
Answers

1 Bagat Sp.z o.o.

(a) Change of tax accounting year

Formal decision by appropriate company body required.

Notification to the tax office within 30 days of the last year end.

New period at least 12 and at the most 23 months to the new date.

The rate in force at the start of the period applies for the whole 'tax year'.

(b) Use of the simplified (optional) method

(i) Not in the first two tax years from commencement.

Based on the tax due for the tax year in the declaration lodged in the prior year.

If no tax payable in that declaration, then based on the tax per the previous declaration lodged in the previous year.

If no tax payable in either year, the method cannot apply.

Must decide before the first instalment ('tax advance') is due, then apply the method for the whole year.

Tax declared for the year of the relevant declaration is taken, divided by the number of months in the period, and adjusted if necessary for differing tax rates.

Paid monthly just as normal CIT, with two instalments in the penultimate month.

(ii) In the case of Bagat Sp.z o.o. the declaration lodged in 2006 related to 2005 and showed a loss. Hence, declaration lodged for the prior tax year, in 2005, must be taken.

That declaration was for the 16 month period ended 31 December 2004, which was taxed at 27%.

So, the monthly instalments will be $71,280/16 \times 19/27$ i.e PLN 3,135 per month and PLN 37,620 for the year.

(c) Dividend tax credits available.

The tax withheld (dividend tax credit) is deductible from the normal CIT.

If there is no 'normal' CIT due to losses or reliefs, the credit may be carried forward indefinitely and will reduce the CIT liability (should one eventually arise) in the future.

Thus, the maximum credit available for deduction in 2007 will be:

Re 2003	$17,000 \times 15/85$	3,000
Re 2006	$20,250 \times 19/81$	4,750
Re 2007	$16,200 \times 19/81$	3,800
		<u>11,550</u>

(d) Taxable income and tax payable/repayable for the year ended 31 December 2007.

	- PLN	+ PLN
Accounting profit		990,000
(1) Receipt from disallowed bad debtor (tax free)	6,700	
(2) Excluded Polish dividend	16,200	
Gross up UK dividend (18,000 * 10/90)		2,000
(3) Interest accrued not taxable (2,600 – 2,150)	450	
(4) Both penalties for poor work and delay (kary umowne)		30,000
(5) Director's pay not in contract		50,000
Bonuses not actually paid		82,200
PFRON payments disallowed		16,600
(6) Director's loan (all other items allowed)		5,000
(7) Prepaid premises rental 32,000 x 1/4 (operating lease allowed)		8,000
(8) Abandoned capital expenditure		25,000
(9) Private medical insurance (both other items allowed)		12,000
	<u>23,350</u>	<u>1,220,800</u>
		(23,350)
Income for year		1,197,450
Loss relief: losses of 17,200 * 1/2	8,600	
24,000 * 1/2	12,000	
	<u>20,600</u>	
Tax base		<u>1,176,850</u>
Tax at 19%		223,601
Less: credit for UK tax (maximum 20,000 at 19%)		<u>(2,000)</u>
Polish liability		221,601
Less: Polish dividend tax credits (from part (c))		<u>(11,550)</u>
Tax liability for year		210,051
Less: payments on account (from part (b))		<u>(37,620)</u>
Additional tax payable after the year end		<u>172,431</u>

2 Lech, Czech and Rus Staroslowianscy
Lech: Tax computation for the year 2007

	PLN	PLN
Director's fees	121,335	
Less: allowed cost (111.25 x 12)	<u>(1,335)</u>	
		120,000
Rental from 1 April 2007 (nine months)		
Rent received (5,600 x 9)	<u>50,400</u>	
Depreciation of building (300 x 988 = 296,400 x 1.5% x 9/12) (assume brought into use before 1 April 2007)	3,335	
Depreciation of furniture (132,000 x 14% x 9/12)	13,860	
Insurance (2,000 x 3/4)	1,500	
Property tax (2,240 x 3/4)	<u>1,680</u>	
	<u>20,375</u>	
Income from rent		<u>30,025</u>
Total income		150,025
Reliefs from income		
Internet (maximum)	760	
Documented gift	<u>4,000</u>	
		<u>(4,760)</u>
Tax base		<u>145,265</u>
No joint taxation, since divorced in the year, so he cannot apply either as a married or single parent this year.		
Tax on PLN 85,528		20,311
Tax at 40% on balance of PLN 59,737		<u>23,895</u>
		44,206
Less: Child deduction nine months (120 x 9/12)		<u>(90)</u>
Final liability		<u>44,116</u>

