

Applied Skills

Taxation – Poland (TX – POL)

Tuesday 4 June 2019



TX POL ACCA

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

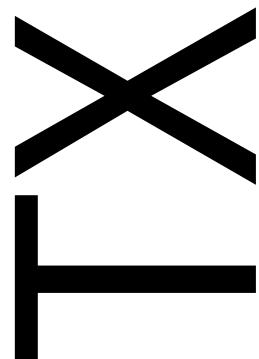
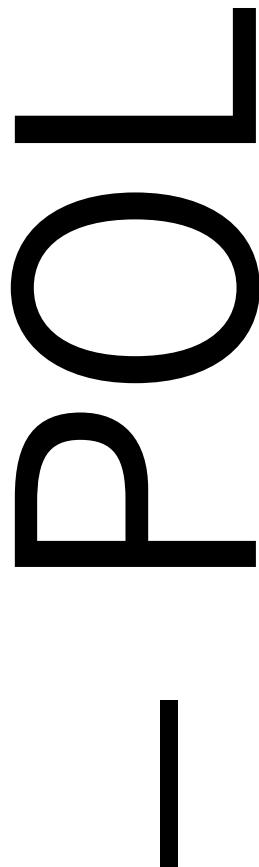
Section B – ALL SIX questions are compulsory and MUST be attempted

Tax rates and allowances are on pages 2–4.

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.



Think Ahead



The Association of
Chartered Certified
Accountants

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest PLN.
2. All apportionments should be made to the nearest month.
3. All workings should be shown in Section B.

TAX RATES AND ALLOWANCES – JUNE AND DECEMBER 2019

The following tax rates and allowances and ZUS rates for 2018 are to be used in answering the questions.

Personal income tax (PIT)

Tax amounts to

Up to PLN 85,528	18% of the base less tax free amount
PLN 85,528 and above	PLN 15,359 plus 32% on the excess over PLN 85,528 less tax free amount

Tax free amount:

PLN 1–8,000	PLN 1,440
PLN 8,000–13,000	PLN 1,440 – 884 x (tax base – 8,000)/5,000
PLN 13,000–85,528	PLN 556
PLN 85,528–127,000	PLN 556 – 556 x (tax base – 85,528)/41,472
PLN 127,000 and above	PLN 0

Flat rate cost

Monthly deduction	Annual deduction PLN	Employer no > 1	Commuting
PLN 111.25	1,335	x	x
(150%)	2,002	✓	x
PLN 139.06	1,668	x	✓
(150%)	2,502	✓	✓

Various personal income tax reliefs

	PLN
Rehabilitation relief – maximum earnings	9,120
Rehabilitation relief medicines – monthly limit	100
Rehabilitation relief – motor car travel	2,280
Rehabilitation relief – guide dog for the blind	2,280
Competition prizes	760
Child deduction	1,112
Daily meal allowance (<i>dieta</i>)	30
Motor car allowance (per km)	1
Daily meal allowance for work/travel abroad	€42

Other personal income tax rates

Donation rate	6%
Capital gains rate	19%
Tax on selected prizes	10%
Tax on undeclared sources of income	75%

Flat rate tax (*ryczalt*)

Revenue limit	€150,000
Free professions	20.0%
Services and rent	8.5%
Production	5.5%
Trade	3.0%

Health service contribution (HSC)

The rate of health service contribution is 9% of the base, and 7·75% of this is deductible for personal income tax purposes.

Corporation tax (CIT)

Corporate income tax rate	19%
Small entrepreneurs rate	15%
Donation rate	10%
Interest deduction limit	30% tax EBITDA or PLN 3,000,000
Selected intangible services deduction limit	5% tax EBITDA or PLN 3,000,000

TP Thresholds

	Company	Transaction
1	> EUR 2,000,000	EUR 50,000 plus EUR 5,000 per EUR 1 million in excess of threshold
2	> EUR 10,000,000	N/A
3	> EUR 20,000,000	EUR 140,000, plus EUR 45,000 per EUR 10 million in excess of threshold
4	> EUR 100,000,000	EUR 500,000
5	> EUR 750,000,000	N/A

Withholding tax

Basic dividend withholding tax rate	19%
Basic interest, royalties and intangible services withholding tax rate	20%

Tax depreciation rates

Buildings – Residential	1·5%
– Other	2·5%
General machinery	14·0%
Transport means	20·0%
Computer equipment	30·0%
Office and other equipment, furniture	20·0%
Licence/software	50·0%
Own research and development (R&D) products	100·0%
Other intangibles	20·0%
Residential property deemed value per square metre	PLN 988

