

Fundamentals Level – Skills Module

Taxation (Czech)

Monday 3 December 2007

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

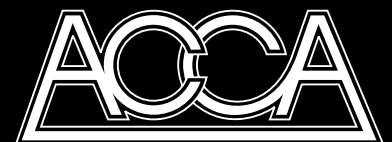
ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 3–5.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants



Paper F6 (CZE)

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The question paper begins on page 3.**

SUPPLEMENTARY INSTRUCTIONS:

1. Calculations and workings need only 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.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions

Individual income tax – 2007

Taxable income	Tax payable
CZK 0 – 121,200	12%
CZK 121,201 – 218,400	14,544 + 19% from the tax base over 121,200
CZK 218,401 – 331,200	33,012 + 25% from the tax base over 218,400
CZK 331,201 and above	61,212 + 32% from the tax base over 331,200

Individual income tax credits – 2007

Personal	CZK 7,200
Dependent spouse	CZK 4,200
Child	CZK 6,000
Student	CZK 2,400

Tax depreciation periods from 2005

Group 1	3 years
Group 1a	4 years
Group 2	5 years
Group 3	10 years
Group 4	20 years
Group 5	30 years
Group 6	50 years

Depreciation rates under the straight-line method from 2005

	1st year %	following years %	for increased input price %
Group 1	20	40	33·3
Group 1a	14·2	28·6	25
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

Depreciation rates for the first three groups where the rate is increased by 10% in the first year:

	1st year %	following years %	for increased input price %
Group 1	30	35	33·3
Group 1a	24·1	25·3	25
Group 2	21	19·75	20
Group 3	15·4	9·4	10

Depreciation rates under the accelerated method from 2005

	1st year	following years	for increased tax residual value
Group 1	3	4	3
Group 1a	4	5	4
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

Depreciation periods for intangible assets – 2007

Audiovisual work	18 months
Software and R&D results	36 months
Start-up costs	60 months
Other intangible assets	72 months

Tax depreciation periods up to 2004

Group 1	4 years
Group 2	6 years
Group 3	12 years
Group 4	20 years
Group 5	30 years
Group 6	50 years

Depreciation rates under the straight-line method up to 2004

	1st year %	following years %	for increased input price %
Group 1	14.2	28.6	25
Group 2	8.5	18.3	16.7
Group 3	4.3	8.7	8.4
Group 4	2.15	5.15	5.0
Group 5	1.4	3.4	3.4
Group 6	1.02	2.02	2

Depreciation rates under the accelerated method up to 2004

	1st year	following years	for increased tax residual value
Group 1	4	5	4
Group 2	6	7	6
Group 3	12	13	12
Group 4	20	21	20
Group 5	30	31	30
Group 6	50	51	50

Corporate income tax – 2007

Corporate tax rate	24%
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Value added tax

Standard rate	19%
Reduced rate	5%
Registration threshold limit	CZK 1,000,000

Social security and health care insurance contributions – 2007

Social security	Employee's contributions	8·0%
	Employer's contributions	26·0%
Health care insurance	Employee's contributions	4·5%
	Employer's contributions	9·0%

Central bank interest rate (diskontní sazba) – 2·5%

ALL FIVE questions are compulsory and MUST be attempted

- 1 Publishers, s. r. o. (Publishers) is a Czech tax resident. In 2007 Publishers accounted for revenues from goods and services sold in the amount of CZK 20,370,000 and costs of services received and goods purchased in the amount of CZK 4,120,600. The company's accounting period is the same as the calendar year.

The following additional information relates to the activities of Publishers for the year 2007:

- (1) Publishers has three partners and ten employees, all of whom work full time for the company. The partners are employed by the company and their salary is CZK 150,000 per month each; other employees earn CZK 30,000 per month each. One of the employees is severely disabled. All of the employees were employed with Publishers and worked without taking any unpaid leave for the whole year.
- (2) The company paid pension and life insurance premiums for all of its employees in the maximum deductible amount for tax purposes.
- (3) The company paid CZK 150,000 in travel allowances to the employees, CZK 50,000 of which were above the statutory limit.
- (4) One of the company's cars was involved in an accident in June. The car had been acquired in 2005 for CZK 1,950,000. After the accident the car was repaired and sold for CZK 1,200,000. The repair costs amounted to CZK 200,000. The car was insured and the insurance company paid Publishers CZK 200,000 in compensation in September. The car has been depreciated using the accelerated method for tax purposes (depreciation group 1a). The accounting written down value of the car was CZK 1,000,000.
- (5) The company agreed with the owner of the building in which they have been leasing their offices, that they would refurbish the attic floor of the building to create an additional 50 m² of office area. The refurbishment was completed in November at an overall cost of CZK 2,000,000. According to the written agreement between Publishers and the owner of the building, the owner agreed that Publishers depreciate the asset (depreciation group 6).

