

FINAL EXAM FROM MPF_ATAX Taxation

Name, Surname	Number of points	% of correct answers

TOTAL NUMBER OF POINTS – 70 points

Part I. Multiple choice questions, only one correct answer is possible, total number of points - 20 points

1. Which of the following statements correctly describes the success of convergence of systems of direct (DT) and indirect taxation (inDT) across EU member-states?
 - a) Both systems – DT and inDT – have been harmonized to a large extent across EU member-states.
 - b) Both systems – DT and inDT – remain almost the sole responsibility of individual EU member states.
 - c) inDT system has been harmonized to a large extent across EU member-states and DT system remains almost the sole responsibility of individual EU member states.
 - d) DT system has been harmonized to a large extent across EU member-states and inDT system remains almost the sole responsibility of individual EU member states.

2. Which of the following statements correctly defines tax resident in the Czech Republic?
 - a) Tax residents – natural persons with a residential or permanent address in the CR and taxable income arising from sources in the CR.
 - b) Tax residents – natural persons with a residential or permanent address in the CR and taxable income arising from sources in the CR and abroad.
 - c) Tax residents – natural persons and legal entities with taxable income arising from sources in the CR regardless of their residential or permanent address (for natural persons) and country of domicile (for legal entities).
 - d) Tax residents – legal entities domiciled in the CR with taxable income arising from sources in the CR.

3. Which of the following statements correctly describes the role of OECD and EU in international regulation of double taxation and tax planning activities of MNCs?
 - a) Due to its longstanding expertise (e.g. Model Tax Treaty of 1963, Model Tax Convention of 1992, BEPS project of 2012) today OECD is playing a leading role in international regulation of double taxation and tax planning activities of MNCs, including regulation of such relations between OECD member countries, between OECD member countries and non-member countries, and even between non-member countries.
 - b) Due to its longstanding expertise (e.g. Model Tax Treaty of 1963, Model Tax Convention of 1992, BEPS project of 2012) today EU is playing a leading role in international regulation of double taxation and tax planning activities of MNCs, including regulation of such relations between EU member countries, between EU member countries and non-member countries, and even between non-member countries.

4. Which of the following statements correctly describes substance of transfer price?
 - a) A transfer price is what one unit of a business charges another unit of the same business for a good or service. The transfer price is usually close to the prevailing market rate when different divisions of the same business are evaluated separately for profit and loss.
 - b) A transfer price is what one independent business charges another independent business for a good or service. The transfer price is market rate when individual businesses are evaluated for profit and loss.
 - c) A transfer price is what one unit of a business charges another unit of the same business for a good or service. The transfer price is substantially above the prevailing market rate when different divisions of the same business are evaluated separately for profit and loss.

- d) A transfer price is what one independent business charges another independent business for a good or service. The transfer price is substantially below the prevailing market rate when individual businesses are evaluated for profit and loss.
5. Which of the following statements correctly describes the arm's length principle?
- The arm's length principle is based on the comparison of conditions that are made or imposed between two related enterprises (seller and buyer) with conditions which would be made between two independent enterprises, then any profit which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of the enterprise (seller) and taxed accordingly.
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6. Which of the following institutions ensure functioning of the EU fiscal system? -
- the EU Council through Economic and Financial Affairs Configuration (EcoFin) and the EU Court of Justice.
 - the EU Council through Tax Office and the EU Court of Justice.
 - the EU Council through Financial Markets Supervisory Board and the EU Court of Justice,
 - the EU Council through Commerce Chamber and the EU Court of Justice
7. Which of the following statements correctly describes the modern model of CIT in EU?
- Majority of EU countries have adopted a digressive corporate income tax. Generally these measures are targeted to stimulate entrepreneurship and to correct financial market failures that can create obstacles to SMEs in raising new capital.
 - Majority of EU countries have adopted a flat corporate income tax. Generally these measures are targeted to stimulate entrepreneurship and to correct financial market failures that can create obstacles to SMEs in raising new capital.
 - Majority of EU countries have adopted a progressive corporate income tax. Generally these measures are targeted to stimulate entrepreneurship and to correct financial market failures that can create obstacles to SMEs in raising new capital.
8. Which of the following statements correctly defines Central and Eastern European economies (given by V4 countries)?
- CEE - a group of countries that underwent a transformation, or a transition, from being centrally planned to becoming market economies. Today all of them are EU members.
 - CEE - a group of countries that underwent a transformation, or a transition, from being centrally planned to becoming market economies. Today most of them are EU members.
 - CEE - a group of countries that underwent a transformation, or a transition, from being centrally planned to becoming market economies. All of them are CIS (Commonwealth of Independent States) members, many of them are also EU members.
 - CEE - a group of countries that underwent a transformation, or a transition, from being centrally planned to becoming market economies. All of them are CIS (Commonwealth of Independent States) and EEU (Eurasian Economic Union) members, many of them are also EU members.

