

Fundamentals Level – Skills Module

Taxation (Czech)

Thursday 7 June 2018



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.

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 2017 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 rate	10% and 15%
Threshold registration limit	CZK 1,000,000

Repo interest rate

Applicable on 1 January 2017	0·05%
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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)** Martinaria, a.s. is the Czech subsidiary of a global corporation.

Required:

- (i) List any THREE binding rulings Martinaria, a.s. can apply for at the Czech tax authority with respect to corporate income tax and VAT.** (3 marks)
- (ii) State the maximum time period for which a binding ruling is effective.** (1 mark)

- (b)** Mr Daniarik, a Czech registered tax adviser, has received queries from the following clients:

- (i)** Formulis, s.r.o., a newly established company which needs to register for corporate income tax.
- (ii)** Mrs Helenska, a Czech national, who has obtained a business licence and would like to register for personal income tax.
- (iii)** Mr Ivanko who would like to settle the tax on immovable property payable on the family house he has recently acquired in Plzeň.
- (iv)** JAVINAS, a.s., a Czech company whose annual turnover in 2016 was CZK 2·8 billion.

Required:

For each of the taxpayers (i) to (iv), determine the competent tax authority to deal with their particular tax affairs. (4 marks)

- (c)** Mr Vranička submitted his March 2017 value added tax (VAT) return on 23 May 2017 and paid the outstanding VAT liability of CZK 70,000 on 31 May 2017.

Required:

Calculate the late payment interest payable by Mr Vranička in respect of his March 2017 value added tax (VAT) liability.

Note: 1 May 2017 (Monday) was public holiday. (2 marks)

(10 marks)

- 2** Jakub is a private entrepreneur architect, who has his own studio where he employs five employees. One of Jakub's employees, Marek, terminated his employment contract with Jakub as of 28 February 2017.

The following information is relevant to Marek for the year 2017:

- (1) He was paid a monthly gross salary of CZK 37,000 by Jakub.
- (2) During January and February 2017, he used a car provided to him by Jakub for both business and private purposes. Jakub acquired this car second hand under a financial lease within his entrepreneurial activity. The acquisition price of the car was CZK 80,000 (including value added tax (VAT) of CZK 13,800).
- (3) In January 2017, Jakub paid CZK 14,000 for hotel accommodation for Marek and his family in the ski resort of Krkonoše. Jakub also reimbursed Marek CZK 2,500 in cash for tickets to the Harachov Ski competition which Marek paid for to attend with his family members.
- (4) In February 2017, Marek was paid CZK 10,500 for the six days of holiday he had left from the years 2016 and 2017.
- (5) On 1 March 2015, Jakub had provided Marek with an interest free loan of CZK 240,000. The annual market interest the bank would have charged Marek on this loan is CZK 24,000. Marek repaid the loan in full on 28 February 2017.
- (6) As part of Marek's termination agreement in February 2017, Jakub prepared a house design free of charge for Marek's mother. Normally, Jakub would have charged CZK 40,000 for a similar house design.
- (7) Also as part of Marek's termination agreement, Jakub bought a special marking board from Marek for CZK 17,000. Marek had bought the marking board in April 2016 for CZK 10,000.

For the rest of the year 2017, Marek did not have any income except as stated above. Therefore, on 25 January 2018 Marek asked Jakub for his 2017 annual payroll reconciliation.

Required:

- (a) Prepare the payroll reconciliation for the year 2017 which Marek would have received on the termination of his employment, and show the total amount of tax advances Jakub should have withheld.**

Note: You should indicate by the use of zero (0) any of the items (1) to (7) referred to in the question which do not need to be included in the calculation. (8 marks)

- (b) State, with reason(s), whether Jakub will be able to prepare Marek's 2017 annual payroll reconciliation as requested by Marek.** (2 marks)

(10 marks)

- 3 (a)** Salmona, s.r.o. (Salmona) is a Czech value added tax (VAT) payer providing foreign language courses to adults and children. The courses are organised in Prague and in Brno where Salmona has rented premises. During the summer, Salmona also organises language courses in the UK and Spain, which are both EU member states and Brazil, which is not an EU member state. Salmona has a Spanish VAT registration but is not registered for VAT in the UK or any other EU country.

In May 2017, Salmona had following sales and purchases:

- (1) Issued an invoice for a German course to a Czech kindergarten (a non-VAT payer).
- (2) Collected advance payments from three university students who will participate in a summer language camp in Brazil.
- (3) Organised a Spanish course for the marketing staff of a Czech customer (a Czech VAT payer). The course took place in Spain.
- (4) Provided one-off language proofreading services to a Czech customer (a Czech VAT payer). The proofreading was carried out online by a Spanish cooperating lecturer based in Spain.
- (5) Purchased a language software upgrade from a German supplier (a German VAT payer). Germany is an EU member state.
- (6) A student became long-term ill and had to cancel the English course organised in Prague, which he had paid for in March 2017. Salmona agreed to refund the course fee to this student.
- (7) Received a purchase invoice from a cooperating language school in the UK for English courses organised for Salmona's students in London.