The annual rent for the original 300 m² of office space amounted to CZK 1,080,000 in 2007. The market value of the building is CZK 7,000,000, Publishers, use 100% of the building. The accounting depreciation charge is the same as the tax depreciation charge; the straight line method and depreciation group 6 apply.

- (6) The company sponsors the Social Democratic political party. The agreement on sponsorship obliged the political party to show Publisher's logo at their annual congress and the political party received CZK 250,000 for this from Publishers.
- (7) In addition, Publishers printed 500 booklets and 200 calendars, all with the logo of the Social Democratic party for the congress, at their own expense, as a gift in kind without a claim for any counter service. The costs amounted to CZK 50,000 for the booklets and CZK 100,000 for the calendars.
- (8) Publishers produced and distributed marketing presents (pens, pencils, umbrellas and cups) to their customers, the total cost of which amounted to CZK 70,000. All the presents show Publishers' logo and had a cost per item between CZK 250 and CZK 480.
- (9) Publishers received a dividend for the equivalent of CZK 180,000 (gross) from their 100% Polish subsidiary and a dividend for the equivalent of CZK 30,000 (gross) from their Ukrainian 100% subsidiary. The Ukrainian subsidiary withheld 10% tax at source in accordance with the Czech/Ukrainian double tax treaty.
- (10) Publishers created a statutory reserve of CZK 15,000 and released another reserve in the amount of CZK 20,000 created in 2004.
- (11) The accounting depreciation charge in respect of assets other than those referred to in (4) and (5) above amounted to CZK 420,000 and their tax depreciation charge to CZK 520,000.
- (12) Publishers paid tax advances for corporate income tax purposes in the amount of CZK 82,500 on 15 March 2007, 15 June 2007, 15 September 2007, 15 December 2007, and 15 March 2008, respectively.
- (13) Publishers is represented by a registered tax adviser.

Required:

- (a) Calculate Publishers, s. r. o.'s 2007 corporate income tax liability and the tax due, and state the due date of payment. Use all possible tax deductible items in the maximum amounts. (24 marks)
- (b) State the conditions that have to be fulfilled for the pension and life insurance premiums (note (2)) to be tax deductible. (3 marks)
- (c) State in what circumstances a corporate tax payer can claim a tax deduction for donations or gifts. Your answer should include the minimum and maximum limits. (3 marks)

(30 marks)

2 Ms Mandler is a freelance interpreter. She is a Czech national, but no longer has a permanent home in the Czech Republic as she has been living in Germany since 1969. In 2007 Ms Mandler spent a total of 220 days in the Czech Republic. In 2007 Ms Mandler has had the following jobs:

- (1) Interpreting at a congress in Prague for five days in February, organised by a Czech tax resident company, for which she received CZK 100,000.
- (2) Interpreting at a congress in London for three days in May, organised by a UK tax resident, for which she received the equivalent of CZK 150,000.
- (3) Linguistic correction of a book, performed in the Czech Republic on the basis of 'Dohoda o provedeni prace' contract, concluded with the publisher ABC, s. r. o. (a Czech tax resident) in January 2007, for which she received CZK 35,000.
- (4) Writing of an article for Lidove noviny in July for which she received CZK 2,500. Ms Mandler wrote this article when she was in Germany.
- (5) In September Ms Mandler concluded a contract with Printers, s. r. o. (Printers), whose registered seat is Brno, Orli 2, according to which she will perform linguistic checks for them on a regular basis. The contract concluded is for two years starting on 1 October 2007. According to the contract, Ms Mandler is obliged to be present at Printers' premises for five working days each month. Printers will provide Ms Mandler with an office and all necessary equipment at their branch in Prague 1, Panska 8. She is to receive a lump sum payment of CZK 20,000 a month under this contract. The contract is not an employment contract; Ms Mandler will perform the service as a freelance interpreter. Printers will charge Ms Mandler CZK 5,000 per month for the use of their premises and equipment.

