



Client Information

Czech Republic
December 2018

Dear clients!

As usually at the end of the year, we are contacting you to provide you with a brief overview of the past year and our outlook for the new year.

Our profession has been undergoing significant changes at these times. Especially in accounting, it is becoming more and more automated. At the same time, tax regulations are increasingly complex and demanding.

Our internal software solution offers versatile opportunities which are used by our clients more and more frequently. In addition to paperless accounting, our clients can access their data via the so-called client zone at any time. Thanks to BMD Com, you have even more convenient, uninterrupted access to your company's performance. Please refer to us and ask for more information about the possibilities of using your accounting data.

Our company has experienced a stable year. We, however, have been taking on more and more administrative tasks that do not have a clear added value for our clients. After the VAT control statements, it was GDPR that kept us busy this year followed by the recent duty to report beneficial owners.

Please find enclosed the latest news on tax developments. Despite the entire technological progress, our profession

is becoming increasingly demanding, especially in the area of tax consultancy. Complicated legal regulations combined with strict criminal regulation require qualified consultancy. With us, you do not have to worry about these developments.

A brief look at our offices: We witnessed solid growth in all three countries of Slovakia, the Czech Republic and Austria in 2018 and we currently employ about 140 people in our six offices. We have moved to a new and bigger office in Brno, shared with the Austrian Honorary Consulate.

We would like to thank all our employees for their work engagement and willingness to constantly learn.

But above all else, we would like to express our gratitude to you, our clients. We have been taking care of some of you since our company was formed 27 years ago.

On behalf of our entire team, we wish you Merry Christmas and a Happy New Year 2019.

*Yours sincerely
Marie Haasová, Mag. Helmut Hetlinger, Mag. Georg Stöger
and the entire AUDITOR team*



Mag. Helmut Hetlinger
Managing Partner



Marie Haasová
Managing Partner



Mag. Georg Stöger
Managing Partner



Tax Changes in 2019

At the end of each year, we traditionally inform you of tax news that will be applied at the beginning of the next year.

However, the significant changes in tax legislation, which were supposed to come in force on January 1, 2019, will not be approved by the end of the year.

For this reason we comment only on the most interesting change proposals. We will inform you of the final wording of the tax-related amendments in our Client Information in the course of next year.

Proposals for VAT Changes

Payments of VAT on Financial Leasing

The current VAT legislation on financial leasing allows to pay VAT gradually in most cases as the repayments are paid.

This practice, however, does not correspond to the meaning of the EU VAT Directive and the judicature of the European Court of Justice. According to it, VAT should be paid in full at the time of handing the leased item over (as in the case of a sale), if ownership transfer of the leased item to the lessee can be assumed.

The new amendment will only apply to items handed over after the amendment coming in to force. It is possible that the legislative process will postpone the effectiveness of this amendment until January 1, 2020.

Remuneration of Executive Officers

The proposed modification of the term “economic activity” can bring a fundamental change to the taxation of executive officers’ activities by imposing VAT on them.

Up to now, Czech law has not applied value added tax on any income taxed by employment income tax.

Executive officers, being taxed as any other employee, regardless of the nature of their legal relationship to the company, were automatically not subject to VAT.

This exemption from VAT under any circumstances, however, is contrary to both the European Directive and the Czech judicature.

Each executive officer would newly have to assess how he/she acts in relation to the company in which he/she is the executive officer, what risks he/she bears, etc. If he/she concludes that it is an economic activity in his/her case, he/she would have to pay VAT on his/her income. His/her income, however, would continue to be subject to employment income tax.



It is likely, that due to the number of ambiguities and discussions, this legal amendment will not be approved at all.



Vouchers

It has been necessary to harmonise voucher taxation across European countries as their use has recently expanded. Thus Czech law is adopting a VAT amendment distinguishing between single and multi-purpose vouchers.



In the case of a single-purpose voucher, the tax rate and the place of performance (specific country) must be known for the goods or service that can be obtained for it. VAT is to be paid upon its transfer. VAT is not paid when such a voucher is used.

All other vouchers are considered to be multi-purpose. These are, for example, vouchers that can be used to buy goods in different countries or with different VAT rates. No transfer of these vouchers is subject to VAT, and VAT is only to be paid when such a multi-purpose voucher is used and the specific transaction from which VAT is to be paid is known.

Therefore, a multi-purpose voucher acts like a deposit on an unspecified performance, but with the advantage of being easier to transfer.

The Date of Taxable Transaction (DoTT) in Renting Services

Landlords welcome the change in rules for DoTT in the invoicing of some services associated with property rental.

DoTT will be postponed until the lessor learns the actual value of the services received from his/her suppliers.

This rule, however, will not apply to the re-invoicing of energies, waste water and telecommunication services.

Issuing and Delivering Tax Documents

The current wording of the law orders taxpayers to issue tax documents.

The law now imposes an additional duty on the payer to not only issue tax documents but to make sufficient efforts to get tax documents to the recipient.

DoTT in Credit Notes

Another change should ease the rules for credit notes.

Currently, a supplier who subsequently reduces the price of his/her performance, must wait for the delivery of the credit note to the performance recipient. Only then is he/she entitled to reduce the tax paid.