Social security contributions (ZUS)

	Employer	Employee
Insurance (<i>Ubezpieczenie</i>)		
Retirement pension	9·76%	9·76%
Disability pension	6·50%	1·50%
Sickness benefit	–	2·45%
Accident benefit	1·93%	–
Work fund (<i>Fundusz pracy</i>)	2·45%	–
Polish guaranteed workers' benefit (<i>Fundusz gwarantowanych świadczeń pracowniczych</i>)	0·10%	–
	<hr/>	<hr/>
Upper earnings limit	20·74%	13·71%

Upper earnings limit PLN 133,290

Average and minimum monthly salary

	PLN
Minimum salary	2,100
Average salary	4,500

Value added tax (VAT)

Standard rate	23%
Registration limit	PLN 200,000

Penalty interest

8 % p.a.

Exchange rate

EUR 1:PLN 4

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

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.
Each question is worth 2 marks.

- 1** Company A holds 30% of the shares in Company B and during 2018 Company B sold services to Company A equivalent to EUR 1,250,000.

The taxable revenues in 2018 for the companies were equivalent to EUR 1,750,000 for Company A, and EUR 12,000,000 for Company B.

Which of the following types of transfer pricing documentation should Company B keep in its files?

- (1) Basic local file
- (2) Benchmark analysis of pricing
- (3) Master file

A 1 and 2 only

B 1, 2 and 3

C 1 only

D 2 only

- 2** Pewny Bank SA is a financial institution providing solely value added tax (VAT) exempt financial services.

On 1 January 2015, Pewny Bank SA acquired a building for PLN 10,000,000 (VAT-exclusive). The building was used for the bank's activities. On 1 January 2018, Pewny Bank SA sold the building to a third party for PLN 15,000,000 (VAT-exclusive).

Both the purchase and sale were subject to the standard VAT rate as the exemption option was not taken.

What is the net amount of value added tax (VAT) paid by Pewny Bank SA as a result of these transactions?

A PLN 3,450,000

B PLN 1,150,000

C PLN 0

D PLN 1,840,000

- 3** Piotr commenced his first individual business activity on 1 July 2018. In his first year, his taxable revenue was PLN 95,000 and he earned a profit of PLN 30,000.

Piotr did not opt for the six-month social security grace period under the 'Business Constitution' regulation.

What is the total amount of Piotr's mandatory social security contributions (ZUS) payable for 2018?

A PLN 2,226

B PLN 8,835

C PLN 1,113

D PLN 1,206

- 4 The European Court of Justice (ECJ) can issue verdicts affecting Polish taxpayers in certain disputes with the tax authorities.

Which of the following statements is true in respect of disputes between Polish taxpayers and the Polish tax authorities which the European Court of Justice (ECJ) can issue verdicts on?

- A The ECJ can only issue verdicts in respect of disputes between Polish taxpayers and the tax authorities of a different European Union member state
 - B The ECJ can issue verdicts in respect of value added tax (VAT) disputes and selected corporate income tax disputes
 - C The ECJ can issue verdicts only in respect of VAT disputes
 - D The ECJ can issue verdicts in respect of any tax dispute, provided the dispute commenced after the start of the seventh year of Poland joining the EU
- 5 The owner of a group of companies has planned a major restructuring of the group, involving the transfer of significant assets between companies and refinancing.

The group's financial management team together with its advisers has prepared two restructuring plans: one which achieves the business objectives with minimum taxation, and an alternative plan which results in significant tax burdens in a number of the group companies.

The owner of the group would like to ensure that if the plan with the minimal tax charge is chosen, the tax authorities will not claim that the restructure is a tax avoidance scheme.

Which of the following statements is correct in respect of the type of opinion which can be obtained by the group to minimise the risk of a tax avoidance challenge from the tax authorities?

- A It is not possible to obtain a formal opinion to minimise the risk of challenge by the tax authorities
 - B A tax ruling can be obtained from the Head of State Treasury Information (KIS)
 - C An advance pricing agreement can be obtained from the Minister of Finance
 - D An assurance opinion can be obtained from the Head of State Treasury Administration
- 6 Joanna, a single mother, earned taxable income from employment of PLN 140,000 in 2018. Her daughter, aged 19, is a full-time university student and does not have any taxable income.

What is Joanna's personal income tax (PIT) liability for 2018?

- A PLN 44,800
- B PLN 44,244
- C PLN 24,088
- D PLN 12,600

- 7 Alfa Sp. z o.o. commenced in business in 2012, and has the following results:

	Profit/(loss)
	PLN
2012	(2,000,000)
2013	(5,000,000)
2014	3,000,000
2015	(500,000)
2016	1,000,000
2017	500,000
2018	5,000,000

What is Alfa Sp. z o.o.'s corporate income tax (CIT) payable for 2018?