9. Which of the following statements gives correct example(s) of income from capital assets?
- agriculture production, forestry and fish farming.
 - winnings from lotteries, betting and other similar games.
 - rewards paid to members of the authorities of legal entities.
 - private life insurance benefit.
10. Which of the following statements gives correctly describes rental income?
- Income from rent is income from the rent of immovable and movable property, except for occasional rent.
 - Income from rent is income from the rent of immovable property, except for occasional rent.
 - Income from rent is income from the rent of movable property, except for occasional rent.
 - Income from rent is income from the rent of immovable and movable property.
11. Which of the following statements gives correct example(s) of taxpayers of corporate income tax?
- companies (limited partnerships, limited liability companies, public limited companies and co-operative societies), churches, schools, organizational components of state.
 - companies (limited partnerships, limited liability companies, public limited companies and co-operative societies), churches, political parties, organizational components of state.
 - companies (limited partnerships, limited liability companies, public limited companies and co-operative societies), churches, hospitals, organizational components of state.
 - companies (limited partnerships, limited liability companies, public limited companies and co-operative societies), churches, theatres, organizational components of state.
12. Which of the following statements gives correct example(s) of items which according to ITA are considered as deductible from the tax base:
- tax loss which was recorded and assessed in one previous taxable period.
 - 100% of costs for R&D.
 - 100% of costs for the acquisition of assets for vocational training, if the assets are used for the training of more than 60% of the time of its operation in three consecutive tax periods.
 - 50 % of costs for the acquisition of assets for vocational training, if the assets are used for the training between 30% and 60% of the time of its operation in three consecutive tax periods.
13. Which of the following statements correctly indicates the moment when tax evasion takes place?
- Most tax evasion takes place when taxpayers - individuals or firms – earn their income.
 - Most tax evasion takes place when taxpayers - individuals or firms – spend their income.
 - Most tax evasion takes place when taxpayers - individuals or firms – earn and spend their income.
 - Most tax evasion takes place when taxpayers - individuals or firms - are required to report income or spending to the tax authorities.
14. Which of the following statements correctly describes the threshold for becoming a taxable person of VAT?
- The total to be taken into account for the threshold is the total taxable supplies of that person.
 - The total to be taken into account for the threshold is the total taxable supplies of that person except the exempted from VAT supplies and supplies that are outside the scope of VAT.
 - The total to be taken into account for the threshold is the total taxable supplies of that person except the exempted from VAT supplies.
 - The total to be taken into account for the threshold is the total taxable supplies of that person except the supplies that are outside the scope of VAT.
15. Which of the following statements gives the correct list of VAT exemptions?
- Land and buildings, financial services, diplomatic activities, special categories of exports.

