



AUDITOR

Audit ■ Tax ■ Accounting

Information for clients No.5

Czech Republic
December 2014

Dear clients,

The year is again coming to an end, and the time has come to take a look at the past year and also briefly the year ahead, 2015.

The process of migration of accounts to our new software, NTCS, was launched in 2014. It is a new product from our existing IT partner, BMD. In addition to many improvements and technical novelties, you will feel the benefits of the software, especially when it comes to accounting presentations where you can go from each balance sheet item down to individual accounting entries. If you supply your documents only in electronic form, together we will take the efficient paperless office another step further.

We again managed to attract new clients and continue our growth this year. We won many clients thanks to our numerous contacts in and around Prague, Brno and Pelhřimov; others, especially in the area of acquisitions and mergers, were obtained through the UHY International network. We try to be in direct contact with this organisation and this year we visited training workshops in Malta, Dubai and Germany.

I am also pleased to inform you that I have been appointed to be the honorary consul of Austria in Brno. On the one hand, the role has brought

administrative duties that were assumed by our Brno office. On the other hand I am tasked with developing contacts between Moravia and Lower Austria and also Vienna. I was thus able to participate in many interesting bilateral discussions and meetings in the past year. This gave rise to new business opportunities, which in turn entails an increase in client numbers, especially in the Brno area.

As every year, we would like to take this opportunity to thank our colleagues who ambitiously endeavour to meet the wishes and needs of our clients.

You all deserve special appreciation for the excellent co-operation which in some cases has now lasted for more than two decades.

On behalf of our whole team, I wish you a merry, blessed Christmas and health, happiness and business prosperity in 2015.

Yours faithfully,

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Tax authorities have begun to focus more extensively on examination of prices set in transactions between related entities, i. e. transfer prices. This trend follows on from the global concern of national states to combat tax base erosion and profit/shifting to more favourable tax destinations.

Considering the growing volume of cross-border transactions, the Czech tax authorities are aware of the potential to increase tax revenue by adjusting inappropriate transfer prices. Consequently, the examinations will not deal solely with targeted tax optimisation but also omitted intra-group financial settlement, failure to adjust prices to the market situation, etc.

Annex to tax return

The tax authorities sent a questionnaire concerning transfer prices to selected tax entities this year. The information obtained was to serve as a primary source of data for further steps in this respect.

In November the tax authorities published a new mandatory annex to the corporate income tax return concerning transfer prices. The annex must be filled in already for the tax periods which commenced in 2014. The tax authorities hope to employ the data thus obtained in their efforts towards a more effective analysis aimed at selecting entities for tax inspections.

■ Obligated entities

The obligation to fill in a special annex to the tax return will apply to all legal entities which meet at least one of the following criteria:

- total assets worth more than CZK 40,000,000, or
- net sales worth more than CZK 80,000,000, or
- average number of employees exceeding 50 people,

and, simultaneously, the tax entity:

- has effected a transaction with a related entity having seat abroad, or
- has reported a tax loss and, simultaneously, effected a transaction with a domestic or foreign related entity, or

- has received an investment incentive in the form of a tax credit and, simultaneously, has effected a transaction with a domestic or foreign related entity.

■ Contents of the annex

The annex to the tax return will contain a list of all transactions separately for each related entity, in a detailed breakdown by transaction type, i. e. purchase and sale of tangible and intangible fixed assets, financial assets, inventories, services, payments of licence fees and interest, profit distributions, supplies without consideration and equity transactions. Furthermore, the annex should contain information about the balances of accounts receivable and payable with the respective related entities as of the balance sheet date.

■ Who is a related entity?

A relationship between related entities is deemed to exist in the following situations:

- direct or indirect holding in capital or voting rights in a company equal to at least 25%,
- entities with identical capital tie-up (for example, affiliate companies),
- overlapping of staff, where a person participates in the management or control of another person or two persons are subject to management or control by a common person.

Report on relationships under the Corporations Act

As in the past, the new civil regulations effective since 1 January 2014 task the governing body of a controlled entity with drawing up a report on intra-group relationships within three months of the end of an accounting period.

Under the Corporations Act, the report on relationships should describe the structure of intra-group relationships, the role of the controlled entity in the group, and the method and means of control. Furthermore, it should contain a summary of important acts made in the last accounting period at the instigation or in the interest of the controlling entity or persons controlled by it and a summary of group contracts relating to the company compiling the report on relationships. The governing body should assess in the report whether the controlled entity



suffered damage, and if yes, how the loss was compensated for, and assess the positives, negatives and risks following for the controlled entity from its affiliation to the group.

We point out that the report on relationships must be published in the Collection of Documents of the Commercial Register. We consider that the tax authorities will use this document more often in the future as a source of information for examination of transfer prices, and hence supervision over its disclosure.

How can we help you?

Documentation of transfer prices is not prescribed by law as yet in the Czech Republic. Nevertheless, we consider that corporate groups should begin to review, and perhaps also document, their pricing policies. The tax authority has the right to request during the tax inspection that the taxpayer demonstrate the manner in which the prices of transactions with a related entity were set. If the taxpayer fails to prove that the price applied towards a related entity was an arm's length price, the tax authority increases the tax base by the ascertained difference and assesses penalties on the basis of the tax difference. As follows from the contents of the new annex to the tax return, the areas of concern will include, in addition to transactions with goods, also financing, licence fees and management fees.

Close co-operation between the client and the tax advisor is required during the preparation of the documentation for transfer prices and compilation of the report on relationships. We recommend that particularly the documentation of transfer prices will be prepared sufficiently in advance. Ex-post preparation entails the risk that it will not be possible to demonstrate that the prices of transactions carried out in past periods were in line with the arm's length standard.

Please do not hesitate to contact us if you are interested in assistance with the preparation of the report on relationships! We will be pleased to share our experience from transfer price examinations and knowledge obtained in international training to analyse your group prices and prepare your documentation! ■

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