

Fundamentals Level – Skills Module

Taxation (Poland)

Monday 3 December 2007

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

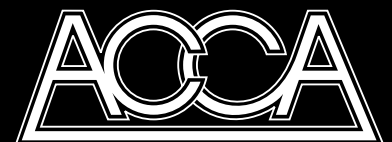
ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–3.

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 (POL)

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need only be made to the nearest PLN, unless stated otherwise in the question.
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:

Personal income tax (PIT) 2007

From PLN	To PLN	Tax amounts to
Nil	43,405	19% of the base minus PLN 572·54
43,405	85,528	PLN 7,674·41 plus 30% on excess over PLN 43,405
85,528		PLN 20,311·31 plus 40% on excess over PLN 85,528

Flat rate monthly cost

The basic flat rate monthly cost of earning income from employment is PLN 111·25.

Various PIT limits/deductions

	PLN
Home building cost	189,000
Internet connection	760
Rehabilitation relief – maximum earnings	9,120
Rehabilitation relief medicines – monthly limit	100
Competition prizes	2,280
Lottery prizes	760
Child deduction	120

Flat rate tax (*ryczalt*)

Revenue limit €250,000 (PLN 992,500)	
Rent over €4,000 (PLN 15,880)	20·0%
Services, rent under €4,000 (PLN 15,880)	8·5%
Production	5·5%
Trade	3·0%

Health service contribution

The rate of health insurance contribution is 9·00% of the base, and 7·75% of this is deductible for personal income tax purposes.

Corporation tax (CIT) rates

Corporate income tax rate:	2003	27%
	2004 to 2007	19%

Dividend withholding tax rates

	2002 and 2003	15%
	2004 to 2007	19%

Tax depreciation rates

	%
Buildings – residential	1·5
– other	2·5
Furnaces	7·0
Chemical apparatus, lathes and engines	14·0
Distillation equipment	25·0
Transport means	20·0
Computer equipment	30·0
Office equipment and furniture	14·0

Residential property is depreciated on a base value of PLN 988.

Social security contributions (ZUS)

	Employer	Employee
Insurance (<i>Ubezpieczenie</i>)		
— retirement pension	9·76%	9·76%
— disability pension	6·50%	6·50%
— sickness benefit	–	2·45%
— accident benefit	1·80%	–
Work fund (<i>Fundusz pracy</i>)	2·45%	–
Guaranteed workers' benefit (<i>Fundusz gwarantowanych świadczeń pracowniczych</i>)	0·10%	–
	<hr/> 20·61% <hr/>	<hr/> 18·71% <hr/>

Upper earnings limit PLN 78,480

Value added tax (VAT)

Normal rate	22%
Registration limit	PLN 39,700

Certain other details are included in the relevant question for ease of reference.

ALL FIVE questions are compulsory and MUST be attempted

1 Bagat Sp.z o.o. commenced in business with an original accounting year end of 31 August. It changed its accounting date to 31 December in 2003 and its taxable income/(loss) and corporate income tax (CIT) paid for the last three tax years have been as follows:

16 months ended 31 December 2004: taxable income PLN 264,000; CIT paid PLN 71,280
 Year ended 31 December 2005: tax loss PLN (17,200)
 Year ended 31 December 2006: tax loss PLN (24,000)

Bagat Sp.z o.o. has received the following net dividends from a shareholding in Lechu Sp.z o.o. during the period since 1 September 2003:

2003: PLN 17,000 after 15% tax deduction. No relief was claimed.
 2006: PLN 20,250 after 19% tax deduction.