- b) Land and buildings, financial services, diplomatic activities, special categories of imports.
 - c) Land and antiques, financial services, exemption of diplomatic activities, special categories of exports.
 - d) Land and antiques, financial services, exemption of diplomatic activities, special categories of imports.
16. According to VAT Act of the Czech Republic the exempted transactions without recovery of input VAT are:
- a) basic postal services, radio and television broadcasting, financial, pension and insurance activity, delivery and lease of immovable assets, health services, social assistance, education and learning etc.
 - b) basic postal services, radio and television broadcasting, portfolio management, pension and insurance activity, delivery and lease of movable assets, health services, social assistance, education and learning etc.
 - c) advanced postal services, radio and television broadcasting, tax advisory, pension and insurance activity, auditing, health services, social assistance, education and learning etc.
17. Which of the following statements describes correctly a right to recovery input VAT at registration and deregistration?
- a) Right to recovery at registration and deregistration - taxable person is entitled to deduct the received taxable supply acquired in the period of 6 consecutive months prior to the date, when he became payer.
 - b) Right to recovery at registration and deregistration - taxable person is entitled to deduct the received taxable supply acquired in the period of 12 consecutive months prior to the date, when he became payer, if the transaction is to this day a part of his business assets.
 - c) Right to recovery at registration and deregistration - taxable person is entitled to deduct the received taxable supply acquired in the period of 24 consecutive months prior to the date, when he became payer.
 - d) Right to recovery at registration and deregistration - taxable person is entitled to deduct the received taxable supply acquired in the period of 36 consecutive months prior to the date, when he became payer, if the transaction is to this day a part of his business assets.
18. Which of the following statements describes correctly the modern role of excise taxation?
- a) The difficulties in extracting revenue from the capital income tax base due to greater capital mobility and the distortionary effects of high taxes on consumption have induced various governments to re-examine the revenue-substituting potential of excise taxation.
 - b) The difficulties in extracting revenue from the capital income tax base due to greater capital mobility have induced various governments to re-examine the revenue-substituting potential of excise taxation.
 - c) The distortionary effects of high taxes on consumption have induced various governments to re-examine the revenue-substituting potential of excise taxation.
 - d) The difficulties in extracting revenue from the capital income tax base due to greater capital mobility and the distortionary effects of high taxes on labor supply and demand have induced various governments to re-examine the revenue-substituting potential of excise taxation.
19. Which of the following statements are true about modern fiscal situation in the world?
- a) A number of international studies have indicated that corporate and personal income taxes have the least impact on growth. An equally strong reason for this ongoing development is that international tax competition and the weakened economy simply do not allow for ever-increasing VAT and excises.
 - b) A number of international studies have indicated that value-added taxes (VAT) and excise taxes have the least impact on growth. An equally strong reason for this ongoing development is that international tax competition and the weakened economy simply do not allow for ever-increasing corporate or personal income taxes.
 - c) A number of international studies have indicated that excise taxes have the least impact on growth. An equally strong reason for this ongoing development is that international tax competition and the weakened economy simply do not allow for ever-increasing VAT.
20. Which of the following statements are true taxable period and deadline for submission of excise tax return in the Czech Republic?
- a) A taxable period for excise taxes is one month. The taxpayer must submit his tax return by the 25th day of the next month.

- b) A taxable period for excise taxes is two months. The taxpayer must submit his tax return by the 25th day of the third month.
- c) A taxable period for excise taxes is three months. The taxpayer must submit his tax return by the 25th day of the fourth month.

Part II. Practical examples, total number of points - 50 points

Example 1 (10 points)

Jakub works as assembling specialist for Zetor, a.s. (here and after "Zetor"). He lives and works Brno five days per week. Jakub has not signed the declaration for personal tax credits with Zetor. He earns CZK35,000 per month. He is married to Linda and they have two children: 14-year-old daughter and 2 year-old son. Linda teaches at public primary school and she uses child tax allowance for both children.