- A PLN 427,500
 - B PLN 380,000
 - C PLN 237,500
 - D PLN 902,500
- 8 Edward is employed under a labour contract and receives a gross salary of PLN 5,000 per month.

What is the total amount of social security contributions (ZUS) and health service contributions (HSC) payable each month by Edward's employer in respect of his employment?

- A PLN 1,074
 - B PLN 2,111
 - C PLN 1,723
 - D PLN 1,425
- 9 Value added tax (VAT) regulation changes in 2018 enable taxpayers to pay VAT in relation to some invoices into a special bank account of the supplier which is dedicated to VAT (known as a split payment).

Which of the following statements describe benefits of making split payments for value added tax (VAT) purposes?

- (1) Input VAT is always recoverable for the buyer
 - (2) The cash refund of input VAT is faster and reduced to 15 days
 - (3) There is no penalty interest charged where a deduction of input VAT is challenged
 - (4) There is no VAT sanction imposed where a deduction of input VAT is challenged
- A 1
 - B 2, 3 and 4
 - C 3 and 4 only
 - D 4 only
- 10 In 2018, Zaradna Sp. z o.o. received management advisory (intangible) services relating to the business from its shareholder which cost an arm's length price of PLN 120,000.

Zaradna Sp. z o.o.'s taxable revenues for 2018 were PLN 1,000,000, and associated costs were PLN 700,000, which included PLN 300,000 of depreciation.

What is the amount of tax deduction available to Zaradna Sp. z o.o. in relation to the management services acquired in 2018?

- A PLN 30,000
- B PLN 120,000
- C PLN 15,000
- D PLN 50,000

- 11** In 2018 Stefan Dziedzic earned taxable employment income of PLN 30,000, and rental income of PLN 2,000 per month from renting a 72 square metre apartment he inherited from his grandmother. Monthly service fees for the apartment were PLN 450. Stefan did not make any personal income tax elections.

Ignoring social security contributions (ZUS) and health service contributions (HSC), what is Stefan's personal income tax (PIT) liability for 2018?

- A** PLN 6,334
- B** PLN 5,014
- C** PLN 8,192
- D** PLN 8,000

- 12** Joachim registered for value added tax (VAT) on 1 April 2018 and began making VATable sales in May 2018. The products sold in May 2018 were produced using materials and services acquired in April 2018.

All sales and purchases are standard rated transactions, and all invoices were settled immediately in cash.

What is the latest date by which Joachim can claim a cash refund of the input value added tax (VAT) relating to his April 2018 purchases?

- A** 25 days
- B** 60 days
- C** 180 days
- D** No cash refund is available until the end of the first year of activity (i.e. April 2019)

- 13 Which of the following is a permitted method of electronically filing a personal income tax (PIT) return?**

- (1) Via the Ministry of Finance application (e-deklaracje), signed with an authorised digital signature
- (2) Via the Ministry of Finance application (e-deklaracje), without an authorised digital signature
- (3) Sending a scanned PIT return via email to the taxpayer's proper tax office
- (4) Sending a scanned PIT return via an authorised public profile on the electronic platform of public administration (EPUAP)

- A** 1 only
- B** 1 and 2 only
- C** 1, 2 and 4
- D** 2, 3 and 4

- 14** John, a tax resident of Farland, has owned a private house in Poland since 2016. He is thinking of selling his house in Poland.

There is a standard OECD model convention based double tax treaty between Farland and Poland.

What are the tax consequences of John selling the house in Poland?

- A** John will be exempt from any taxation in Poland but will be taxed in Farland
- B** John will be exempt from taxation in Poland until he distributes the cash abroad. The cash transferred from Poland will be subject to 19% withholding tax in Poland
- C** Income from sale of the house will be taxed at 19% in Poland
- D** Income from sale of the house will be cumulated with John's other Polish income and taxed at the standard progressive rate

- 15** In 2018 Różnorodna Sp. z o.o. earned standard trading revenues and received the following other revenues from less standard sources:
- (1) An EU grant for the purchase of computers
 - (2) An insurance compensation payment for a damaged vehicle
 - (3) A donation for training employees from a public benefit organisation promoting economic development
 - (4) A refund of overpaid corporate income tax (CIT) from 2016

Which of these revenues are exempt from corporate income tax (CIT)?