Newly, the date of taxable transaction will be the date of the tax base correction. The payer will have a new duty to make sufficient efforts to deliver the corrective tax document to the customer. At that point, he/she would reduce the VAT at the output without waiting for customer's confirmation of document receipt.



Return of VAT on Real Estate Repairs

A payer who purchases real estate and exercises the right to deduct VAT has to monitor the purpose of its use for 10 years. If it is used for non-business purposes or for activities exempted from VAT, part of the initially applied VAT deduction must be returned. The same applies to technical improvements that increase the value of the property.

This duty is newly extended by VAT claimed in the past for repairs amounting more than CZK 200,000.

VAT on Real Estate for Permanent Housing

The rent in real estate intended for permanent housing will newly always be an exempted performance without any right for deduction. Thus the payer will no longer be able to decide and to tax such a rent.



Ing. Martin Kohlík
Tax Advisor
T: +420 224 800 449
martin.kohlik@auditor.eu

Proposals for Changes to Income Taxes

The forthcoming income tax amendment will bring, in particular, changes to the law in the context of the EU Anti Tax Evasion Directive (ATAD) implementation.

Limitation of Tax Deductibility of Borrowing Costs

The legal amendment will bring further restrictions on the tax deductibility of borrowing costs for legal entities. Not only borrowing costs on loans from related but also from unrelated entities will newly be tested.

Borrowing costs include interest on loans, costs associated with obtaining a loan, commission to agents, interest on financial leasing, etc.

The tax deductibility limit for borrowing costs will be the higher of the following:

- 30 % tax profit before interest, tax and depreciation, or
- CZK 80,000,000.

The new regulation will thus affect large legal entities. This limitation on borrowing costs does not apply to banks and insurance companies.

Exit-Tax

This institute is designed to prevent assets that do not change owner from transferring to other countries with lower taxes. Even this change is limited to legal entities. An asset transfer from the Czech Republic will be considered a fictitious sale and taxed in the Czech Republic. The institute will also apply to the transfer of a business corporation's tax residency abroad.

Law Evasion

The principle of law evasion or circumvention applies to transactions carried out without economic justification, the predominant purpose of which is tax optimisation.

Czech judicial practice already applies this principle, although it has not been explicitly stipulated in any law. Law evasion will newly be defined in the Tax Code.



Taxation of Foreign Subsidiaries and Permanent Establishments in the Czech Republic

The purpose of this legal amendment is to prevent transfers of taxation from the Czech Republic by means of founding subsidiaries or establishments in countries with a low level of taxation and the subsequent diversion of corporate income to these subsidiaries or establishments.

This new instrument can only be applied when two conditions are met:

- the controlled foreign company does not perform any substantial economic activity and
- the income tax in the country of the controlled foreign company is less than half of this tax in the Czech Republic.

If the above conditions are met, then the Czech controlling company shall tax the income of the controlled foreign company or establishment in its own tax base. Only the selected types of income are to be taxed and only in a proportion corresponding to the ownership proportion in the controlled foreign company.

Hybrid Disparities

Hybrid disparities are situations when tax deductions are applied in several countries or the income is not

taxed in any country due to different legal regulations in different countries. The amendment should prevent such situations.

Duty to Declare Exempted Income Flowing Abroad

For reasons of international exchange of information, the amendment further introduces the obligation to declare income accruing to non-residents and being exempted from tax or non-taxable in the Czech Republic under an international treaty. These include, for example, payments of dividends to foreign parent companies as these are exempt from tax in the Czech Republic.

Non-taxed income paid to one non-resident in the aggregate amount of up to CZK 100,000 per calendar month does not need to be declared. The tax administrator may exempt a taxpayer from this declaration duty on the basis of his/her request.

Failure to comply with this declaration obligation may result in a fine of up to CZK 500,000.



Ing. Jan Hložek

Tax Advisor

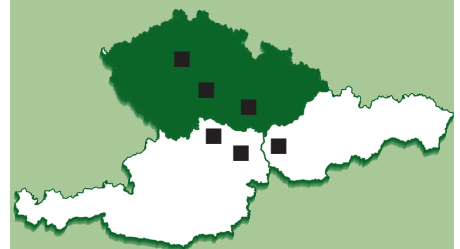
T: +420 565 502 517

jan.hlozek@auditor.eu

AUDITOR in Central Europe

AUDITOR is an audit and tax consulting company with an international focus that has been providing services for 27 years in **tax consulting, personnel and payroll administration, financial accounting and business consulting.**

The company provides complex consultancy in Central European countries via sister companies in the **Slovak Republic** and **Austria** (using **Stöger & Partner** as a brand name). For solving global consultancy issues, AUDITOR is an independent member in UHY International, a network of independent consultancy companies in more than 80 countries of the world.



Office Prag

Haštalská 6, Prague 1

T: +420 224 800 411

paha@auditor.eu

Office Pelhřimov

Masarykovo nám. 30, Pelhřimov

T: +420 565 502 502

pelhrimov@auditor.eu

Office Brunn

Palace JALTA

Dominikánské nám. 656/2, Brno

T: +420 542 422 601

brno@auditor.eu

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