



## Information for clients No. 2

Czech Republic  
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### Changes in VAT and Income Tax in 2017

*This year's package of tax measures was only passed in the course of April. These will come into effect on the fifteenth day after publication in the Legal Gazette. Changes in the VAT Act will apply, aside from exceptions, from this date. The law on income tax has also undergone significant changes in several areas. Certain changes in the law on income tax will also apply retroactively from the start of 2017.*

#### Value Added Tax

##### **Cancellation of special VAT measures for a consortium**

For persons conducting business jointly on the basis of a consortial contract (in the old Civil Code referred to as unincorporated associations) until now the VAT act contained certain special regulations. These will now be cancelled and the partners in the consortium will follow the general procedures.

However thanks to the transitional provisions consortia of this type existing before this amendment can still follow the old regulations until the end of 2018.

We recommend that not only the consortium's members, but also their suppliers and customers, review how the changes in VAT will influence previously set rules for accounting, invoicing and VAT records.

##### **VAT on goods acquired outside the Czech Republic**

If the buyer provides EU suppliers with his Czech VAT number for the acquisition of goods, but does not physi-

cally bring these goods into the Czech Republic (except in the case of triangular trade), he has an obligation to pay VAT in the Czech Republic for these goods, but he does not have the right to deduct the input VAT.

This rule was previously only inferred from a decision of the European Court of Justice. We now anticipate that aside from checking on chain supplies the tax office will also focus on adherence to these rules.

##### **VAT on advance payments**

There is now in some cases no duty to pay VAT on payments received before the chargeable event. This is the case when at the time of receiving payment it is not known what kind of chargeable event (specific goods or services) will be provided, what VAT rate will apply or in which state they will be provided. VAT payment takes place at the point of the sale of the specific goods or services.

In practice this provision will have an influence for example on prepaid phone cards or vouchers that can be used for various types of goods or services.



##### **VAT on shortages**

According to a decision of the Supreme Administ-



rative Court unexplained shortages are subject to VAT. Unexplained shortages will continue to be subject to VAT. However the calculation mechanism will change.

If within a period of 3 years from the purchase of inventory it is destroyed, lost or stolen in a way that is not properly documented or confirmed, the payer will have to return the originally deducted VAT.

Instead of paying VAT on the amount of the one-off recognised shortfall the payer must search backwards for when the given property was acquired and how much VAT was deducted for it at that time.

These provisions apply not only to inventory of raw materials, goods and products, but in a similar manner also to long-term assets. Here however the deadline for return of the deduction is 5 years, and for immovable property 10 years.

#### **Extension of the domestic reverse charge regime**

Newly the provision of workers for example for building or assembly work within the country will fall under the reverse charge regime. Thus employment agencies hiring out their employees will need to know for VAT purposes what activities these people will undertake.

#### **Reduced VAT rates on newspapers and magazines**

From 1 March 2017 VAT on newspapers and magazines was reduced from 15% to 10%.



## **Income Tax**

#### **Further reduction of the cap for flat rate sum expenses**

In the area of income tax for individuals the amount of income allowed for flat rate expenses has been reduced.

It will be possible to apply flat rate expenses up to a maximum income of 1 million CZK. For example with craft activities the maximum expenditure will be 800 thousand CZK (80%), in activities of the economic consulting type it will be 600 thousand CZK (60%), and the restriction also applies to income from rent, with a new maximum of 300 thousand CZK (30%).

In making use of flat rate expenses it will once again be possible to simultaneously also apply the tax benefits and allowances for a wife and dependent children.

For the year 2017 individuals will be able to choose the best option for them. They will either be able to claim expenses under the law before it was amended up to a maximum income of 2 million CZK but without the option of claiming tax benefits or a maximum income of 1 million CZK but with the chance to claim tax benefits and allowances.

#### **Withholding tax on income from so-called “small-scale” employment**

Individuals with income from employment which does not exceed 2,500 CZK in a calendar month will now no longer pay the tax in advance but will fall under withholding tax – when fulfilling the condition that the taxpayer has not signed a tax declaration with this employer. Which means that in this case the employer does not process the annual tax settlement.

#### **Tax allowances for dependent children**

For individuals there will be an increase in the tax allowances for dependent children retroactively from the beginning of 2017. The allowance for the first child remains unchanged (at 13,404 CZK annually), while for the second child it is increased to 19,404 CZK per year and for the third and further children it is increased to 24,204 CZK annually.

#### **Proceeds from the sale of shares in business corporations**

The new law introduces more precise provisions for individuals to prevent circumvention of the time test for exemption of the transfer of property. Since 2014 the exemption has not applied to income from the sale of shares which correspond to the investment contribution to equity realised in the five years before the sale of the shares. This provision applied to monetary and non-mo-



netary contributions to equity. This restriction now only applies to non-monetary contributions.

#### **Depreciation of technical improvements of subtenants**

Not only the tenant but also the economic user will be able to depreciate technical improvements carried out on another person's property once this amendment comes into force.

A subtenant or new tenant after cession of the lease agreement can also depreciate the technical improvements against tax.

#### **Depreciation of intangible assets**

For acquired intangible assets the depreciation period specified in the law will be seen as the minimum. However it will continue to not be possible to interrupt the tax depreciation of intangible assets. If the tax payer for example acquires new software, they can decide whether they will depreciate it over a period of

36 months or choose a longer period.

#### **Repayment of advance payments on shares in profits and new shareholders**

Debt arising from advance payments on profits is automatically transferred to the new shareholder.

The amendment has been supplemented with the provision that in the case of there being a duty to return the advance payment on profit then the new shareholder will also gain the right to the return of the tax withheld.

#### **Binding assessment to determine the taxable permanent establishment**

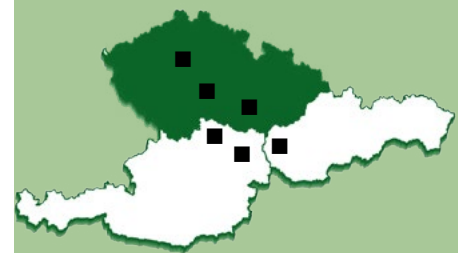
Permanent establishments of non-residents can now ask the tax administrator for a binding ruling. The subject of the binding ruling is whether the taxable permanent establishment is comparable to the tax base of any other similar company based in the Czech Republic.



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