A further dividend was received from Lechu Sp.z o.o. during 2007 (see note 2 below)

The company's profit and loss account for the year ended 31 December 2007 is as follows:

	Note	PLN	PLN
Revenue			
Sales	1		3,337,330
Dividends (net)	2	34,200	
Bank interest	3		28,470
			<u>3,400,000</u>
Cost of sales			
Materials and energy	4	822,500	
Wages and salaries	5	792,750	
Bad debts	6	21,800	
Lease and rental payments	7	43,200	
Depreciation	8	89,200	
Insurances	9	55,400	
Administrative expenses (all tax deductible)		585,150	
			<u>2,410,000</u>
Profit before taxation (all tax deductible)			<u>990,000</u>

Notes:

- (1) The figure for sales includes PLN 6,700 received from a customer in respect of a bad debt that had been written off during 2005. This expense had not been allowed as a deduction in that year.
- (2) The dividends comprise PLN 16,200 (net) in respect of the shareholding in Lechu Sp.z o.o., (as above), and PLN 18,000 (net) from an investment in a UK company, from which 10% UK tax had been deducted. Both shareholdings are of less than 10% of the capital of the respective companies.
- (3) Bank interest receivable of PLN 2,600 was accrued but not actually received at 31 December 2007. The equivalent accrued income at 31 December 2006 was PLN 2,150.
- (4) Materials and energy includes PLN 7,800 in respect of penalty clauses for late delivery/poor quality products, and PLN 22,200 for delays in the necessary rectification work required to remove the faults.
- (5) Wages and salaries includes a prize for high profits to the supervisory board of PLN 50,000, paid in October 2007, which was not in their service contracts; an accrual for managers' and workers' bonuses to be paid in March 2008 of PLN 82,200; and payments totalling PLN 16,600 made to the rehabilitation fund (PFRON) due to the inadequate numbers of disabled staff employed.

(6) The bad debts expense comprises:

	PLN
Increase in provision for debts under execution by bailiff (Komornik)	9,900
Debt written off on liquidation of a debtor	3,600
Loan to a director written off	5,000
Small debts as certified by the directors to be written off as uneconomical to recover	3,300
	<hr/>
	21,800

(7) Leasing and rental payments comprise PLN 32,000 paid for premises rental for the year to 31 March 2008, and PLN 11,200 for operating leases.

(8) Depreciation is calculated in line with the taxation rules, but also includes the writing off of PLN 25,000 on an abandoned capital investment project.

(9) Insurances comprise private medical insurance for the managers and directors of PLN 12,000; premises insurance of PLN 23,200; and civil liability insurance of PLN 20,200.

(10) Bagat Sp.z o.o. has made all the required payments on account of corporate income tax using the simplified (optional) method.

Required:

(a) **State the conditions that must be met for a company to change its tax accounting year, including the rules for the length of the new period and the tax rate to be applied.** (3 marks)

(b) (i) **State the conditions that must be met for a company to apply the simplified (optional) method to calculate its payments on account of corporate income tax (CIT), and explain the basis on which it will be calculated.** (5 marks)

(ii) **Calculate the payments on account of corporate income tax which should have been made by Bagat Sp.z o.o. for the year 2007.** (2 marks)

(c) **Advise Bagat Sp.z o.o. of the maximum amount of tax suffered on the dividends received from Lechu Sp.z o.o. that it can claim as a deduction for the year ended 31 December 2007.** (3 marks)

(d) **Calculate the taxable income of Bagat Sp.z o.o. for the year ended 31 December 2007, together with the amount of corporate income tax payable or repayable after the year end.** (17 marks)

(30 marks)

- 2 Lech, Czech and Rus Staroslowianscy are three brothers who have asked for your help in completing their 2007 personal income tax (PIT) declarations.

Lech

- (1) Lech lives in Poznan, where he is a director of a company which paid him fees (after the deduction of ZUS) of PLN 121,335 during 2007
- (2) Having divorced his wife in March, he decided to rent out his villa from 1 April 2007. The useable floor area of the villa is 300 square metres. He wishes to depreciate the furniture, which was professionally valued at PLN 132,000, on a straight-line basis. The monthly rental (all received) was PLN 5,600. The tenants paid the electricity, gas and telephone bills, but Lech incurred certain other costs as per (3) below.
- (3) Payments made by Lech during 2007 included:

	PLN
Insurance of the villa for the year 2007	2,000
Annual local property tax for the villa	2,240
Renovation of the apartment where he now lives	5,100
Home internet connection	910
School fees for Wojtek (Lech's son)	6,200
Subscription to Poznan Businessmen's Club	500
Gift to a church by bank transfer	4,000

- (4) Following Lech's divorce, his son Wojtek has lived with Lech, and he alone has maintained the child. Lech has agreed that his ex-wife Gryzelda will claim any tax deductions in respect of their son up to the month of March 2007.