Czech: Tax computation for the year 2007

	PLN	PLN
Salary: gross		55,000
Less: ZUS	10,290	
Allowed cost (111.25 x 12)	1,335	(11,625)
		<u>43,375</u>
Hotel bills – exempt		0
Meal excess (1,600 – (24 x 40))		640
Overnight accommodation allowance	900	
Allowed (1.5 x 24 x 15)	540	
		<u>360</u>
Excess		360
Suits (benefit in kind = prz w naturze)		1,700
		<u>46,075</u>
Total salary income		46,075
Individual activity: expert fee gross	5,000	
Less: allowed flat rate cost 20%	1,000	
		<u>4,000</u>
Income		4,000
Total income		<u>50,075</u>
Single parent taxation: half of income	25,038	
Tax at 19%	4,757	
Less:	573	
		<u>8,368</u>
Total liability (2 x)	4,184	8,368
Less: Child deduction (2 x 120)		240
		<u>8,128</u>
Final liability		8,128

Rus: Tax computation for the year 2007

Remains a Polish resident so is taxed on his total (world) income.

The effective tax rate on his total income is applied to non-excluded sources (exclusion with progression)

	PLN	PLN
Polish sources: business income		12,000
Bulgorusian: salary	75,092	
Allowed: standard cost (111.25 x 5)	556	
Overnight allowance 120 nights (actual stay) (42 x 3 x 30% x 120)	4,536	
		<u>70,000</u>
Bulgorusian income	5,092	70,000
Total income		<u>82,000</u>
Tax on PLN 43,405		7,674
Tax at 30% on balance of PLN 38,595		11,579
Total tax		<u>19,523</u>

Effective rate = 19,523/82,000 = 23.48% is applied to non-excluded income (in this case Polish only)

Final Polish tax liability (23.48% x 12,000) PLN 2,818

No credit for Bulgorusian tax

3 Bor and Partners

(a) VAT payable for the month of December 2007	Input PLN	Output PLN
Output tax: Consulting 80,000 x 22%		17,600
Commercial 510,000 x 22%		112,200
Apartment rental (exempt)		<u>0</u>
		129,800
Input tax: Advertisements (rental)		
– commercial 5,000 x 22%	1,100	
– apartment rental	0	
Valuation fees 4,000 x 22%	880	
Unallocated, take prior year proportion 12,000 x 22% = 2,640 x 75%	1,980	
Surveying equipment – fully allowable 16,000 x 22%	3,520	
Apartment rental furniture – no claim	0	
Video equipment – prior year proportion 60,000 x 22% = 13,200 x 75%	<u>9,900</u>	
		(17,380)
VAT payable		<u>112,420</u>

(b) VAT adjustment for the year 2007		
Final proportion:		
Taxable: December		80,000
		510,000
Taxable to November		1,330,000
		<u>5,080,000</u>
		7,000,000
Exempt December	280,000	
Exempt to November	<u>2,720,000</u>	3,000,000
Total		<u>10,000,000</u>

Final proportion for 2007 = 7,000,000/10,000,000 = 70%

Annual adjustment/correction

Unallocated costs: 188,000 + 12,000 = 200,000 x 22% = VAT of PLN 44,000

The proportion allowed reduces from 75% to 70%: 5% x 44,000 2,200

Fixed assets similarly, but only at the rate of one-fifth per year

60,000 x 22% = VAT of PLN 13,200 x 5% reduced input = 660 x 1/5 132

Reduced input for 2007 2,332

Prior years' fixed asset: 150,000 x 22% = VAT of PLN 33,000

Originally booked allowable input of only 62%

Now claim for 2007 is improved to 70%: additional 8% x 33,000 x 1/5 528

Correction for 2007 in the January 2008 return: pay additional input of PLN 1,804 (2,332 – 528)

