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Audit ■ Tax ■ Accounting

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We would like to inform you about changes in the accounting and tax legislation. These include especially amendments to the Income Tax Act, the Value Added Tax Act and the Act on the Provision of the Service of Child Care in Children Groups.

The laws are effective from 1 January 2015. However, due to transitory provisions, some of the changes can be applied already in 2014.

Most of these legislative amendments have not entered into force as yet but can be expected to pass the legislative process in the proposed wording.

We therefore inform you about these new developments already now so that we can reflect the changes awaiting us in the coming year together and in time.

Income tax

■ Ceiling for flat-rate expenses of natural persons

The limitation of the maximum permitted flat-rate expenses applicable to natural persons' income tax is to be extended also to activities falling within the flat-rate expenses in the amount of 80% (craft trades) and 60% (for example, economic counselling). The limit income equals CZK 2,000,000 also in these cases. In relation to the flat rate **in the amount of 80%**, the absolute amount is limited to **CZK 1,600,000** and to **CZK 1,200,000** for flat-rate expenses **in the amount of 60%**.

■ Allowance for taxpayer receiving old-age pension

The system of taxation applicable to taxpayers receiving old-age pension as of 1 January of the relevant year is to be changed. The basic allowance for the taxpayer is again granted and, simultaneously, the pension paid is taxed if the sum of income from employment, business activities and lease exceeds the limit of CZK 840,000. This allowance for taxpayer will be granted also for the 2014 tax period. In relation to the 2013 tax period, the allowance can be claimed through an additional tax return or also at the employer.

■ Tax allowance for second, third and every following child

The tax advantage for a child in the form of tax allowance remains at CZK 13,404 per year for the first child, is increased by **CZK 2,400** per year for the second child and by **CZK 3,600** for the third and every following child.



■ Expenses on the right of superficies

Personal income tax payers who do not keep accounting books do not need to claim expenses for the establishment of the right of superficies, which does not form part of the construction, on a one-off basis. This rule can be applied for the 2014 tax period.

■ Financial leasing

The minimum period of financial leasing of fixed assets can newly be reduced by six months in depreciation groups four to six; to this date, this was possible only with respect to assets placed in depreciation groups two and three. So far, the minimum period of financial leasing was set at 30 years for real estate. This period can newly be also determined on the basis of the depreciation groups.

■ Obligation to lodge the tax return

A 15% payroll tax is applicable in the Czech Republic. If the monthly tax base exceeds CZK 103,768, the tax on the amount exceeding this limit is 22%. If the limit is exceeded in only certain individual months during the year, this does not constitute grounds for lodging the personal income tax return. This provision applies to the tax periods which commenced in 2014.

If an employee has paid a lower tax on dependent activities due to wrong data, it is no longer the employer's obligation to perform the correction; instead, the employee must lodge the personal income tax return.

■ Obligation to report exempted income

A personal income tax payer must report to the tax administrator every individual form of income



which exceeds the amount of CZK 5,000,000 in a tax period and is exempted from tax. The report is to specify the amount, date of occurrence and type of income. This applies, for example, to exempted income on the sale of ownership interests and shares, real estate, etc.

■ Provisions for receivables

From 2014 onwards, provisions of up to 50% can be created with respect to receivables which are overdue for more than 18 months and up to 100% for receivables which are overdue for over 36 months. The period of 36 months is newly reduced to 30 months.

■ Outstanding debts

The obligation to increase the tax base by the amount of any outstanding debt is newly applicable to a debt which is outstanding for more than 30 months instead of the existing 36 months.

■ Merger

An assessed tax loss will be transferrable within mergers through the creation of a chain, subject to





the fulfilment of certain conditions, not only within the first merger, but also the subsequent ones.

■ Contribution of tangible assets

The accepted book value of contributed tangible assets must be increased by the costs paid by the acquirer which are part of the purchase price according to the Accounting Act (for example, valuation costs, tax on the transfer of real estate, etc.). This provision can be applied to the tax periods which commenced in 2014.