The following additional information is applicable to Ms Mandler for 2007:

- (6) She owns and lets out a flat in Prague on an annual (12 months) basis. The rent is CZK 30,000 per month. She has never lived in this flat.
- (7) She received a dividend from a French tax resident company equivalent to CZK 50,000 gross. Tax was withheld at the rate of 10% in France in accordance with the Czech/French double tax treaty.
- (8) She spent two months (61 days) in Marianske Lazne to cure her kidney and urinary tract problems.
- (9) She has no bookkeeping obligation and she will apply deductible lump sum expenses at statutory rates.
- (10) She paid neither social security nor health insurance in the Czech Republic in 2006.
- (11) The Czech Republic has concluded a double tax treaty with Germany which allows the exemption with progression method for the elimination of double taxation.

Required:

(a) Calculate Ms Mandler's 2007 income tax base in the Czech Republic if:

- (i) she is a Czech tax resident; and** (11 marks)
- (ii) she is a German tax resident.** (4 marks)

In each case give reasons for the exclusion of any item of income from the tax base. You are NOT required to calculate the tax payable.

(b) Assuming that Ms Mandler is a German tax resident:

- **state the obligations she has towards the Czech tax authorities during 2007, including relevant dates and the competent authority; and**
- **the sanctions that might be applied to Ms Mandler if she did not fulfil these obligations.** (5 marks)

(c) Based solely on the information provided state, giving reasons, whether Ms Mandler will be tax resident in the Czech Republic in 2007. (3 marks)

(d) Calculate the interest that would be charged by the financial authorities if Ms Mandler were to pay CZK 10,000 of her tax liability 60 days late. (2 marks)

(25 marks)

- 3 (a) (i) **State when a company is liable to value added tax (VAT) and when a company liable to VAT is exempt from its application. Give an example of when a company is not liable to VAT.** (3 marks)
- (ii) **State when a company is obliged to register as a VAT payer and indicate the statutory time limit.** (2 marks)

(b) AXIA, s. r. o. (AXIA) is a monthly value added tax (VAT) payer, which keeps double-entry bookkeeping. The following information relates to the company's transactions for the month of April 2007.

- (1) Purchased inventories for CZK 250,000 on 10 April.
- (2) Purchased a new printing machine. The price of the machine was CZK 750,000; AXIA paid 20% of this price on 25 March and the remaining part on 15 April, when the machine was delivered and installed in their premises. They used the machine for the first time on 5 May.
- (3) Received payments of CZK 500,000 for supplies they delivered to Czech customers in April.
- (4) Received advanced payments of CZK 260,000 on 26 April and CZK 140,000 on 30 May for leaflets ordered by a customer in March, to be printed and delivered by the end of May. The total price indicated in the contract amounts to CZK 450,000 and the remaining amount will be due on delivery.
- (5) Received a complaint from a customer for which AXIA, s. r. o. had printed leaflets with an error. AXIA agreed with the customer to refund 100% of the price amounting to CZK 25,000. The customer had paid this amount at the time of delivery on 15 March and AXIA returned this amount to them on 25 April.
- (6) Sent printed posters to a US customer in New York, for which the customer paid the equivalent of CZK 60,000 on 28 April.
- (7) Sent printed posters to a French customer in Paris, for which the customer paid the equivalent of CZK 80,000 on 30 April. This customer is registered for VAT with the French authorities.

Neither the US nor the French customer has a permanent establishment in the Czech Republic.

All the above mentioned amounts are stated exclusive of VAT.