- A** 1 and 4
- B** 1 and 3
- C** 2 and 4
- D** 2 and 3

(30 marks)

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 Zdzisław Bywały and his family have a permanent home in Poland. Zdzisław was employed in Poland from 1 January to 30 April 2018, and then worked in Country Y (an EU member state) for a different employer from 1 May to 31 December 2018. His family continued to reside in Poland while he was abroad.

Zdzisław's gross monthly salary was PLN 16,000 while in Poland, and EUR 6,500 while in Country Y.

His employer in Country Y collected the following local taxes:

- EUR 48,000 of local income tax
- EUR 14,000 of local social security contributions
- EUR 1,500 of tax equivalent to health service contributions (HSC) (this did not exceed 7·75% of Zdzisław's foreign base of contribution).

The double tax treaty between Poland and Country Y states that the credit method of elimination of double taxation should be used and not the modifying standard Polish personal income tax (PIT) rules. The exchange of tax information is ensured. All social security contributions (ZUS) were mandatory and were not deducted against income in the tax calculation in Country Y.

Required:

Calculate Zdzisław Bywały's personal income tax (PIT) payable in Poland for 2018.

Notes:

1. You should list all of the items referred to in the question indicating by the use of zero (0) any items for which no entry is necessary.
2. Ignore tax abolition relief.

(10 marks)

- 2 Luźna Sp. z o.o. (Luźna) is registered for value added tax (VAT) and produces and sells soft drinks to warehouses and directly to individuals. All sales and components used for production are subject to the standard rate of VAT. All figures are stated net of VAT, where applicable.

In January 2018, Luźna made the following sales and purchases. Invoices or receipts were issued or received in all cases unless stated otherwise:

- Wholesale products sold in Poland totalled PLN 400,000.
- Drinks sold to individuals at a winter fair in Zakopane, Poland, for a total of PLN 45,000. Each individual sale was for less than PLN 10 and no invoices or receipts were issued.
- Products exported to the USA for PLN 150,000.
- Materials bought in Poland for PLN 240,000.
- Exotic spices imported from India for a total consideration of PLN 15,000.

In addition, in January 2018 Luźna also paid a service invoice of PLN 125,000 to a group company, Spięta Sp. z o.o. (Spięta). In fact, Spięta did not provide any service to Luźna, but the owner of both companies thought it would be an easy way to transfer cash between the companies without creating any outstanding balances. The associated output VAT on the invoice was duly paid by Spięta.

In its VAT return Luźna reported only those sales and purchases where invoices have been issued or received, and the company opted for import VAT relief.

In December 2018, Luźna's accounts were audited by the Tax Office, however, Luźna ignored the inspection protocol and made no corrections to the VAT settlement. On 24 January 2019, Luźna received the tax decision and on the next day settled the tax due.

Required:

Calculate the total value added tax (VAT) liability (including penalties) payable by Luźna Sp. z o.o. as a result of the tax audit in respect of the January 2018 VAT settlement.

(10 marks)

- 3** Robert Bardziach, a 42-year-old Polish resident, has run a tailoring shop for many years in a small town with 12,000 inhabitants.

In addition to himself, Robert employs three tailors in his shop:

- his son Cezary, aged 21 years old, who still lives with him in the family home
- his daughter Lukrecja, aged 18 years old, who lives with her new husband at his parents' home
- Juliusz Rower, who is not related to Robert.

Robert also employs his relative Kalikst Bardziach, aged 60 years old, as a sales assistant and for keeping the workshop clean.

Robert's total revenues for 2018 were PLN 420,000, the total salaries paid amounted to PLN 160,000 and other costs totalled PLN 150,000.

During 2018, Robert notified the Tax Office of his 25 days of vacation, including one trip of 15 consecutive days and two other separate trips of five days each.

Robert pays only the mandatory social security contributions (ZUS), and settles his tax liability with a tax card as follows:

Tax card rate	Rate increase level	Inhabitants (I)		
		I < 5,000	5,000 > I < 50,000	I > 50,000
0	40%	122	142	164
1	30%	264	309	349
2	20%	435	495	541
3	15%	553	594	646
4	10%	594	646	698
5	10%	672	763	869

Required

Calculate Robert Bardziach's personal tax liability, social security contributions (ZUS) and health service contributions (HSC) for 2018.

(10 marks)

- 4 With effect from 2018, the Polish corporate income tax (CIT) regulations were significantly amended with the introduction of two separate sources of income: capital gains and operating income.

Required:

- (a) **State FIVE examples of revenues which are classified as capital gains for corporate income tax purposes.**

(5 marks)

- (b) Papierowe Zyski Sp. z o.o. (PZ) reported a financial profit of PLN 250,000,000 for the year ended 31 December 2017.

