Answers

Section B *Marks*

1 Zdzisex Sp. z o.o.

Corporate income tax (CIT) for 2017

	PLN	PLN	
Invoiced sales		2,500,000	0·5
Additional products shipped in December 2017		200,000	0·5
Prepayments received		0	0·5
Maintenance services (10*35,000)		350,000	1
Bad debt written off recovered (45,000*100/123)		36,585	1
Materials used for production of goods sold	1,400,000		1
Salaries	230,000		0·5
Employer's social security contributions (230,000*20·74%)	47,702		1
Donation	0		0·5
Free of charge benefit – rent		105,000	1
	1,677,702	3,191,585	
		(1,677,702)	
Taxable income		1,513,883	
Tax loss (50% of 2015 and 2016 – (200,000 + 400,000)/2)		(300,000)	1
Donation (limited to 10% of taxable income)		(151,388)	1
Tax base		1,062,495	
Tax at 19%		201,874	0·5
			10

2 Mega Kops Sp. z o.o.

Value added tax (VAT) for May 2017

	Tax base PLN	VAT PLN	
Output VAT			
Sales in Poland	750,000	172,500	0·5
Wholesale sale to German customer	200,000	0	0·5
Internet sales in the EU	40,000	9,200	0·5
Ognista Zagłada free gifts (<PLN 90 each)	–	0	1
Premium bundle free gifts (PLN 130 each – taxable in full)	13,000	2,990	1
Wielkie Bydle samples (<PLN 10 each)	–	0	1
Free of charge advice to customers (free service connected to business activity)	–	0	1
Materials purchased in Slovakia (intra-community acquisition)	300,000	69,000	0·5
		253,690	
Input VAT			
Materials purchased in Poland	200,000	46,000	0·5
Materials purchased in Slovakia (intra-community acquisition)	300,000	69,000	0·5
Rent of premises	60,000	13,800	0·5
Employees salaries (not VATable)	–	0	0·5
Representatives salaries	65,000	14,950	1
Lease of cars (12*8,000*50%)	48,000	11,040	1
		154,790	
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Marks

3 Kuzyn Sp. z o.o.

Interest paid on 31 December 2017 not deductible for corporate income tax (CIT)

	PLN	
Registered share capital	3,000,000	0·5
Less:		
Contributed know-how	(750,000)	0·5
Part of debt to equity swap allocated to registered capital	(1,000,000)	1
Supplementary capital (in full)	4,000,000	1
Retained earnings from previous years	2,100,000	0·5
Year to date income as at 30 November 2017 (500,000 – 50,000)	450,000	1
Equity for thin capitalisation purposes	7,800,000	
Debt subject to thin capitalisation		
Bank loan	0	0·5
Loan from Baltazar Sp. z o.o.	0	0·5
Loan from Albert Sp. z o.o.	12,000,000	0·5
Interest to 30 November (5%*11/12*12,000,000)	550,000	1
Management fees (200,000*11)	2,200,000	1
Loans granted	(2,300,000)	0·5
	12,450,000	
Excess interest portion ((12,450,000 – 7,800,000)/12,450,000)	37·35%	1
Disallowed interest (12,000,000*5%*37·35%)	224,100	0·5
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4 An individual starting a business activity can choose any of four methods of taxation, as follows:

(1) Standard method
Under this method, the individual's income from business activity (revenue less allowable expenses) is cumulated with their other personal income and the joint result is taxed at the progressive personal income tax rates, i.e. 18% on the first PLN 85,528 and 32% on any excess. Reliefs and joint taxation with a spouse or children are available under this method. This is the default method and will apply if no other method is chosen. 2

The accounting method for the standard (progressive) method of taxation may be either full accounting (general ledger, balance sheet, profit or loss statement) or the alternative simplified accounting system, the so called book of revenues and disposals (*księga przychodów I rozchodów*) where revenues and costs are booked. In addition, a fixed asset register should be kept. 1·5

(2) Flat rate taxation of income
Under this method, the individual's business income (revenue less allowable expenses) is taxed separately using the flat rate of 19%. Reliefs and joint taxation with a spouse or children are not available under this method. 1·5

The accounting requirements for this method are the same as for the standard (progressive) method. 0·5

(3) Flat rate taxation of revenue
Under this method, the tax is based on the revenue earned from business activity less social security contributions. No other costs are deductible. The rates of revenue taxation vary from 3% to 20% depending on the type of activity. 1·5

