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# Answers

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Section B

Marks

1 Rafał – Value added tax (VAT) for June 2016

	PLN		Output VAT PLN	Input VAT PLN	
Sale of services to individuals in Poland	4,000	x 23/123	748		0.5
Sale of services to companies in Poland	2,500	x 23/123	467		0.5
Sales of services to individuals in other EU states	3,500	x 23/123	654		0.5
Sales of services to companies in other EU states	2,800	x 0%	0		1
Sales of services to individuals in the US	2,400	x 0%	0		0.5
Sales of services to companies in the US	6,000	x 0%	0		0.5
Free services	2,000	x 23/123	374		1
Sale of private car			0		1
Intra community purchase of services	1,500	x 23%	345	345	1
Local purchase of services	2,100	x 23/123		393	0.5
Leasing of computer equipment (operating)	500	x 23/123		93	0.5
Leasing of car (financial)	50,000	x 23/123 x 50%		4,675	1
Petrol	300	x 23/123 x 50%		28	1
Salary	4,000	non-vatable		0	0.5
Totals			<u>2,588</u>	<u>5,534</u>	<u>10</u>

2 Janusz

Social security contributions (ZUS), health care contributions (HSC) and personal income tax (PIT) using the tax card for 2016

ZUS	4,100 x 60% x 34.35% x 12		PLN 10,140	1.5
HSC	4,100 x 75% x 9% x 12		3,321	1.5
PIT based on the tax card				
	Employee	Ancillary	No effect	
Janusz			V	0.5
Owner				
Sebastian			V	1
Underage son living together in same household				
Mateusz		V		1
Grown-up son living in same household				
Miroslaw	V			1
Son living in different household				
Roman		V		1.5
Sales and cleaning only, disability has no effect				
Total number	1	2		
Tax due:				
PIT	(343 x 160%) > 531	hence (531 x 12)	PLN 6,372	1.5
less HSC	(3,321/9 x 7.75)		(2,860)	0.5
			<u>3,512</u>	<u>10</u>

## 3 Szybki Lopez Sp. z o.o. (SLSZ)

## (a) Deductible tax costs arising from lease agreements

		PLN	
Agreement A – operational lease			0.5
Tax cost (10 x 800)		<u>8,000</u>	1
Agreement B – financial lease			0.5
Market value (MV)		30,000	
Instalments	((900 x 36) + 1)	32,401	0.5
Interest component	(2,401/32,401)	7.4%	1
Interest cost 2016	(10 x 900 x 7.4%)	666	1
Depreciation	(20% x 30,000 x 9/12)	<u>4,500</u>	1.5
Agreement B tax cost		<u>5,166</u>	
Agreement C – operational lease			
(48 x 700 < 40,000)			1
Tax cost (6 x 700)		<u>4,200</u>	1
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**Tutorial note:** In the case of Agreement C, although the agreement states that depreciation will be performed by the lessee, the condition regarding the value of the instalments v the initial value is not met.

- (b) In the case of a financial lease, the general rules requiring the sale price to be set at market value are not applicable. Therefore, as lease Agreement B is an agreement for a financial lease, the price set in the agreement between the lessor and the lessee may be significantly lower than the market price of the asset at the end of the lease, i.e. PLN 1, without there being any negative tax effect for the lessor (e.g. assessment of additional taxable income).

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**Tutorial note:** In the case of an operating lease, the price set should not be lower than the net hypothetical value of the asset (being the initial value less depreciation calculated for the lease period at the reducing balance method with a factor of 3).

## 4 Zakręcona Sp. z o.o. (ZSZ)

## (a) Tax arrears and penalties due on 15 March 2017

	Amount in arrears PLN	Date of delay	Delay (days)	Penalty interest at 8% PLN	
Input value added tax (VAT) (130,000 x 23%)	29,900	27 December	78	511	1 + 1.5
Withholding tax (WHT) on interest (25,000/0.8 x 20%)	<u>6,250</u>	7 December	98	<u>134</u>	1 + 1.5
	<u>36,150</u>			<u>645</u>	
Total due (36,150 + 645)				<u>36,795</u>	<u>5</u>

**Tutorial notes:**

- (i) There are no arrears of corporate income tax (CIT) as the bank transfer and other documents are sufficient to prove cost deductibility for the materials purchased and the interest.
- (ii) Since 25th and 26th are public holidays in Poland, according to Tax Code the arrears are calculated from the next working day (27th) rather than VAT return deadline of 25th. The candidates who started the calculation from VAT return deadline of 25th are given equal marks though.

- (b) A taxpayer is fully responsible to the extent of all their assets for the proper calculation and payment of their own tax.