- (c) The proportional method is used if it is not possible to allocate some or all costs between taxable and exempt activities. Due to Zosia Dokladniutka's precise chart of accounts, advertising costs are allocated, and no VAT is recovered in respect of the PLN 250,000 of advertising expenditure for the apartment rentals.

There is no requirement to make such a split available. She should therefore change the chart of accounts to have one (unallocable) amount of advertising expense.

	PLN
Based on the 2007 figures, Bor would now recover input tax on advertising of 300,000 x 22% = 66,000 x 70%	46,200
As opposed to 50,000 x 22% x 100%	<u>(11,000)</u>
A saving of VAT of	<u>35,200</u>
Alternatively	
Now recover 70% of apartment activity VAT on 250,000 x 22% = 55,000	38,500
But lose 30% of previously 100% recoverable commercial activity VAT on 50,000 x 22% = 11,000	<u>(3,300)</u>
	<u>35,200</u>

4 Chemikalia Sp.z o.o.

	PLN	PLN
Depreciation		
(1) Chemical apparatus two months to disposal 600,000 x 14% x 2/12		14,000
(2) Furnace – original cost 1,600,000 x 7% Improvement in September: add to cost 930,000 x 7% x 9/12	112,000 48,825	160,825
(3) Allowed cost of new industrial building		
Architect's fees	95,000	
Contractor costs	2,900,000	
Own labour	192,500	
Insurance during the construction period	67,000	
Borrowing cost to end October only (90,000 x 4/12)	30,000	
Technical permits	23,000	
Irrecoverable VAT	22,500	
Total capitalised	<u>3,330,000</u>	
Depreciation at 1.4 x normal rate of 2.5% x 8/12		77,700
(4) All costs are allowed from the date of technical acceptance. First year allowance claim would be 30% x (430,000 + 15,000 + 25,000) = PLN 141,000 But normal reducing balance method would give more: 25% x 2 = 50% x 8/12 = effectively 33.33% So: claim reducing balance at three times normal rate: 25% x 3 x 8/12 = 50% x 470,000		235,000
(5) Car 1 capitalised at PLN 145,000 plus irrecoverable VAT (i.e. PLN 176,900) but clearly above €20,000 (therefore no need to compute) Depreciation restricted to 20,000 x 3.96 = 79,200 x 20% x 2/12 Car 2 cost 60,000 plus VAT of 13,200 = 73,200, but maximum recoverable VAT is PLN 6,000 Therefore, depreciation on capitalised amount of (7,200 + 60,000) x 20% x 2/12	2,640 2,240	4,880
(6) Original cost 200,000 less 2006 FYA 60,000 gives PLN 140,000 Depreciation 2 x 14% x 140,000		39,200*
Total depreciation		<u>531,605</u>
Other costs that can be claimed		
(1) Net book value of chemical apparatus sold 600,000 – (427,000 + 14,000)		159,000
(3) Opening day party (entertaining, not allowed) Borrowing costs from November 90,000 x 8/12 Notification costs		0 60,000 17,500
		<u>236,500</u>

* Note: as the rules are unclear an alternative answer of PLN 56,000 (28% of 200,000) would be accepted.