In the case of flat rate taxation of revenues, the business needs to keep a record of revenues, sufficient to enable the identification of the type of revenue with the appropriate tax rate. In addition, a fixed assets register should be kept. 1

(4) The tax card
Under this method, the tax payable is not related to the amount of income or revenue earned, but is established depending on the type of activity (which must be an activity enumerated in tax card regulations), the size of the town where the activity is performed and the number of employees. 1·5

Because this method is not based on either revenue or income, no specified form of accounting is required. 0·5

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Tutorial note: *If the business is required to register as a value added tax (VAT) payer, then it will have to run VAT accounting (i.e. a VAT register) irrespective of the method chosen for personal taxation.*

Marks

5 Lawirant Sp. z o.o.

(a) General anti-avoidance regulations

The new (2016) anti-tax avoidance regulations evasion rules may be applied where a taxpayer performs an action which is done either predominantly or solely for the purposes of achieving a tax benefit and such action is in its particular situation contrary to the aim and objective of the tax law or the manner of the taxpayer's action is artificial. 2

Where the tax authorities find a given operation of the taxpayer to be predominantly aimed at obtaining a 'tax benefit' (i.e. avoiding tax), they should identify a so called 'adequate' action/operation which in the given circumstances would have been followed by a reasonable entity in order to achieve the same economic aims other than the avoidance of tax. Once the adequate action has been identified (e.g. the direct sale of an asset instead of a complex series of transactions), the tax effect is assessed based on such theoretical action. 2

Where the tax authorities find that a given operation/action is performed solely for the purpose of avoiding tax, its tax effects may be completely disregarded. 1

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(b) Corporate income tax (CIT) liability for 2017

	PLN	
Loss before adjustments	(2,300,000)	0·5
Purchase of advisory services (no services provided)	12,000	1
Sale below market wholesale price (20,000*300)	6,000,000	1
Excess interest on shareholder loan (6/9*1,000,000)	666,667	1
Workshop disposal (adequate sale income (3,200,000 – 2,800,000))	400,000	1
Loss on licence sold (disregarded as artificial)	1,500,000	1
Design licence annual cost (disregarded as artificial (10/12*100,000))	83,333	1
Omitted costs	(250,000)	0·5
Accelerated depreciation (an allowed optimisation)	0	1
Taxable income	6,112,000	
Tax at 19%	1,161,280	0·5
Penalty interest from 1 April to 30 November 2018 (8%*244/365*1,161,280)	62,105	1·5
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Tutorial note: *It is debatable as to whether the elimination of the licence sale loss and cost should be accompanied by the reinstatement of any trademark amortisation cost (not given in the question) claimed before the date of sale. On the one hand, this would be in line with the rule to eliminate ALL the effects of the tax benefit arising from the taxpayer's actions. On the other hand, the licence once sold has also been removed from the fixed asset and intellectual property register which may be viewed as a formal requirement for making write offs.*

Marks

6 Anastazja

Personal income tax (PIT) liability for 2017

		PLN	PLN	
Revenues				
Alfa Sp. z o.o.				
Administrative services	(11*4,000)	44,000		1
Programing services		6,000		0·5
			50,000	
Beta Sp. z o.o.				
Gross salary	(9*11,000)	99,000		1
Benefits:				
Computer		9,000		0·5
Mileage allowance	(1,000 – 600)	400		1
Hotel reimbursement		0		0·5
			108,400	
Taxable revenue			158,400	
Social security – Alfa	(2*4,000*(13·71% – 2·45%))		(901)	2
Social security – Beta	(108,400*13·71%)		(14,862)	1
Costs: Alfa administrative services	((44,000 – 901)*20%)		(8,620)	1
Costs: Alfa copyrights	(6,000*50%)		(3,000)	1
Flat rate costs	(10*111·25)		(1,113)	1
Tax base			129,904	
Half base			64,952	0·5
Tax at 18% less 556			11,135	0·5
Tax x 2			22,270	0·5
Less health service contribution (HSC) – Alfa	((50,000 – 901)*7·75%)		(3,805)	1
Less HSC – Beta	((108,400 – 14,862)*7·75%)		(7,249)	1
Less child relief	(2*1,112)		(2,224)	1
Tax due			8,992	
				15