The following information is applicable to the calculation of Jakub's 2017 payroll tax:

- (1) Zetor rented a room for Jakub in the dormitory in Prague where Jakub spends 2 days per week while working in Prague new manufacturing facility of Zetor. The rest of time (3 days) Jakub works in Brno. Company paid CZK3,500 per accommodation in Prague per each month.
- (2) Zetor provided Jakub with a business car Skoda Roomster for business use. Skoda was acquired by Zetor in 2012 for CZK270,000. Its accounting residual value in 2017 is CZK120,000 and its tax residual value is CZK141,000.
- (3) Zetor paid 30% of Jakub's 1-hour massage session with physiotherapist each month. Total price of 1-hour session was CZK350.
- (4) Zetor often supplies tractors and their spare parts to CIS countries. Its assembling specialists are often sent on business trips to these countries. Because of this Zetor contributed CZK1,500 each month from September to December for Russian language courses in private language school.
- (5) Zetor paid CZK6,500 for Jakub's participation in 2-day training at private courses about changes in TUD and GOST 2017.

Task 1: Calculate the payroll tax payable by Jakub in 2017.

Example 2 (15 points)

Mark works as Customer support agreements specialist for IBM, a.s. (here and after "IBM"). He lives and works in Brno. Mark has signed the declaration for personal tax credits with IBM, s.r.o. He earns CZK27,000 per month. He is not married and he has no children. As part of its employment benefit program IBM, a.s., paid CZK500 for Mark's weekend stay in the Forest Camp as Team building activity organized by the Company.

From March 1 to July 1 2017/18 Mark had been on secondment in Berlin department of IBM, a.s. During his work stay in Germany Mark rented his flat, where he has residential address, to his friend Petr for CZK 5,500 per month. Mark's documentary costs incurred while renting his flat to Petr were CZK1,200 of utilities per month.

In his free time, Mark provides Spanish language translation and related services as private entrepreneur and on performance agreement. In 2017 under performance agreement Mark provided 5 hours of business writing services in Spanish each month for CZK450 per hour to help Konrad, s.r.o., in communication with its new business partner from Valencia.

The following information is applicable to the calculation of Mark's 2017 payroll tax from self-employment:

- I. Incomes earned by Mark during 2017:
 - i. Mark delivered 560 pages of translation of technical documentation for CZK230 per page
 - ii. Mark delivered 36 hours of interpreting for CZK550 per hour
 - iii. Mark delivered 2,150 pages of proofreading for CZK150 per page
 - iv. Mark delivered 30 hours of individual classes on translation and interpreting for CZK310 per hour

- II. Mark's documentary costs incurred while providing translation and related services during 2017:
 - i. a drive into town by Mark's private car to meet some of his clients: $1,200 \text{ km} * 0.21 * 31 \text{ CZK/l}$
 - ii. a trip to the shop for milk during Mark's working day: CZK100 per day
 - iii. cost of utilities when Mark used his flat as his office: CZK1,400 per month
 - iv. cost of home Internet when Mark used his flat as his office: CZK500 per month, 8 month per year
 - v. cost of mobile connection when Mark used his private mobile for call with some of his clients: CZK600 per month
 - vi. cost of Mark's ticket to public transport when he used this ticket to meet some of his clients: CZK4,600 per year
 - vii. an eye test to track Mark's eyesight: CZK2,500 per year
 - viii. postal charges paid by Mark to send documents by post to some of his clients: CZK2,700 per year
 - ix. office supplies bought by Mark to deliver translation services: CZK10,030 per year

After Restitution in Czech Republic of 1994, Mark is owner of 50 acres of arable lands around Brno. Mark doesn't do any farming on his lands, instead he rents them to local farming company. During 2017/18 Mark received CZK65,000 from local farming company each month. Mark did not have any documentary costs incurred while renting his arable lands during 2017.

Task 1. Calculate Mark's partial tax bases and total tax base in 2017.

Example 3 (10 points)

Alta, a.s. (here and after "Alta"). is retailer with apparel. Alta is a Czech tax resident company with fiscal year from May 1 to April 31. Alta's 2017 accounting profit amounted to CZK9,230,000. All of the accounting profit items mentioned below are included in this figure:

- (1) Alta recognized accounting depreciation in amount of CZK96,000 for Skoda Octavia which it acquired in January 2016 for CZK480,000. Company applies accelerated depreciation for tax purposes. (*Car is 2d depreciation group*)
- (2) Alta spent CZK150,000 on research and development project conducted by its employees for introduction of new product and financed totally from internal sources during 2017-2019 with estimated total budget of CZK320,000.
- (3) Alta provided accommodation for its 15 assembling specialist since they have permanent residence in other cities of CZ than Brno and because they represent high value for the company. Company paid CZK3,500 per accommodation of each assembling specialist in local dormitory.
- (4) Alta signed a contract with private carrier about transportation of its 31 employees from neighboring villages to Brno. The contract price paid by the company was CZK2,100 per employee.

