

Fundamentals Level – Skills Module

Taxation (Czech)

Thursday 8 June 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 printed 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.

Paper F6 (CZE)

Think Ahead

ACCA

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

19%

Corporate income tax credits

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

15%

Solidarity surcharge on income over CZK 1,296,288	7%
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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	17,004
Third and further child credit	20,604
Student credit	4,020
Credit for expense in preschool facility	9,900
Disabled employees	18,000/60,000

Social security and health care contributions

Cap for social security purposes CZK 1,296,288

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 13,503/162,036

Social security contributions

Social security	29·2%
Illness insurance	2·3%

Minimum monthly/annual assessment base for the main activity CZK 6,752/81,024

Minimum monthly/annual assessment base for the secondary activity CZK 2,701/32,412

Threshold limit for obligatory participation in social security
in the case of the secondary activity CZK 64,813

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 2016 0·05%

Minimum wage

CZK 9,900

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
Start-up costs	60 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 limits

Due time after the maturity date of a qualifying provision

Valid up to the end of 2013

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

Valid up to the end of 2014

More than	18 months	50%
	36 months	100%

Valid from 2015

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** MBTX, s.r.o. uses the calendar year as its taxable period. Its 2015 corporate income tax return, which was submitted by its tax adviser on the date of the statutory deadline for submission, declared a tax loss of CZK 70,000. However, on 1 September 2016, it was discovered that the company's accounting system had incorrectly accounted for MBTX, s.r.o.'s sales profit margin and consequently its sales for the year 2015 should have been higher by CZK 350,000.

Required:

- (a) State the statutory obligations of MBTX, s.r.o. with respect to the omitted sales, together with the relevant deadlines.** (2 marks)
- (b) Calculate the additional assessed tax and late payment interest payable if MBTX, s.r.o. submitted an additional 2015 corporate income tax return on 1 January 2017 and paid the additionally declared tax liability on the same date.** (3 marks)
- (c) Calculate the penalties and late payment interest payable if MBTX, s.r.o. does nothing and as a result of a tax audit the additional tax is assessed by the tax authority and is paid by MBTX, s.r.o. on 15 April 2018.** (3 marks)
- (d) State the time limit for the tax authority to reassess the 2015 corporate income tax liability of MBTX, s.r.o. if no tax audit is initiated but MBTX, s.r.o. decides to submit an additional 2015 corporate income tax return on 5 December 2018.** (1 mark)
- (e) List ANY TWO persons entitled to participate in a tax audit as defined by the Czech tax administration legislation.** (1 mark)

Note: 5 July 2016 (Tuesday) and 6 July 2016 (Wednesday) were public holidays.

(10 marks)

2 Erik is employed by Setkom, s.r.o where he has signed the declaration for personal tax credits. He owns a house in Liberec, where he lives with his nine-year-old daughter, Nada. The following information relates to Erik's employment at Setkom, s.r.o. in 2016:

- (1) His monthly gross salary was CZK 62,000. In June he was paid an additional bonus of CZK 300,000.
- (2) He had a company car at his disposal throughout the year which he used for both private and business purposes. The acquisition price of the car in 2014 was CZK 700,000.
- (3) Setkom, s.r.o. contributed CZK 3,500 per month to Erik's life insurance.
- (4) In February 2016, Erik received a luxury watch with a value of CZK 7,500 from Setkom, s.r.o. to mark his 20th anniversary with the company.
- (5) Setkom, s.r.o. plans to acquire new production technology from international suppliers and Erik will be the main contact person. To enable Erik to fulfil this role, the owner of Setkom, s.r.o. agreed to pay for Erik to attend an English course in London. The price of the English course was CZK 35,000 and the owner transferred this amount to Erik's private bank account on 14 June 2016 so that he could pay for the English course directly in London.
- (6) In order to attend the English course in London, Erik received a travel allowance of CZK 6,000, of which only CZK 3,500 met the conditions according to the Labour Code.
- (7) In 2015 Setkom, s.r.o. had provided Erik with an interest free loan of CZK 200,000 to be repaid within three years. In 2016 the market interest rate on a similar loan was 12% p.a.

Required:

Calculate the payroll tax to be deducted from Erik's employment income in February 2016 and in June 2016.

(10 marks)

3 Valeta, a.s. is a monthly value added tax (VAT) payer producing chemical products and advising on security in the chemical industry. Valeta, a.s. has been registered for Czech VAT since February 2016. In May 2016 Valeta, a.s. had the following transactions. All Czech customers and suppliers are VAT registered and all amounts are stated excluding VAT at the standard rate if not stated otherwise.

