

Fundamentals Level – Skills Module

Taxation (Poland)

Monday 2 June 2008

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)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

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 the excess over PLN 43,405
85,528		PLN 20,311·31 plus 40% on the excess over PLN 85,528

Flat rate monthly cost

The basic flat rate monthly cost of earning income from employment is PLN 108·50.

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	760
Child deduction	1,145

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 (HSC)

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) rate

2004 to 2007	19%
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Dividend withholding tax rate

2004 to 2007	19%
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Tax depreciation rates

Buildings – residential	1.5%
– other	2.5%
General machinery	14.0%
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%	3.50%
— 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/>	<hr/>
	20.61%	15.71%
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* The employee rate of 3.50% applies from July 2007. Until June 2007 it was 6.50%.

Upper earnings limit

PLN 78,480

Value added tax (VAT)

Normal rate	22%
Registration limit	PLN 39,700

Note: certain other details are included in the relevant question for ease of reference.

ALL FIVE questions are compulsory and MUST be attempted

- 1 (a)** Polish corporate tax law was recently amended in an attempt to clarify the matter of the tax allowability of costs where an invoice relates to more than one tax year, or has not been received by the end of a tax year. There are several other timing matters where taxation and accounting practice differ, of which the following are examples:
- (1) Cost incurred (defined as booked on the basis of a valid invoice) which relates wholly or partially to a future year.
 - (2) Costs directly or indirectly related to revenues of a tax year which are incurred (defined as in (1) above) after the year end.
 - (3) Creating a year end accrual for indirect costs or a provision other than a doubtful debt allowance/provision.
 - (4) Accrued interest receivable/payable calculated at the year end.

Required:

For each of the four cases listed above explain the principles to be applied when a company is calculating its taxable income. (8 marks)

- (b)** Twarda Sp.z o.o. has carried out various types of manufacturing activity for several years. In 2006 the directors decided to close its toy-making activity in early 2007 and made a PLN 2,200,000 provision for the expected closure costs. The company also issued licences for some of its patents to a toy supplier in China with whom it will cooperate.

Twarda Sp.z o.o.'s profit and loss account for the year to 31 December 2007 is as follows:

	Note	PLN	PLN
Revenue			
Sales of products	1, 2		44,823,000
Sale of extruder	3		5,300
Rent received	4		180,000
Dividends	5		28,100
Bank interest	6		19,600
Patent fees	7		27,000
			45,083,000
Cost of sales			
Production and purchase costs	8	22,418,000	
Administrative salaries	9	3,415,000	
Advertising, travel and entertaining	10	786,400	
Disposed fixed assets	11	254,800	
Depreciation	12	1,441,600	
General expenses	13	4,537,200	
Closure provision increase	14	500,000	
		33,353,000	
Profit before taxation			11,730,000

Notes:

- (1) The figure for sales includes a receipt in advance from a customer for goods to be delivered in 2008 of PLN 35,000.
- (2) On 18 February 2007 Twarda Sp.z o.o. accepted an item of machinery worth PLN 45,000 as payment for goods sold to a customer. This barter transaction has not been entered into the accounting records of the company. The item of machinery had been used by the previous owner for three years.
- (3) An extruder was sold for scrap since it was no longer required as a result of the termination of toy making. The extruder had an undepreciated book value of PLN 132,000 (see note 11) at the date it was scrapped.

- (4) Premises no longer required by the company were rented out from 1 June 2007 for an annual rental of PLN 180,000, payable half-yearly in advance on 1 June and 1 December.
- (5) Dividends comprise PLN 20,000 received from a 30% shareholding in Zabawkopol S.A., paid without deduction of corporate income tax (CIT), and PLN 8,100 net in respect of a small shareholding in Drugi S.A., an unrelated company.
- (6) Interest receivable of PLN 2,600 was accrued at 31 December 2007. There was an accrual of PLN 300 at 31 December 2006.
- (7) The patent fees received related to the licences granted to the Chinese manufacturer, which had deducted 10% withholding tax as required by Chinese law in making the payment.
- (8) Production costs include PLN 28,000 to create a general provision for slow moving inventory.
- (9) Administrative salaries include a non-contractual termination payment of PLN 60,000 paid to the management board member who was responsible for the toy division which was closed in 2007, and an accrual of PLN 59,000 for the expected further compensation which he is claiming.
- (10) Advertising, travel and entertaining includes the following:
- | | PLN |
|---|---------|
| Television advertising | 330,600 |
| Staff Christmas party | 20,800 |
| Entertaining customers | 52,400 |
| Samples given to customers | 13,800 |
| Hotel bills and air fares of foreign toymaker | 4,900 |
- (11) Disposed fixed assets comprise the book value of the scrapped toymaking extruder (see note 3) of PLN 132,000 and PLN 122,800 representing the net book value (after 20% p.a. depreciation) of a BMW motor car driven by the toymaking division director which was destroyed in an accident the day after the closure announcement. The director survived, but unfortunately the car was not insured.
- (12) Depreciation has been calculated on a tax basis, including the correct allowable charges up to the date of disposal of the assets in note (11) above. However, no entries have been made in respect of the used machinery acquired by barter on 18 February 2007 (see note (2)).
- (13) General expenses include accruals for overhead expenses totalling PLN 90,000.
- (14) It transpired that the provision for expected closure costs set up in 2006 was insufficient and in 2007 it was increased by PLN 500,000. During the year PLN 2,665,000 of allowable costs and losses, other than those items referred to in earlier notes, were incurred and debited against this provision. At 31 December 2007 there remain a few more costs to be borne in respect of the closure.

