



## Information for clients No.3

Czech Republic  
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*The institute of unreliable taxpayer was introduced into the law valid from 1 January 2013 as one of the instruments to combat tax fraud. On 21 August 2014, the General Directorate of Finance released an extension of the scope for application of the institute of unreliable taxpayer.*

### Unreliable taxpayer – new risks

If a taxpayer fails to meet his obligations in relation to VAT, the tax authorities may classify such a person as an “unreliable taxpayer”. A complete list of unreliable taxpayers is available on the [Internet](#).

If goods or service are received from a business partner who has been published as “unreliable taxpayer”, and if that unreliable taxpayer fails to pay VAT properly, the VAT is guaranteed by the customer. It is therefore reasonable, for safety reasons, to check before supplying a service or goods whether the performance concerned is not for an “unreliable taxpayer”. If this is the case, the VAT should be withheld and paid directly to the tax author-

ity rather than the supplier. We recommend that this possibility will be examined also from a legal point of view.

### Criteria for the determination of an “unreliable taxpayer”

Up to the present, the list of violations which could result in classification as unreliable taxpayer contained truly serious infringements of obligations relating to a limited scope of taxpayers. As a result, only 132 taxpayers were classified as such over the 20 months after the introduction of the institute into the VAT Act.

So far, a taxpayer could be declared unreliable if:

- he was engaged in transactions regarding which there was justified concern that VAT would not be paid and a protective order was issued with respect to that person, or
- he had a VAT debt exceeding CZK 500,000 for a period of three months, or
- VAT was assessed or additionally assessed for the taxpayer using additional underlying documents, in the amount of at least CZK 500,000, or





- his claim for VAT deduction in excess of CZK 500,000 was not satisfied and the additionally assessed VAT was not paid in time.

New criteria have been added effective from 1 October 2014:

- VAT was assessed or additionally assessed at least twice for the taxpayer using additional underlying documents, or
- the taxpayer fails to respond properly to a request made by the tax administrator, or
- the taxpayer has failed at least twice to submit a report or return even on request.

The list will be further extended with the following effective from 1 January 2015:

- indication of incorrect or incomplete registration details and
- failure to report changes in registration details.

It is impossible to estimate at present how strictly the new provisions will be applied.

The provisions relating to a taxpayer's real seat are of particular importance. Under the VAT Act, the real seat is the location where the management of the company makes fundamental decisions. Thus, if the official registered office of a company specified in the Commercial Register does not correspond to the place where the management of the company is actually seated, we recommend that the situation be explored in view of the new provisions.

We are obviously at your disposal also for any questions on this aspect. ■

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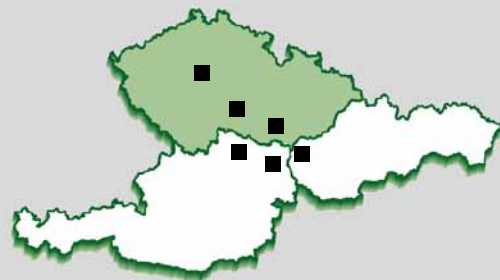
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