- (1) Exported goods to China for CZK 900,000.
- (2) Provided consultancy services to a customer in Italy. The meeting with this Italian customer took place in Prague. The total consultancy fee charged was CZK 180,000.
- (3) Rented out a meeting room for CZK 26,000 to its supplier from Russia for one week. The Russian supplier does not have Czech VAT registration.
- (4) Sold goods for CZK 630,000 to a Polish customer who is registered for VAT in Poland. The goods were delivered to the Polish customer's factory in the Czech Republic.
- (5) Incurred costs of CZK 50,000 with respect to the reconstruction of its production factory building.
- (6) Imported raw material for CZK 150,000 from Brazil. The Czech customs office imposed customs duty on the imported raw material of CZK 7,500.
- (7) Purchased materials for CZK 50,000 from a Slovak supplier who is VAT registered in Slovakia.
- (8) Purchased materials from a Czech supplier who is a VAT non-payer for CZK 50,000.
- (9) Purchased tables and chairs from a Czech supplier for its meeting room for CZK 34,000.

Additional information:

- (i) In December 2015 Valeta, a.s. purchased a machine for CZK 60,000 from a Czech supplier. No input VAT has been claimed on this asset.
- (ii) Valeta, a.s.'s 2016 advanced coefficient is 0.85.

Required:

- (a) State, with reasons, whether or not Valeta, a.s. can reclaim the input value added tax (VAT) on the machine purchased in December 2015 in its May 2016 VAT return.** (2 marks)
- (b) Calculate the total output VAT and total input VAT to be shown in Valeta, a.s.'s May 2016 VAT return.**

Notes:

1. You should list all of the transactions referred to in the question, indicating by the use of zero (0) any on which VAT is not chargeable or reclaimable.
2. You are NOT required to calculate the VAT payable or refundable for the month. (8 marks)

(10 marks)

- 4 ELENA CZ, s.r.o. was incorporated on 14 February 2016. The company's shares are owned 70% by ELENA BV, a company incorporated in the Netherlands, and 30% by a Czech investor, Melana, a.s. There is a double tax treaty between the Czech Republic and the Netherlands.

ELENA CZ, s.r.o. will be depreciating the following assets in the year 2016:

- (1) Melana, a.s. acquired its shareholding in ELENA CZ, s.r.o. by asset contribution. It contributed electrical generator Alfa (group 3 for tax depreciation purposes) which was originally acquired for CZK 8·5 million and was put into use by Melana, a.s. on 14 July 2013. The accelerated tax depreciation method was used by Melana, a.s. for this asset. On 16 December 2015, the generator was upgraded by technical appreciation amounting to CZK 1·4 million.
- (2) On 25 September 2016, a new power line Beta (group 4 for tax depreciation purposes) was acquired by ELENA CZ, s.r.o., for CZK 13·2 million. The linear tax depreciation method will be used for this asset.
- (3) On 10 April 2016, ELENA CZ, s.r.o. acquired two company cars (group 2 for tax depreciation purposes) for CZK 650,000 and CZK 750,000 respectively. The accelerated tax depreciation method will be used for these assets. The car acquired for CZK 650,000 was sold to ELENA BV on 28 November 2016 for CZK 580,000.
- (4) Software to operate the production line of CZK 1,540,000 was acquired and put into use by ELENA CZ, s.r.o. on 15 May 2016. A software upgrade for CZK 320,000 was made on 25 November 2016.

Required:

- (a) **For each of the assets (1) to (4), calculate the maximum tax depreciation ELENA CZ, s.r.o. can claim for corporate income tax in the year 2016.** (7 marks)
- (b) **State, with reasons, whether the dividends ELENA CZ, s.r.o. will pay to ELENA BV will be subject to tax in the Czech Republic and if so, at what rate.** (3 marks)

(10 marks)

- 5 Kamil is married to Kristina. They have two children, one is 12 years old and attends an elementary school in Znojmo and the second is 28 years old and studies at university in Brno. Both children live with their parents in their house in Znojmo.

The following information is relevant to Kamil and Kristina for the year 2016:

- (1) Kamil worked for Horystav, s.r.o. until 30 April 2016. His monthly salary was CZK 45,000, except in February when he received CZK 35,000. Horystav, s.r.o. deducted advanced tax payments totalling CZK 12,500 from Kamil's salary.
- (2) In May 2016, Kamil worked for Polonium, s.r.o. based on contract for work (*dohoda o provedení práce*) where he earned CZK 14,000.
- (3) Kamil started his own business on 5 June 2016, and has decided to use actual costs against his business income. His only sales in 2016 were to a customer in Austria. Kamil agreed payment by instalments with this customer as follows:
 - a first instalment of CZK 900,000 due and paid into Kamil's bank account on 20 August 2016; and
 - a second instalment of CZK 530,000, which was due on 20 December 2016, but was not paid until 5 January 2017.
- (4) On 7 June 2016 Kamil acquired the use of a truck under an operational lease. The acquisition price of the truck, which remained the property of the leasing company, was CZK 1,350,000. Kamil started to use the truck in June 2016 and the first monthly operational lease instalment of CZK 12,000 was also due in June 2016. Kamil wishes to apply lump sum costs for the operation of the truck. The truck is used only for business purposes.
- (5) During the year 2016 Kamil incurred total production costs of CZK 200,000. These production costs included CZK 25,000 for the fuel consumed by the truck.
- (6) Kamil has decided to attribute part of his business income to Kristina as a cooperating person. In 2016 Kamil attributed the maximum possible amount of his business income to Kristina. During the year 2016 Kristina did not have any other income except for the income attributed to her by Kamil.
- (7) During the year 2016 Kamil inherited a house from his uncle. The house was valued by the relevant inheritance court at CZK 1,800,000. From 1 September 2016, Kamil agreed to rent out this house to Pavel for a monthly rent of CZK 15,000. Pavel was late paying the December 2016 rent and Kamil did not receive this until 14 January 2017. Kamil will apply lump sum expenses to this rental income.
- (8) Kamil's friend Hana runs an IT e-shop. Hana gave Kamil a brand new notebook valued at CZK 20,000 as a birthday present.
- (9) Kamil acquired some shares in Koleje, a.s. in March 2014 for CZK 155,000 and sold them in November 2016 for CZK 125,000.
- (10) In 2016 Kamil paid monthly pension insurance premiums of CZK 1,500 to his pension scheme. The pension scheme met all the conditions required by the Czech tax legislation.
- (11) Kamil and Kristina have taken out a mortgage loan of CZK 1,000,000 out of which CZK 800,000 was used to finance their house in Znojmo and CZK 200,000 to finance minor reconstruction on the house inherited by Kamil (as in (7) above). In 2016 the interest paid on this loan amounted to CZK 50,000.

Required:

- (a) **Prepare Kamil's 2016 personal income tax liability taking into consideration all possible tax allowances.**

(14 marks)

- (b) **State the deadline for notifying the competent tax authority of the commencement of Kamil's business activity.**

(1 mark)

(15 marks)

6 LAMPY, s.r.o. (LAMPY) is a Czech resident company with its seat in Olomouc. In 2016, LAMPY recorded an accounting profit of CZK 1,650,000 and the following information is relevant for preparing the company's 2016 tax return. All transactions were accounted for in accordance with the accounting regulations in the relevant revenue and expenses accounts.

- (1) LAMPY HOLDING, which owns 25% of LAMPY, provided LAMPY with a loan of CZK 4 million for the purchase of a production line. The loan was provided in two instalments: CZK 1,700,000 on 1 April 2015 and CZK 2,300,000 on 15 June 2016. The total interest paid to LAMPY HOLDING in the year 2016 was CZK 240,000. LAMPY's equity as of 1 January 2016 amounted to CZK 750,000. On 25 May 2016 LAMPY paid CZK 360,000 out of its reserve fund.
- (2) LAMPY incurred entertainment costs on employee team building (refreshment, etc) of CZK 250,000.
- (3) An employee of LAMPY damaged a machine and as a result it had to be scrapped. The tax residual value of the machine at the time it was scrapped was CZK 270,000. The compensation received from the insurance company was CZK 250,000.
- (4) On 20 March 2016, LAMPY paid social security insurance with respect to its employees' November 2015 wages of CZK 124,000. This amount was treated as a non-deductible item in LAMPY's 2015 corporate income tax return.
- (5) LAMPY paid late payment interest penalties of CZK 12,500, which were assessed by the tax authority due to the late payment of its May 2016 value added tax liability.
- (6) LAMPY received an invoice from a supplier of CZK 5,400 for breach of contractual obligations in November 2016. This amount remained unsettled as at 31 December 2016.
- (7) A research and development project started by LAMPY in April 2015 was completed in November 2016. In 2015 LAMPY incurred research and development costs of CZK 250,000 which it deducted from its 2015 tax base. In 2016 LAMPY incurred further research and development costs of CZK 350,000. These research and development costs fulfil all the requirements set by the Czech tax legislation.
- (8) On 17 November 2016, LAMPY received a dividend of CZK 167,000 from its subsidiary Lampiony, Kft, a Hungarian limited liability company. LAMPY acquired a 7% shareholding in Lampiony, Kft on 13 February 2014 and further 5% on 16 October 2015.
- (9) In 2016 LAMPY incurred direct costs of CZK 23,000 attributable to its shareholding in Lampiony, Kft. The indirect costs related to the shareholding amounted to CZK 16,500.
- (10) As of 31 December 2016, LAMPY had outstanding social security insurance payments with respect to the October 2016 wages of its employees of CZK 35,000.
- (11) In both 2015 and 2016 LAMPY employed disabled employees. The average number of disabled employees in 2015 was 1.3 and in 2016 it was 2.5. In 2015 LAMPY has made no tax adjustments with respect to disabled employees.
- (12) In 2016, LAMPY's total accounting depreciation costs were CZK 1,600,000 and its total tax depreciation costs have been calculated as CZK 2,250,000.

Required:

(a) Calculate LAMPY's 2016 corporate income tax liability. (13 marks)

(b) Explain how LAMPY's 2017 and 2018 tax advance payments will be calculated and calculate them.

Note: You are not required to specify the due dates. (2 marks)

(15 marks)

End of Question Paper