Required:

For each of the transactions (1) to (7) state:

- **the place of supply for value added tax purposes; and**
- **the nature of the supply/VAT treatment (i.e. taxable output, zero rated supply, exempt supply, claimable input, reverse charge, refund procedure).** (7 marks)

- (b)** Sirup GmbH (Sirup) is an Austrian limited liability company, seated in Salzburg, which produces soft drinks. Austria is an EU member state. In May 2017, Sirup decided to expand into the Czech market and sell its products to Czech end customers. Sirup has transferred products worth CZK 760,000 to a warehouse located in Mikulov, Czech Republic, which it has rented for this purpose. The first Czech customers (both Czech VAT payers and non-VAT payers) were supplied from the warehouse on 2 June 2017. Sirup's total sales in the Czech Republic in June and July 2017 amounted to CZK 760,000 and CZK 530,000 respectively.

Sirup has not taken any steps to register for VAT in the Czech Republic.

Required:

Explain Sirup GmbH's obligations in respect of Czech value added tax (VAT) as a consequence of its decision to expand into the Czech market. (3 marks)

(10 marks)

- 4 Kaleido, s.r.o. (Kaleido) acquired two business cars from the FINCARS financial group as follows:

Car Alfa was acquired in the form of financial leasing. The contract was concluded for 54 months starting on 1 November 2015. The total leasing price of Car Alfa was CZK 1,080,000 of which CZK 270,000 was the initial instalment paid on the conclusion of the contract and the remainder was to be paid in 54 equal monthly instalments. The purchase price of Car Alfa to Kaleido at the end of the contract was to be CZK 1,000 but the contract was prematurely terminated and Car Alfa was returned to FINCARS on 31 October 2017.

Car Bem was acquired in the form of financial leasing. The contract was concluded for 54 months starting on 1 February 2016. The total leasing price of Car Bem was CZK 810,000 out of which CZK 162,000 was the initial instalment paid on the conclusion of the contract and the remainder was to be paid in 54 equal monthly instalments. On 30 September 2017, the contract was prematurely terminated and Car Bem was purchased by Kaleido for CZK 550,000. The purchase price of Car Bem to FINCARS was CZK 700,000 (including value added tax (VAT) of CZK 122,000).

Required:

For each of Car Alfa and Car Bem, calculate the amounts to be included in Kaleido, s.r.o.'s 2017 corporate income tax computation as either a tax deductible expense and/or tax depreciation.

(10 marks)

- 5 David is married to Dagmar and they have a six-year-old daughter. David is a private dentist with his own dental practice and he is also a general partner (*komplementař*) in the general partnership, Zubaři, k.s., with a 25% profit share.

The following information relates to David for the year 2017:

- (1) David helps out his friend, Milan, in another dental practice based on a contract for work (*dohoda o provedení práce*). David received remuneration of CZK 22,000 in April 2017 and of CZK 9,000 in November 2017 under this contract. David did not sign the declaration for personal tax credits with Milan. The total payroll tax advances withheld by Milan in 2017 were CZK 2,300.
- (2) In 2017 David received total payments from his private dental practice of CZK 1,600,000 out of which he paid the following expenses:
 - Rental fees of CZK 360,000.
 - Social security and health care contributions for David of CZK 270,000.
 - Gross salaries of employees of CZK 250,000, from which tax advances of CZK 24,000 were withheld.
 - Employer social security and health care contributions relating to the employees' salaries of CZK 75,000, of which CZK 15,000 were paid on 5 February 2018.
 - A legal fee of CZK 7,000 related to Dagmar's former employment affairs.
- (3) In 2016 David had used lump-sum costs for tax purposes but in 2017 he wishes to change to actual costs. The amount of David's receivables as at 31 December 2016 which were settled in 2017 amounted to CZK 180,000.
- (4) In July 2017, David received CZK 65,000 from his private life insurance scheme. The total insurance premiums paid to the scheme for the whole insured period amounted to CZK 45,000.
- (5) The 2017 tax base of Zubaři, k.s. is CZK 320,000. During the year, Zubaři, k.s. donated CZK 60,000 to Healthy Teeth, a charity which meets all the criteria as defined by the Czech tax legislation.
- (6) In May 2017, David inherited a house in Kolín worth CZK 1,200,000 from his aunt, who had acquired the house in 2011. David sold this house in December 2017 for CZK 1,250,000.
- (7) In 2014, David incurred a tax loss from his business activities of CZK 45,000, of which CZK 15,000 has not been utilised in previous tax periods.
- (8) In 2017, David and Dagmar incurred mortgage loan interests of CZK 38,000 in respect of their house in Prague, where they permanently reside.
- (9) David's wife, Dagmar, did not have any income in 2017.