Czech

- (1) Czech lives in Cieszyn, and in 2007 earned a gross salary of PLN 55,000 from which social security contributions of PLN 10,290 were deducted.
- (2) In addition Czech, who travels on business frequently, received payments from his employer for the following:

	PLN
Documented hotel bills (25 nights)	3,650
Bills for evening meals while away (40 nights)	1,600
Allowances for staying with friends (15 nights)	900
Business suits (2)	1,700

The flat rate meal allowance is to be taken as PLN 24.

- (3) Czech was called to act as an expert witness in a patent dispute. The Court agreed with him and paid him a gross fee of PLN 5,000.
- (4) Czech divorced his wife Dobroslava some years ago. He is now a single parent with a son Slavko and a daughter Slivovica, aged twelve and nine respectively, whom he has brought up alone throughout the year.

Rus

- (1) Rus lived in Przemysl until mid July 2007. His business brought him taxable profits of only PLN 12,000 (after minimum ZUS contributions) in the period from 1 January to 16 July 2007, when he closed the business.
- (2) On 17 July he moved temporarily to Bulgorusia, a nearby country. He commenced employment in Bulgorusia on 1 August and between then and 31 December 2007, earned gross pay equivalent to PLN 75,092. Bulgorusian tax of PLN 8,176 was withheld. He actually spent a total of 120 days in Bulgorusia during this period.
- (3) Under Polish foreign travel allowance rules the Bulgorusian meal allowance (dieta) is \$42 per day and the relevant exchange rate is \$1 = PLN 3.
- (4) The double taxation treaty between Poland and Bulgorusia anticipates relief for earnings from employment by exclusion with cumulation.

Required:

Calculate each of Lech, Czech and Rus's Polish personal income tax (PIT) liabilities for the year 2007. You should ignore health service contributions and the effects of any advance payments of tax.

(25 marks)

- 3 Bor and Partners have been trading for some years as property agents and consultants. For value added tax (VAT) purposes their activities comprise:

Property consulting: taxable for VAT purposes

Apartment rental: exempt activity

Commercial property rental: taxable activity.

The percentage of taxable to total activity had been 62% in 2005 and 75% in 2006.

The firm's accountant, Zosia Dokladniutka, has developed a chart of accounts which allocates advertising, valuation fees, and some fixed assets between the above activities. These analyses are used for preparing the monthly VAT returns. The firm has the following revenues and VAT allowable purchases (all shown net) in 2007:

	11 months to November PLN	December PLN
Sales		
Property consulting	1,330,000	80,000
Commercial rental	5,080,000	510,000
Apartment rental	2,720,000	280,000
Purchases		
Advertisements – commercial rental activity	45,000	5,000
Advertisements – apartment rental activity	240,000	10,000
Valuation fees – property consulting activity	26,000	4,000
Valuation fees – commercial rental activity	19,000	–
Unallocated expenditure	188,000	12,000
Surveying equipment – property consulting activity	84,000	16,000
Furniture – apartment rental activity	–	31,000
Video filming equipment	–	60,000

Notes:

1. All purchases are supported by invoices, including full normal rate VAT.
2. Bor and Partners had purchased a new computerised accounting system for PLN 150,000 during 2006. Both the video filming equipment purchased during December 2007 (see table above) and the computerised accounting system are used in all activities.
3. The unallocated expenditure cannot be split between activities.

Required:

- (a) Calculate the value added tax (VAT) payable by Bor and Partners for the month of December 2007. (7 marks)
- (b) Compute Bor and Partners' annual VAT adjustment for the year 2007. (5 marks)
- (c) Advise Zosia on how Bor and Partners might account for VAT on a more favourable basis in the future. (3 marks)

(15 marks)

4 Chemikalia Sp.z o.o., a chemicals producer, had the following transactions in fixed assets during the year ended 30 June 2007.

