,506	
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* Note: Answers indicating CZK 12,000 were also acceptable as the question did not state if the pension premium was with or without state subsidy.

- (b) Registration for personal income tax must be submitted to the tax authority within 15 days from when the taxpayer starts to perform an activity which represents a source of income from independent activity. In the case of Kamil, this will be by 20 June 2016 at the latest.

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6 LAMPY, s.r.o.

(a) Corporate income tax for 2016

	Adjustment up CZK	Adjustment down CZK	CZK	
Accounting profit			1,650,000	
Interests on loan (W1)	67,200			4·5
Entertainment costs	250,000			0·5
Damage to machine	20,000*			0·5
SSC paid from 2015		124,000		0·5
Late payment interest re VAT	12,500			0·5
Contractual fine	5,400			0·5
Dividends from Lampiony, Kft		167,000		0·5
Direct costs of shareholding	23,000			0·5
Indirect costs of shareholding	8,350			1
((5%*167,000) – lower than CZK 16,500)				
Outstanding 2016 SSC	0			0·5
Difference in depreciation (2,250,000 – 1,600,000)		650,000		0·5
	<u>386,450</u>	<u>941,000</u>		
			(554,550)	
Tax base after adjustments			1,095,450	
Deduction from the tax base				
R&D costs 2016 (W2)			(360,000)	1·5
Tax base after deductions			<u>735,450</u>	
Tax base rounded (down to '000)			735,000	0·5
Tax at 19%			139,650	0·5
Tax credits:				
Disabled persons (2·5*18,000)			(45,000)	0·5
Tax liability			<u>94,650</u>	
				<u>13</u>

* Note: Answer indicating zero is also acceptable as the question did not state the accounting depreciation charge for the damaged machine.

W1 – Thin capitalisation calculation

Loan	CZK	No. of days	CZK	
	1,700,000	165	280,500,000	0·5
	4,000,000	200	800,000,000	0·5
			<u>1,080,500,000</u>	
		Average loan	2,960,274	0·5
Equity				
	750,000	144	108,000,000	0·5
	390,000	221	86,190,000	0·5
			<u>194,190,000</u>	
		Average equity	532,027	0·5
		4 times equity	2,128,108	0·5
		Ratio	0·72	0·5
Non-deductible interest costs (240,000*(1 – 0·72))			67,200	0·5
				<u>4·5</u>

W2 – Research and development costs			Marks
		CZK	
2015	250,000 (100%)	250,000	0·5
2016	$((350,000 - 250,000) \cdot 1·1)$	<u>110,000</u>	<u>1</u>
		<u>360,000</u>	<u>1·5</u>
(b) Tax advances for 2017 and 2018			
LAMPY's 2016 corporate income tax liability is higher than CZK 30,000, but lower than CZK 150,000, therefore its 2017 and 2018 tax advances will be payable on the half year basis.			1·5
40% of the 2016 tax liability, i.e. CZK 40,600 $(101,300 \cdot 40\%)$, will be payable each half year.			<u>0·5</u>
			<u>2</u>
			<u>15</u>