■ Transfer prices

Effective from 1 January 2014, if the tax authority additionally changed transfer prices between related entities, the change was to be recorded by both the supplying entity and the receiving entity.

The price will newly be adjusted only by the recipient of the goods or service (i. e. where an excessive tax expense has been reported and the tax authority is now reducing it), but it will no longer be automatically adjusted also on the supplier's part. The correction must be made by correcting the invoice.

■ Control of transfer prices

The tax authorities will concentrate more on the control of transfer prices. The first step will be to introduce the **mandatory annex** to the corporate income tax return already for the 2014 tax periods. According to the information available, the annex will specify the details of transactions between related entities.

We will provide more information about the development of this provision.

■ Discount on grounds of child placement

A novelty applicable already in 2014 was the possibility to claim a tax allowance for the placement of a dependent child in a pre-school child care establishment. It will be possible to claim the allowance in the amount of the demonstrated expenses, but not in excess of the minimum salary. The maximum amount claimable in 2014 is CZK 8,500.

From 1 January 2015 onwards, the tax-deductible expenses of an employer will include also the expenses on the operation of an internal or external child care establishment for the employer's personnel.

Tax Code

■ Waiver of penalties, default interest etc.

The institute of individual waiver of penalties, default interest and interest on an amount of tax subject to a grace period will again be introduced. The tax authority can waive up to **75% of penalty and waive default interest and interest on tax subject to a grace period in the full amount**. The waiver will not be possible in the case of a penalty for a tax statement which was lodged late.

■ Penalties

The upper limit of a procedural fine is to be increased from CZK 50,000 to CZK 500,000. The penalty for failure to comply with an obligation of non-monetary nature, i. e. reporting duty and registration duty, may be imposed in an amount of up to CZK 500,000.

Penalties for failure to observe the mandatory electronic form of submissions are introduced in the uniform lump-sum amount of CZK 2,000.

VAT

■ Provision of telecommunications services

The existing special regime applicable to taxable persons from third countries who provide electronic services to non-taxable persons in the EU is extended with telecommunications and broadcasting services.

A fundamental change consists in the new special rule for determining the place of performance in relation to telecommunications services, services of radio and television broadcasting and services provided by electronic means to a person not oper-





ating a business. From 1 January 2015 onwards, all these services are taxed in the country of the recipient of the service even if the provider is a taxable person who is established in the EU.

Simultaneously, the term “special regime of a single window” is introduced into the VAT Act. The principle of this voluntary special regime consists in the fact that the provider of these special services lodges tax returns and makes VAT payments only in the country where he is registered for this regime. He no longer needs to be registered in the individual member states where he became obliged to register. The VAT payments to the relevant member states are made by the country in which the provider is registered for this regime.

■ Change in definition of EU territories

Effective from 1 October 2014, a change is introduced in the definition of the territories which are

not considered to be the territories of a member state of the European Union and hence EU territories. The French regions of Guadeloupe, Guyana, Martinique, Réunion, Saint Barthélemy and Saint Martin are considered to be third countries for VAT purposes.

■ Second reduced VAT rate

Effective from 1 January 2015, a second reduced VAT rate is introduced in the amount of 10%, which will be applied to baby formula, medicaments and books. ■

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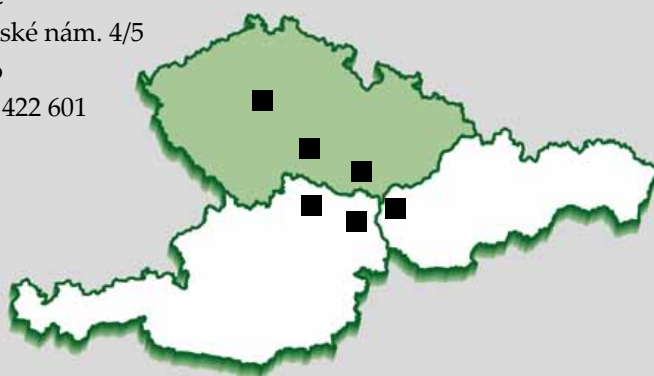
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