Required:

Compute the taxable income of Twarda Sp.z o.o. for the year ended 31 December 2007, and the amount of corporate income tax payable for the year. (17 marks)

Notes:

- (1) Used machinery with an initial value between PLN 25,000 and PLN 50,000 may be depreciated over a period of 36 months.
- (2) Ignore value added tax (VAT).

(25 marks)

2 Agnieszka Czapka, a widow with three young children, has not worked recently, but has come to you for tax advice on a new business of ladies' hat making (modniarstwo) that she plans to open next January. She has decided to register this business activity as an individual and has heard that several methods of taxation are available.

She wants your help in estimating her taxable income and her tax liability under the various methods, and also in understanding the conditions and restrictions that apply to some of them. You agree that you will perform all projections and calculations on the basis of the rates and allowances, including child tax deduction and disability pension contributions, that applied in November 2007.

The following information is provided:

- (1) Agnieszka will pay the minimum required social security contributions (ZUS), although she will voluntarily pay sickness benefit contributions.
- (2) Revenue is expected to be PLN 250,000 for the year, with materials costs amounting to 10% of revenue. There will be no production of hats using materials supplied by customers.

(3) The following fixed assets will be bought in January:

Office equipment and sewing machines	PLN 24,750
Small items of machinery and fittings, each at a cost below PLN 3,500	PLN 10,250

Since she is investing a lot in fixed assets Agnieszka wants to claim the maximum depreciation possible. She plans no further significant asset acquisitions for some years.

- (4) Agnieszka is a skilled hatter (modniarka) and she will also employ Emilia (hatter) and Franciszka (receptionist/administrator) from January. In addition a second hatter, Gertruda, will be employed from May. The employment contracts will clearly set out the responsibilities of each lady, and each will be paid a salary of PLN 2,500 per month.
- (5) Premises rental and other tax allowable operating costs will be PLN 33,510 for the year.
- (6) Agnieszka will make the following additional personal payments:

	PLN
Home redecoration	4,800
Documented donation to a public benefit organisation	2,000
Internet connection at home	700
Nursery school fees for youngest child	3,300

(7) For the purposes of the projections it is assumed that all the above expenditure, including her own and employee ZUS contributions, are actually paid during the year.

Required:

- (a) Calculate the total amount of social security contributions (ZUS) that Agnieszka will pay on her own behalf during the year. (2 marks)
- (b) Calculate Agnieszka's taxable income for the year and her personal income tax (PIT) liability under the normal PIT method, allowing for all costs, including employer ZUS contributions, and making the most favourable claims available. You are not required to calculate the monthly advances of income tax. (11 marks)
- (c) Compute the PIT liability for the year if Agnieszka were to choose the alternative 19% straight line tax method (podatek liniowy) and give TWO reasons why this method is not beneficial in Agnieszka's case. (3 marks)
- (d) Calculate Agnieszka's annual tax liability if she were to choose the flat rate of revenue method (ryczałt ewidencjonowany) and state TWO conditions which must be met in Agnieszka's particular case in order for her to use this method in the first year. (5 marks)
- (e) Briefly explain how taxpayers are taxed under the tax card (karta podatkowa) method and list THREE conditions that must be met in Agnieszka's particular case in order for her to use this method. (6 marks)
- (f) (i) Recommend which method Agnieszka should adopt for her first year, assuming that the tax payable using the tax card would be PLN 7,000. (1 mark)
- (ii) Explain why if her level of activity remains at the same level it will not be beneficial for Agnieszka to use the same method in future years. (2 marks)

Notes:

- (1) You should assume an average monthly wage of PLN 2,800.
(2) Ignore health service contributions and value added tax (VAT).

(30 marks)

3 Mydlana Sp.z o.o. is a manufacturer and distributor of cosmetics, shampoos and other personal hygiene products. The company is registered for value added tax (VAT), and has a European Union (EU) registration number.