5 (a) Edward Udany

Tax calculations for 2007 as an employee

Months	I-V PLN	VI PLN	VII, VIII PLN	IX-XII PLN
Gross pay	13,080	13,080	13,080	13,080
ZUS deduction (18·71/2·45%) (note 1)	(2,447)	(2,447)	(320)	(320)
Basis for HSC	10,633	10,633	12,760	12,760
Allowed cost	(111)	(111)	(111)	(111)
Taxable income	10,522	10,522	12,649	12,649
Tax rate (note 2)	19%	30%	30%	40%
Tax at applicable rate	1,999	3,157	3,795	5,060
Less deduction (573/12)	(48)	(48)	(48)	(48)
PIT	1,951	3,109	3,747	5,012
HSC at 1·25%	133	133	160	160
ZUS (as above)	2,447	2,447	320	320
Total deductions	4,531	5,689	4,227	5,492

Notes:

1. Since his annual salary of PLN 156,960 will be exactly twice the upper earning limit (UEL), of PLN 78,480, Edward will start paying reduced rate total ZUS of 2·45% exactly from 1 July.

Had this not been the case, and the UEL was reached other than at the month end, it would be necessary to produce a fifth net pay calculation.

2. Based upon the taxable income figure for month 1 of PLN 10,522, net taxable pay will pass the first threshold of PLN 43,405 in May, so PIT will become chargeable at 30% from June. The second threshold of PLN 85,528 will be crossed in August (taxable pay of PLN 88,428 ((6 x 10,522) + (2 x 12,649)) so the PIT rate becomes 40% from September.

(b) (i) The flat rate method is not available to a taxpayer who has performed the same activities as an employee in this or a prior tax year.

(ii) Tax calculated for 2008 as self-employed

	PLN
Revenue increases to	164,000
Less: expenses	2,000
Annual income	162,000
Monthly amount	13,500
ZUS deduction (note 1)	(588)
Taxable income	12,912
PIT at 19% (note 2)	2,453
HSC (note 3)	23
ZUS (as above)	588
Total deductions	3,064

Notes:

1. As a self-employed individual, the minimum ZUS contributions Edward can pay will be on 60% of the average monthly salary in the Economy of PLN 2,500. The rate of contributions will be 39·22% as he does not pay 0·10% guaranteed workers' benefit. The monthly amount payable is, thus, PLN 588 (2,500 x 60% x 39·22%).

2. Edward will minimise his personal income tax liability by opting for the linear (liniowy) taxation method at the rate of 19%, as he has minimal personal deductions.

3. Minimum health service contributions are – like ZUS – based on an average monthly salary, in this case in the enterprise sector of the Economy at the rate of 75%. Thus, the effective amount payable (net cost), after allowing PIT deduction, is PLN 23 (2,500 x 75% x 1·25%).

4. There are in fact two average salaries computed each quarter by the Central Statistical Office. Thus there are two separate basis figures for contributions, which change every 3 months. For ease of computation one global 'average' salary is used in this example.

		<i>Marks</i>
1	(a) Change of tax accounting year	
	Decision, notification	1
	Length of year	1
	Rate	1
		<hr style="width: 100%; border: 0.5px solid black;"/> 3
	(b) (i) Use of optional method	
	Commencement of business – not in first two years	1
	Prior year declaration basis	1
	Back another year if no tax payable	1/2
	Not available if no tax payable in previous two years	1/2
	Notification deadline	1/2
	Explain if period or rate different	1
	Monthly, as normal CIT	1/2
		<hr style="width: 100%; border: 0.5px solid black;"/> 5
	(ii) 2007 payments on account	
	Identify correct basis period/rate	1
	Calculate monthly/annual amounts	1
		<hr style="width: 100%; border: 0.5px solid black;"/> 2
	(c) Dividend tax credits	
	Deductible from CIT due	1/2
	Can be carried forward indefinitely	1
	Computation (1/2 per year)	1 1/2
		<hr style="width: 100%; border: 0.5px solid black;"/> 3
	(d) Tax payable at year end	
	Receipt from bad debtor	1
	Polish dividend	1
	Gross up foreign dividend	1
	Bank interest accrued	1
	Agreed penalty, rectification	1
	Director's non-contractual pay	1
	Accrued bonuses	1
	Rehabilitation fund	1
	Director's loan written off	1
	Other bad debt items allowed:	1
	Prepaid rental	1/2
	Operating lease costs allowed	1
	Abandoned capital expenditure	1
	Private medical insurance	1
	Other insurance items allowed	1/2
	Losses	1
	Corporate income tax at 19%	1/2
	Dividend tax credit	1/2
	Foreign tax credit	1/2
	Payments on account	1/2
		<hr style="width: 100%; border: 0.5px solid black;"/> 17
	Total	<hr style="width: 100%; border: 0.5px solid black;"/> 30