Required:

- (i) **Prepare AXIA, s. r. o.'s April 2007 value added tax (VAT) return and state by when it must be submitted.** (8 marks)
- (ii) **State what AXIA, s. r. o. is obliged to do in relation to the supply made to their French customer, including the statutory time limit.** (2 marks)

(15 marks)

4 The following information relates to Mr Novak, a Czech tax resident.

- (1) He started a business on 1 February 2007. He received his trade certificate on 15 January 2007.
- (2) He started building a house in 2003 and the house was finished in September 2007. Mr Novak has been living in the house since then and has registered the address of this house as his place of business with the competent trade authority.
- (3) The total area of the house is 300 m², 100 m² of which Mr Novak has been using as offices. The cost of the construction of the house as agreed with the general supplier amounted to CZK 4,000,000. In addition Mr Novak is able to produce invoices and receipts for some additional interior works, such as the supply of the kitchen, floors and tiles for CZK 800,000. When the construction was completed Mr Novak had an expert valuation dated 1 October 2007 which stated the market value of the house at CZK 6,000,000. The house belongs to depreciation group 5.
- (4) In November 2007 Mr Novak bought the following movable assets and included them in his business assets:
 - (a) three paintings of contemporary art for CZK 50,000 each;
 - (b) one sofa for CZK 100,000;
 - (c) six desks for CZK 60,000 (CZK 10,000 each);
 - (d) three tables for CZK 75,000 (CZK 25,000 each); and
 - (e) 21 chairs for CZK 105,000 (CZK 5,000 each).

All the depreciable assets listed above belong to depreciation group 2.

- (5) In November 2007 Mr Novak purchased a software package for CZK 180,000, which will be used solely for business purposes.
- (6) Mr Novak has a car (depreciation group 1a) which he has been using for both business and private purposes (50% for business and 50% for private purposes). He included the car in his business assets when he started his business. He bought the car in 2002 for CZK 800,000. The market value of the car according to an expert valuation was CZK 400,000 in February 2007.
- (7) In May 2006 Mr Novak bought a new Nikon professional digital SLR camera (depreciation group 2) for CZK 120,000. He will now be using the camera solely for business purposes. He included it in his business assets when he started his business. The market value according to an expert valuation was CZK 105,000 in February 2007.
- (8) Mr Novak will apply the accelerated method of depreciation to all assets except the immovable property and the camera, which will be depreciated using the straight line method.
- (9) Mr Novak has not kept statutory bookkeeping and each of the above mentioned assets is valued and registered separately.

Required:

(a) Calculate the maximum allowable deduction available to Mr Novak in 2007 for the costs of his business assets. (13 marks)

(b) State the due dates by which Mr Novak must register with the competent authorities for the purposes of:

- **income tax; and**
- **social and health insurance.** (2 marks)

(15 marks)

- 5** Mr Vojta is a Czech tax resident. He is married and has three dependent children. His wife is employed; she does not claim any child tax credit.

The following additional information is relevant to Mr Vojta for 2007:

- (1) Mr Vojta was working in the UK from January to June 2007. His gross UK income was GBP 12,000 and his UK employer deducted GBP 1,200 as mandatory social security insurance contributions for 2007.
- (2) Mr Vojta paid UK tax on his UK employment income. The amount of UK tax paid on his 2007 UK income was GBP 3,000. The Czech/UK double tax treaty stipulates exemption with progression for the elimination of double taxation on employment income.
- (3) Mr Vojta has been working in the Czech Republic since July 2007 for the company Credit, s. r. o.. His gross Czech income was CZK 260,000 and his employer deducted CZK 32,500 as social and health insurance contributions for 2007. Credit, s. r. o. withheld CZK 65,000 from Mr Vojta's salary as a tax prepayment for 2007.
- (4) Credit, s. r. o. provided Mr Vojta with a personal company car for both business and private purposes from July to December. The acquisition price of the car was CZK 1,200,000. The car was three years old on 1 July 2007 and its accounting book value on this date was CZK 400,000.
- (5) Mr Vojta has a bank account in the UK. Interest on this UK account for 2007 amounted to GBP 500. Mr Vojta did not pay any UK tax on this interest.
- (6) Mr Vojta received net income of SKK 50,625 as author's income for articles issued in Slovakia in December 2007. The Slovak tax withheld amounted to SKK 11,875. The Czech/Slovak double tax treaty stipulates the credit method for the elimination of double taxation.
- (7) Mr Vojta paid life insurance of CZK 18,000 and CZK 20,000 pension insurance with a state subsidy. Both insurance schemes fulfill the statutory conditions stipulated by the Czech Income Tax Act.

Note: you should use the following annual exchange rates in answering this question:

GBP 1 = CZK 43

SKK 1 = CZK 0.80

Required:

Calculate the Czech income tax payable or overpaid by Mr Vojta for 2007 assuming that he will use a separate tax base for the UK interest income.

(15 marks)

End of Question Paper