During October 2007 Mydlana Sp.z o.o. had the following transactions (all figures are stated excluding any applicable VAT):

- (1) Sales invoices issued in respect of goods despatched to Polish customers amounted to PLN 5,000,000. A further despatch worth PLN 100,000 was made on 28 October, but an invoice was not issued until 3 November.
- (2) Sales to EU customers despatched and invoiced, correctly converted, came to PLN 2,500,000.
- (3) Export sales outside the EU amounted to PLN 1,350,000. Mydlana Sp.z o.o has the appropriate customs documentation confirming that these goods left Poland.
- (4) Imported purchases from outside the EU amounted to PLN 400,000. The Polish excise and customs duties charged were PLN 107,500.
- (5) Goods imported from EU countries amounted to PLN 40,000.
- (6) An invoice was received from a French consulting company for market research services carried out in Poland amounting to PLN 30,000.
- (7) A passenger motor car was bought for the sales director at a cost of PLN 174,600.
- (8) In June 2007 the company had entered into a finance lease arrangement for another passenger motor car, with an initial value of PLN 50,000. The fifth (out of 24) monthly rental charges of PLN 2,500 was paid in October.
- (9) Motor fuel costs invoiced in the month amounted to PLN 69,000, of which PLN 39,000 related to passenger cars.
- (10) Invoices for hotel stays by staff amounted to PLN 14,000.
- (11) Cosmetics produced by the company amounting to PLN 2,000 were given to the representative of a major Russian distributor.
- (12) A watch worth PLN 5,000 was purchased for the husband of the above Russian representative.
- (13) Promotional brochures and leaflets to be distributed free of charge in the street amounting to PLN 10,000 were purchased.
- (14) Other purchases of goods and services from Polish suppliers supported by valid VAT invoices amounted to PLN 1,456,841. The total VAT applicable to these purchases, some of which was at reduced rates, amounted to PLN 248,660.

Required:

Calculate the amount of VAT that will be paid by Mydlana Sp.z o.o. for the month of October 2007, giving explanations for any items where full VAT is not charged, or where input tax as invoiced is not recovered.

(15 marks)

- 4 Cwana Sp.z o.o. is a Polish resident company manufacturing a large range of electro-mechanical components. The company's share capital is owned 79% by Schlaukopf, a company registered elsewhere in the European Union (EU), and 21% by Cunning Ltd, a company registered in a country listed as one applying harmful tax competition.

The annual income statement of Cwana Sp.z o.o. shows the following:

	PLN'000	PLN'000
Sales of goods		570,000
Production costs	292,000	
Distribution costs	32,000	
Administrative costs	91,000	
Management charge from Cunning Ltd	20,000	
Finance costs	28,000	

Additional information

- (1) One-third of the revenue is obtained from the sale of products to Schlaukopf and its subsidiary companies. The Polish Tax office has questioned the prices used in such transactions, which are generally at between 35% and 45% of the prices charged by Cwana Sp.z o.o. to its Polish customers.
- (2) Production is made in batches of a particular component, based on expected demand in Poland. There is a significant machinery set-up cost for each production batch, so large volumes are produced at a time. Any product surplus to demand in Poland is always sold to group companies.
- (3) Polish individual orders tend to be small, while large containers of components are despatched to group companies abroad. Cwana Sp.z o.o. pays for all transport of components to customers.
- (4) Administrative costs include PLN 17 million for advertising in Poland, PLN 9 million for fees for regulator's technical testing in Poland and PLN 2 million for bad debts. There are very many Polish customers and they take on average 90 days to pay.

Required:

- (a) **Explain the circumstances in which a connection is deemed to exist and the transfer pricing rules will be applied to a Polish company that has transactions with a company registered outside Poland.** (3 marks)
- (b) **Identify and explain the three basic methods, apart from the transaction profit method, available to the Tax Office to determine a fair price for the purposes of applying the transfer pricing rules.** (6 marks)
- (c) **Without performing any detailed calculations, give FOUR possible explanations that the management of Cwana Sp.z o.o. may advance to justify the lower price it charges on goods supplied to its parent and other connected companies outside Poland.** (6 marks)

(15 marks)

- 5 (a) Governments implement taxation laws not only to fund state expenditure, but also as a means of economic and social policy management, since levels and methods of taxation will affect the behaviour of individuals and corporations.

Required:

Outline the likely rational effects on Polish government revenue and the Polish economy of the reduction in employee disability pension contributions of 3% from July 2007 and of the further reduction in both employer and employee contributions to be implemented from January 2008. (4 marks)

- (b) Magda Magdziak is employed as a statistician at a salary of PLN 2,500 per month and was delighted to learn of the reduction in employee disability pension contributions from 6.5% to 3.5% from July 2007. She is, however, surprised to find that her net pay, which had been PLN 1,689 in June, has increased by over 3.5% and is convinced that her employer has made a mistake in its calculation.

Required:

Calculate Magda's net pay for July 2007. (4 marks)

- (c) Magda has further asked you about the personal income tax (PIT) treatment of the following items she expects to receive during 2007.

- (1) A sum of money from the testament of an aunt who died recently.
- (2) Interest from savings and current accounts in a Polish bank.
- (3) Some small dividends from Polish companies.
- (4) A large monetary prize she expects to win in a television quiz show.
- (5) Some foreign income which has been taxed abroad, and is apparently 'excluded with cumulation' in Poland.

Required:

For each of the five items listed, state whether and how it will be taxed under PIT.

Note: marks will be awarded as to 1 mark each for items (1) to (4) and 3 marks for item (5).

(7 marks)

(15 marks)

End of Question Paper