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A tax remitter is fully responsible to the extent of all their assets for the proper calculation and payment of the tax of another person. The remitter may be relieved from responsibility if the tax was wrongly calculated or not paid due to the fault of the taxpayer.

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A tax collector (*inkasent*) is fully responsible to the extent of all their assets only for the payment of the tax collected from another person. The tax collector may be relieved from responsibility if the tax was not paid due to the fault of the taxpayer.

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## 5 Jan Przedsiębiorczy

### (a) Taxes and contributions to be paid or remitted by Aktywna Sp z o.o. (ASZ)

	PLN	
<b>Value added tax (VAT) – ASZ</b>		
Output VAT (24,000 x 23/123 x 12)	53,854	1
Input VAT (4,000 x 23/123 x 12)	(8,976)	1
Net VAT payable	<u>44,878</u>	
<b>Employer's social security</b>		
Gross salaries (2,500 x 4 x 12)	120,000	
Employer's social security (120,000 x 20.74%)	<u>24,888</u>	2
<b>Personal income tax (PIT) on dividend – Jan</b>		
Net cash distribution	<u>40,690</u>	0.5
PIT at 19%	<u>7,731</u>	0.5

### Employees PIT, social security (ZUS) and health care contributions (HSC) remitted

	Per employee per month PLN	Total (x 4 x 12) PLN	
Gross pay	2,500		
Less: ZUS at 13.71%	<u>(343)</u>	16,464	2
HSC base	2,157		
Less: Costs	<u>(111)</u>		1
PIT base	<u>2,046</u>		
Tax at 18%	368		0.5
Less: (556/12)	<u>(46)</u>		0.5
PIT	322		
Less: HSC (2,157 x 7.75%)	<u>(167)</u>		1
PIT due to be remitted	<u>155</u>	7,440	
HSC to be remitted (2,157 x 9%)	194	9,312	1
		<u>11</u>	

### (b) If Jan were to operate the hand car wash business as his individual business activity rather than as a limited liability company, he would eliminate the double taxation on the dividend distributed from ASZ.

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However, an additional HSC contribution would be payable by Jan, although this would be partly offset against the PIT on his business income leaving only a margin of 1.25% (9 – 7.75) as the effective cost.

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	PLN	
PIT on dividend (as calculated in part (a))	7,731	
Non-recoverable HSC charges (annual basis) (4,100 x 75% x 1.25% x 12)	<u>(461)</u>	
Net saving	<u>7,270</u>	1

**Marks**

If ASZ's business profits were higher by PLN 100,000, the saving would also be proportionally due to the elimination of double taxation on the dividend. Considering that the HSC contributions would not grow, the saving would be effectively 19% of any additional dividend payment made.

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**Tutorial note:** If Jan's employment income is significantly below PLN 85,528 such that the progressive rate rather than the flat rate of 19% would apply to his business income, then the tax saving could be even higher.

**6 Czyściocha Sp. z o.o (CSZ) – Corporate income tax (CIT) for 2016**

	<b>Costs PLN</b>	<b>Revenues PLN</b>	
Sale proceeds less advance payments (14,500,000 – 800,000)		13,700,000	1
Benefit in kind (1,000 x 12)		12,000	0.5
Loan debt waived		80,000	0.5
Loan debt forgiven	0		0.5
Depreciation (443,932 + 526,059) (see working)	969,991		0.5
Production capacity tests (10,000 x 1.23)	12,300		1
Rent of factory (400,000 + (400,000 x 5/7)) x 1.23	843,429		1
External services and materials (3,500,000 x 1.23)	4,305,000		1
Salaries (7,000 x 12 x 50)	4,200,000		0.5
Social security of employer (4,200,000 x 20.74%)	871 080		1
Donation	0		0.5
	<u>11,201,800</u>	<u>13,792,000</u>	
		(11,201,800)	
Taxable income		2,590,200	0.5
Donation (restricted to 10% of income)		(259,020)	0.5
Tax base for CIT		<u>2,331,180</u>	

**Depreciation working**

		<b>PLN</b>	
Production line 2 (PL2)– acquired in 2016			
Acquisition price		1,200,000	0.5
Customs duty at 6%		72,000	0.5
VAT on import	((1,200,000 + 72,000) x 23%)	292,560	1
Installation services	(17,000 x 1.23)	20,910	1
Initial value of PL2		<u>1,585,470</u>	
Depreciation of PL2 2016	(1,585,470 x 14% x 3 x 8/12)	443,932	1.5
Production line 1 (PL1) – acquired in 2015			
Initial value 2015 (as above)		1,585,470	
Less: Depreciation 2015	(1,585,470 x 14% x 3 x 6/12)	(332,949)	1
Initial value carried forward to 2016		<u>1,252,521</u>	
Depreciation of PL1 2016	(1,252,521 x 14% x 3)	526,059	0.5

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