

MID-TERM TEST 2 FROM MPF_ATAX Taxation

Name, Surname	Number of points	% of correct answers

TOTAL NUMBER OF POINTS – 15 points

Part I. Multiple choice questions, only one correct answer is possible, total number of points - 5 points

1. Which of the following statements correctly describes tax base?
 - a) The taxpayer can read the final tax base from entity's financial statements. It is the same as its economic profit.
 - b) The taxpayer can read the final tax base from entity's financial statements. It is not the same as its economic profit - the later one should reduced by deductible items.
 - c) The taxpayer cannot read the final tax base from entity's financial statements. It is not the same as its economic profit - the later one should reduced by deductible items.
 - d) The taxpayer cannot read the final tax base from entity's financial statements. It is not the same as its economic profit - the later one should reduced by tax depreciation.

2. Which of the following statements gives correct example(s) of expenses which according to ITA are considered as ineligible to generate, assure and maintain income:
 - a) shortages and damages within compensation.
 - b) representation expenses (treat, entertainment, gifts) exceeding the amounts stated by ITA
 - c) expenses connected with work use of motor vehicles by employees.
 - d) preschool facilities fees for employees' children within the amounts stated by ITA and labor code.

3. Which of the following statements gives correct example(s) of items which according to ITA are considered as deductible from the tax base:
 - a) tax loss which was recorded and assessed in one previous taxable period.
 - b) 100% of costs for R&D.
 - c) 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.
 - d) 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.

4. Which of the following statements correctly describes the role of tax depreciation (amortization)?
 - a) Tax depreciation (amortization) has to be considered for calculation of corporate income tax base and, hence, corporate income tax liability. It reflects the actual condition of the real assets as well as accounting depreciation (amortization) does.
 - b) Tax depreciation (amortization) has to be considered for calculation of corporate income tax base and, hence, corporate income tax liability. Accounting depreciation (amortization) reflects the actual condition of the real assets much better than it.
 - c) Tax depreciation (amortization) has to be considered for calculation of corporate income tax base and, hence, corporate income tax liability. It reflects the actual condition of the real assets much better than accounting depreciation (amortization).

5. Which of the following statements correctly describes the obligation the combining entities to fill their tax returns?
 - a) The defunct company has the no obligations regarding filing a tax return for the period preceding the decisive day. The acquiring company has the obligation to file a tax return for the period preceding the decisive day.
 - b) Both defunct and acquiring company has the obligation to file a tax return for the period preceding the decisive day.

- c) The defunct company has the obligation to file a tax return for the period preceding the decisive day. The acquiring company has the obligation to file a tax return for the period preceding the decisive day as well as for the period starting from that date.
 - d) Both defunct and acquiring company has no the obligation regarding filing a tax return for the period preceding the decisive day.
6. Which of the following statements correctly describes the obligation of acquiring company to fill its tax return?
- a) Acquiring company has to submit the tax return according to normal rules for submitting the tax return of corporate income tax.
 - b) Acquiring company has to submit the tax return for a period ending on the day, preceding the decisive day by the end of the month following the month with the decisive day.
 - c) Acquiring company has two possibilities for submitting a tax return depending on the decisive day: (1) if the decisive day is the 1st day of a calendar or an economic year, the company submits the tax return according to normal rules for submitting the tax return of corporate income tax; (2) otherwise the company must submit tax return of corporate income tax for a period ending on the day, preceding the decisive day by the end of the month following the month with the decisive day.
7. Which of the following statements correctly describes the acquisition approach regarding tax provisions, tax reserves, tax depreciation and amortization, tax loss and tax deductible items that have not yet been claimed?
- a) Items such as tax provisions, tax reserves, tax depreciation and amortization, tax loss, tax deductible items that have not yet been claimed and others are disbanded together with defunct company.
 - b) Items such as tax provisions, tax reserves, tax depreciation and amortization, tax loss, tax deductible items that have not yet been claimed and others are transferred from the defunct company to the acquiring company.
8. Which of the following statements correctly indicates the moment when tax evasion takes place?
- a) Most tax evasion takes place when taxpayers - individuals or firms – earn their income.
 - b) Most tax evasion takes place when taxpayers - individuals or firms – spend their income.
 - c) Most tax evasion takes place when taxpayers - individuals or firms – earn and spend their income.
 - d) Most tax evasion takes place when taxpayers - individuals or firms - are required to report income or spending to the tax authorities.
9. What are the main possibilities for tax evasion?
- a) declaration of exaggerated incomes received and underdeclaration of claims for deductions or allowances against tax.
 - b) underdeclaration of incomes received and false or exaggerated claims for deductions or allowances against tax.
 - c) underdeclaration of incomes received and claims for deductions or allowances against tax.
 - d) declaration of exaggerated incomes received and claims for deductions or allowances against tax.
10. Which of the following statements correctly names the category of personal income which is highly exposed to tax evasion?
- a) Nearly all tax systems are highly exposed to tax evasion by the employed.
 - b) Nearly all tax systems are highly exposed to tax evasion by the self-employed.
 - c) Nearly all tax systems are highly exposed to tax evasion by the people earning an income from rent.
 - d) Nearly all tax systems are highly exposed to tax evasion by people earning an income from capital assets.

Part II. Practical examples, total number of points - 10 points

Example 1 (10 points)

Hilfire, a.s., (here and after “Hilfire”) is retailer with electronics and “white goods” (big household appliances). Hilfire is a Czech tax resident company using the calendar year as the fiscal year. Hilfire’s 2017 accounting profit amounted to CZK 16,850,000. All the accounting profit items mentioned below are included in this figure:

- (1) Hilfire recognized accounting depreciation in amount of CZK75,000 for Skoda Fabia which it acquired in September 2015 for CZK310,000 and over which it has been conducting regular servicing including change of summer and winter ties (both sets of ties have been replaced twice: in May 2013 for CZK32,000 and in September 2016 for CZK24,000) and complex renovation including installation of new climate control system for CZK36,000 in August 2016. Company applied accelerated depreciation for tax purposes.
- (2) Hilfire contributed to English language courses provided by English Club Brno, private language school, attended by its 5 employees in amount of CZK4200 per each employee.
- (3) Hilfire provided accommodation for its 15 assembling specialists since they have permanent residence in other cities of CZ than Brno and because they represent high value for the company. Hilfire paid CZK3,500 per accommodation of each assembling specialist in local dormitory.
- (4) Hilfire signed a contract with private carrier about transportation of its 23 employees from neighboring villages to Brno. The contract price paid by the company was CZK1,800 per employee.
- (5) On occasion of Tailor’s 15th anniversary it provided all its employees with the following gifts: (1) 300 cups with company logo market price CZK250 each; (2) 600 pens with company logo and market price CZK120 each; (4) bags with company logo and market price CZK 600 each; and (5) watches for managers with market price CZK1320 each.

Task 1. Calculate Hilfire’s 2017 corporate income tax base as assessed by the tax authority.