		Marks
2	Lech	
	Director's fees and cost allowance	1
	Rental received	$\frac{1}{2}$
	Building depreciation	$1\frac{1}{2}$
	Furniture depreciation	1
	Insurance, including prepayment	1
	Property tax, including prepayment	1
	Reliefs from income (2 x 1 mark)	2
	No joint taxation	1
	Tax at scale rates	1
	Child deduction	1
		<hr style="width: 100%; border: 0.5px solid black;"/>
		11
		<hr style="width: 100%; border: 0.5px solid black;"/>
	Czech	
	Salary less ZUS and cost allowance	1
	Hotel bills exempt	$\frac{1}{2}$
	Meal allowance	1
	Overnight allowance	1
	Suits – benefit in kind	1
	Expert fee and cost allowance	1
	Single parent tax calculation	$1\frac{1}{2}$
	Child deduction	1
		<hr style="width: 100%; border: 0.5px solid black;"/>
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	Rus	
	Polish source income, cumulation	1
	Foreign salary	$\frac{1}{2}$
	Cost allowance	$\frac{1}{2}$
	Overnight allowance	1
	Computation of effective rate	$1\frac{1}{2}$
	Correct application of effective rate	1
	No credit for Bulgaria tax	$\frac{1}{2}$
		<hr style="width: 100%; border: 0.5px solid black;"/>
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		<hr style="width: 100%; border: 0.5px solid black;"/>
	Total	25
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3	(a) Output tax (3 x $\frac{1}{2}$ mark)	$1\frac{1}{2}$
	Input tax: advertisements (2 x $\frac{1}{2}$ mark)	1
	valuation fees	$\frac{1}{2}$
	Unallocated expenditure	1
	Surveying equipment	1
	Furniture	$\frac{1}{2}$
	Video equipment (unallocated)	1
	Net VAT payable	$\frac{1}{2}$
		<hr style="width: 100%; border: 0.5px solid black;"/>
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	(b) Final 2007 proportion calculation	$1\frac{1}{2}$
	Correction of unallocated costs	1
	Correction of fixed assets – current year	1
	Correction of prior year fixed assets	1
	Identification of the net adjustment	$\frac{1}{2}$
		<hr style="width: 100%; border: 0.5px solid black;"/>
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	(c) Identify + explain non-apportionment of apartment rental activity	2
	Compute approximate saving	1
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		3
		<hr style="width: 100%; border: 0.5px solid black;"/>
	Total	15
		<hr style="width: 100%; border: 0.5px solid black;"/>

	<i>Marks</i>
4 Depreciation	
(1) Chemical apparatus	1
(2) Furnace: original cost	$\frac{1}{2}$
Improvement	1
(3) Industrial building cost	3
Correct rate	1
(4) Correct date/number of months	1
Use 3 x not 30%	2
(5) Car 1	1
Car 2	2
(6) Apply reducing balance method	1
Other costs	
NBV of sold plant	$\frac{1}{2}$
Claim as costs: borrowing notification	$\frac{1}{2}$
	$\frac{1}{2}$
Total	<u>15</u>
5 (a) As employee	
Correct order of computation	2
Identify correct month for change to reduced ZUS	1
ZUS calculations	1
Identify correct months for changes in PIT rates	2
PIT calculations	2
Allowed cost deductions	$\frac{1}{2}$
Additional HSC cost	1
Identify total deductions	$\frac{1}{2}$
	<u>10</u>
(b) As self-employed	
(i) Reason	<u>1</u>
(ii) Computation of monthly income	1
ZUS computation	1
PIT computation based on 19% linear taxation	1
Additional HSC cost	1
	<u>4</u>
Total	<u>15</u>