Task 1. Calculate Alta's 2017 corporate income tax base as assessed by the tax authority.

Example 4 (15 points)

Alfa Electronics, a.s., (here and after “Alfa”) is retailer with electronics and household appliances. It purchases its merchandise from producers in China, Taiwan and South Korea. It sells its merchandise in its stores as well as through its dealers and distributors. Besides sale of goods, it also sells customer support agreements providing a wide range of post-sale value added services.

Alfa Electronics owns five shops in Prague, Brno and Ostrava and rents two more shops in Zlin and Olomouc. Also it owns one office and two warehouses located in Kutna Hora. Stella uses its office and from time to time lets out one of its warehouses to non-VAT payers.

Alfa Electronics has been a quarterly VAT payer since September 2016. The following information is applicable to Alfa Electronics' for the three-month period July 1 to September 30, 2017. If not stated otherwise the indicated amounts are states exclusive VAT.

- (1) Alfa Electronics purchased 120 laptops for CZK21,000 per unit, 311 mobile phones for CZK14,000 per unit and 38 desktop computers for CZK45,000 per unit from its Chinese vendors (China has 16% VAT).
- (2) Alfa Electronics purchased spare parts for total price of CZK421,000 from its vendors in Taiwan (Taiwan has 5% VAT).
- (3) Alfa Electronics purchased mobile and tablet covers as well as other accessories for total price of CZK98,000 from its vendor in Italy (Italy has 22% VAT).
- (4) Alfa Electronics purchased memory chips for total price of CZK178,000 from its vendor in Portugal (Portugal has 23% VAT) .
- (5) Alfa Electronics purchased 5 TB of cloud storage for 36 months for total price CZK1,416,000 from its vendor in Chile (Chile has 19%) .
- (6) Alfa Electronics sent its 8 sales representatives on a business trip to Graz and Linz. The whole business trip had duration 5 working days. Company paid accommodation costs and 10 business visits to restaurants in Graz and Linz in total amount of CZK210,000 (Austria has 20% VAT).
- (7) Alfa Electronics sent its 10 sales representatives on a business trip to Moscow. The whole business trip had duration 15 working days. Company paid accommodation costs and 12 business visits to restaurants in Moscow in total amount of CZK315,000 (Russia has 18% VAT).
- (8) Alfa Electronics purchased 40 hours of translation services for its sales representatives in Moscow for CZK1,312 per hour from Russian translation agency (Russia has 18% VAT).
- (9) Alfa Electronics paid electricity and water supplies from Czech supplier for total price of CZK980,000 and CZK756,000 respectively.
- (10) Alfa Electronics sold electronics and household appliances in its shops in Brno, Prague and Ostrava for total price of CZK19,568,000.
- (11) Alfa Electronics supplied electronics and household appliances to its Polish dealer for total price of CZK11,675,000 (Poland has 23% VAT).
- (12) Alfa Electronics supplied electronics and household appliances to its Russian business partner for total price of CZK18,184,000 (Russia has 18% VAT).
- (13) Alfa Electronics supplied electronics and household appliances to its business partner in Slovakia for total price of CZK15,712,000 (Slovakia has 20% VAT) .
- (14) Alfa Electronics supplied electronics and household appliances to its business partner in Estonia for total price of CZK9,119,000 (Estonia has 20% VAT).
- (15) Alfa Electronics sold 21 term customer support agreements for 24 months starting with start date July 2017. Each agreement was sold for CZK3,350 through its shops to Czech private customers.

Task 1: Calculate net VAT position of the company (payable or receivable)