Required:

- (a) **Explain David's tax obligations with respect to the change from lump-sum expenses in the year 2016 to actual expenses in the year 2017, including any relevant submissions, deadlines and potential sanctions.**

(3 marks)

- (b) **Calculate the 2017 personal income tax payable by David.**

Note: Your answer should indicate by the use of zero (0) any of the items referred to in the question which should not be included in the calculation.

(12 marks)

(15 marks)

- 6 Palmona, s.r.o. (Palmona) is a Czech company with diversified business operations in the telecommunications industry. All of Palmona's transactions are accounted for in accordance with the accounting regulations in the relevant revenue and expense accounts. The following information relates to the preparation of Palmona's 2017 corporate income tax computation:
- (1) The company's accounting profit for the year ended 31 December 2017 amounted to CZK 1.2 million.
 - (2) A tax loss of CZK 1.8 million incurred in 2014 has been utilised as follows:
 - CZK 1.1 million in 2015; and
 - CZK 500,700 in 2016.
 - (3) Palmona received dividends of CZK 400,000 from the 70% shareholding in Palmonka, s.r.o. which it has owned since 2014.
 - (4) Palmona received services from a related party, for which it was charged a total of CZK 5.5 million. The charge which would have been made to a non-related party for the same services would have been CZK 4.5 million.
 - (5) Penalties for the late filing of value added tax (VAT) returns of CZK 4,000 were paid in October 2017 and contractual penalties of CZK 12,000 were accrued but remained unsettled as at 31 December 2017.
 - (6) In 2016, Palmona wrote off a CZK 130,000 receivable from its customer, Mr Holý, as a tax non-deductible cost. In March 2017, Mr Holý paid this receivable in the full amount.
 - (7) In 2016, Palmona created a provision for the total amount receivable of CZK 180,000 from Mr Krátký, with an original due date in 2015. Out of this total provision, 50% was tax deductible in 2016. In November 2017, Mr Krátký settled the receivable in the full amount and the total provision was released.
 - (8) Palmona sold land in Beroun, Czech Republic for CZK 6.5 million, which it had purchased in May 2015 for CZK 6.7 million.
 - (9) Palmona received licence fees from Telekomka OAO, a Russian company, totalling CZK 675,000, net of Russian withholding tax at the rate of 10%. The double tax treaty between Russia and the Czech Republic stipulates the credit method for the elimination of double taxation.
 - (10) Palmona organised a summer party for its customers, at which the promotional gifts given to customers included pens bearing the company's logo with a value of CZK 1,000 per pen. The total cost of these pens was CZK 50,000.
 - (11) Bezona, s.r.o., a well established client of Palmona's, decided to organise a gala dinner for the management of Palmona. The total cost of the food incurred by Palmona for this gala dinner was CZK 180,000, towards which Bezona, a.s. contributed CZK 80,000.
 - (12) Palmona accounted for the technical appreciation of a rented telecommunication transmitter in Vysočina of CZK 87,000 as part of its tax depreciation costs. Palmona does not have the approval of the lessor to depreciate the technical appreciation of this rented telecommunication transmitter.
 - (13) Mr Kučera, a former employee of Palmona, appointed Palmona as heir to his house in Jihlava, worth CZK 500,000, in his testament. The heritage proceedings were terminated on 14 April 2017 and Palmona accounted for the house in its revenues accordingly.
 - (14) Palmona incurred costs of CZK 78,000, including French input VAT of CZK 13,000, for an exhibition fair in France, an EU member state. Palmona decided not to apply for a VAT refund in France and accounted for this French VAT in its tax deductible costs.
 - (15) Palmona disposed of ten passenger cars used by its service technicians. The total accounting net book value of these ten cars was CZK 600,000 and their tax net book value was CZK 450,000.
 - (16) On 1 December 2016, Palmona received a loan of CZK 2.5 million from Palmona Holding, a.s. which owns 65% of the shares in Palmona. The full amount of this loan remained unsettled as at 31 December 2017 and the total interest paid to Palmona Holdings, a.s. in the year 2017 was CZK 120,000. Palmona's equity was CZK 0.5 million for the whole of the year 2017.

Required:

Calculate the corporate income tax liability of Palmona, s.r.o. for the year 2017.

Note: You should indicate by the use of zero (0) any item referred to in the question which does not require adjustment.

(15 marks)

End of Question Paper