- (1) On 15 August 2006 it sold for PLN 28,000 old chemical apparatus, which had originally cost PLN 600,000 and had accumulated tax depreciation as at 1 July 2006 of PLN 427,000.
- (2) On 24 September 2006 it concluded the refurbishment of a furnace at a cost of PLN 930,000. The work qualifies as an improvement. The original furnace had cost PLN 1,600,000 nine years ago.
- (3) On 30 October 2006 it completed the construction of a new industrial building for the purpose of chemical processing. The total capitalised cost of PLN 4,750,000 is made up of:

Land	1,250,000
Architect's fees	95,000
Outside contractors and materials	2,900,000
Cost of own labour used on construction work	192,500
Opening day party	92,500
Insurance during the construction period	67,000
Interest on relevant borrowings for the year ended 30 June 2007	90,000
Technical permits to use the actual building	23,000
Notifications to customers about the new building	17,500
Irrecoverable VAT on construction and material costs	22,500
	4,750,000
Total	4,750,000

Because of the nature of the processes the building is subject to chemical attack and the conditions of use are classed as 'bad'.

- (4) Distillation equipment installed in the new building was purchased on 20 August 2006, at a cost of PLN 430,000. Installation costs of PLN 15,000 and testing costs of PLN 25,000, were incurred. The equipment was not technically accepted until 21 October 2006.
- (5) On 22 April 2007 it purchased two new passenger motor cars costing PLN 145,000 plus VAT, and PLN 60,000 plus VAT respectively. On that day the exchange rate was €1 = PLN 3.96.
- (6) In March 2006, it had purchased lathes costing PLN 200,000, on which it had claimed the first year depreciation allowance of 30% in the year ended 30 June 2006.

Required:

Advise Chemikalia Sp.z o.o. of the maximum total depreciation allowance and any other costs that can be claimed in respect of the above transactions for the year ended 30 June 2007.

(15 marks)

- 5 (a) Your friend, Edward Udany, a successful marketing consultant, has told you that he will be commencing a new employment from 1 January 2007. Following negotiation with his new employer Udany will be paid five times the official Polish estimated average salary for 2007, which means that his gross monthly salary will be PLN 13,080.

However, he has been told that because of the effect of the rates of tax applied to high earners his net pay may differ considerably from month to month, and the tax deductions will cause his pay to have five or six different values during the year. He is particularly concerned that the tax will get higher as the year goes on, because he needs high net pay in the summer months to pay for some expensive foreign holidays.

Following his request for your advice on this matter, you compute that his monthly net pay during the year will have only four values, and strangely, that the total of all his deductions in some of the summer months will actually be lower than in earlier months.

Required:

Prepare a schedule showing the total deductions for social security contributions (ZUS), personal income tax and health service contribution that his new employer will take from Edward Udany's salary for each month of 2007. Where deductions for particular months are identical you are NOT required to tabulate each month, only to state which amounts relate to which months. You are not required to produce annual figures or details of his annual tax deduction. (10 marks)

- (b) Edward Udany is delighted with your conclusions and tells you that the company has offered him the possibility of registering as self-employed from 2008. Since the company will thus save ZUS cost it has agreed to increase his gross earnings to PLN 164,000 per annum. He estimates that his allowable costs, mainly accounting fees, will be PLN 2,000 per year. You warn him that he will have smaller potential benefits from ZUS but advise that, if he were to take up the offer, he could enjoy regular monthly net pay.

Required:

- (i) **State why Edward Udany cannot use the flat rate of revenue method for calculating his personal income tax (PIT).** (1 mark)
- (ii) **Using the tax rates for 2007, estimate the total of Edward Udany's monthly social security contributions (ZUS), personal income tax liability and health service contribution for 2008, on the most favourable basis available, should he take up the company's offer. Assume he will pay the minimum required contributions and that the monthly average salary in Poland for all relevant periods will be a constant PLN 2,500.** (4 marks)

(15 marks)

End of Question Paper