The earnings before interest, tax, depreciation, and amortisation (EBITDA) of PZ for the year ended 31 December 2018 was PLN 325,000,000, without taking into account the effect of the bank loan described below.

The total depreciation figure for 2018 was PLN 85,000,000. There are no timing or permanent differences between the accounting and tax result in the calculation of EBITDA and depreciation.

The whole amount of profit for 2017 was declared as a dividend payable on 31 March 2018 after the financial statements for 2017 were approved.

However, since PZ lacked the cash to distribute the whole amount of the dividend, on that day it took out a loan of PLN 100,000,000 from a bank to finance the payment of the dividend. The interest rate on the loan is 6%, payable at the end of the year.

The majority shareholder of PZ is Cwany Gapa SA which has a 55% shareholding. Cwany Gapa SA is a Polish company and it has held shares in PZ since the early 2000s. The remaining 45% of PZ shares is held between minority Polish individual shareholders, none holding more than a 1% shareholding.

Required

- Calculate the total corporate income tax (CIT) and withholding tax payable by Papierowe Zyski Sp. z o.o. for the year ended 31 December 2018.**

(5 marks)

(10 marks)

- 5 Šrubex Sp. z o.o. (Šrubex), a company which manufactures and sells metal products, has been operating for several years and is 100% owned by Jan Wkrętak.

For many years, Šrubex held shares in a subsidiary company, Nakrętex Sp. z o.o. (Nakrętex), until December 2018 when it sold the company to a third party at a significant loss. Nakrętex had operated poorly for some time and the loss on disposal was expected. Nakrętex had significantly deteriorated in value since Šrubex had acquired the shares and the loss on disposal is justified from a business perspective. There is no suggestion of tax evasion.

Šrubex's accounts for the year ended 31 December 2018 provide the following information:

	PLN
Total revenue from product sales	80,000,000
Total cost of sales (excluding depreciation)	55,000,000
Revenue on the sale of shares in Nakrętex	3,000,000
Historic cost of acquisition of Nakrętex shares	30,000,000
Revenue from interest on a loan granted to Nakrętex	200,000

On 1 June 2017, Šrubex completed the acquisition of a new manufacturing site which was completed and put to use for production on the same day.

The investment costs incurred were:

	PLN
Land	1,000,000
Factory building	9,000,000
Assembly line	50,000,000

Due to the technology used in production, the building is classified as used in conditions worse than normal. Šrubex applies the reducing balance method of depreciation where applicable.

Both the manufacturing site and the acquisition of Nakrętex shares were financed by a combination of a bank loan of PLN 75,000,000 charging interest at 5% p.a., and a shareholder loan from Jan Wkrętak of PLN 15,000,000, charging an arm's length interest rate of 8% p.a. Both loans were taken out on 1 June 2017.

During 2018, Šrubex did not make any capital repayments on either of the loans, and all interest accrued was paid on 31 December 2018.

All figures are stated net of value added tax (VAT), where applicable.

Required:

Calculate Šrubex Sp. z o.o.'s corporate income tax (CIT) due for 2018.

Note: You should list all of the items referred to in the question indicating by the use of zero (0) any items which do not have an impact on the tax computation.

(15 marks)

- 6 Leon was employed as a bartender full-time from 1 January to 31 July 2018, and part-time from 1 August to 31 December 2018. In addition, during 2018 he started to perform additional work under a personal service contract (*umowa zlecenia*) as a technical diver.

Leon's income in 2018 was as follows:

	PLN
Labour contract as a bartender	2,400 per month (full-time) 600 per month (part-time)
Diver services	24,000
Insurance compensation payment for his damaged diving equipment	14,000
Interest of 3% on a PLN 8,000 12-month bank deposit	

In addition to monetary proceeds, Leon received:

- Free meals in the bar he works in, with a value of PLN 300 per month (whether working full-time or part-time).
- The use of an underwater welding set worth PLN 9,000 which was needed for providing a welding service. Leon could keep the set as his own after finishing the job.
- The reimbursement by one of his diving clients of:
 - a mileage allowance of PLN 1,000 for travelling a total of 800 km to the dive site, and
 - the provision of a hotel room for ten nights at a cost of PLN 1,800 whilst conducting the dive.

Leon invoiced the client who reimbursed these costs.

Leon has not opted out of any social security (ZUS) payments.

Required:

Calculate Leon's personal income tax (PIT) liability for 2018.

Note: You should indicate by the use of zero (0) any amounts referred to in the question which are not taxable.

(15 marks)

End of Question Paper