



Information for clients No. 2

Czech Republic
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VAT Control Statement

From January 2016 all VAT payers will have a new responsibility – to submit to the tax office an electronic VAT control statement.

New Provisions

At the end of 2014, with effect from 1 January, 2016, a duty to submit an electronic VAT Control Statement was included in the VAT Act as part of the battle against tax evasion. The VAT control statement will contain a list of tax documents in a precisely specified extent and structure and will be sent electronically in xml format to the tax administrator.

Essence and Meaning of the VAT Control Statement

At present every VAT payer has a duty to keep records for tax purposes which show the aggregate values reported in the individual lines of the tax return. While this evidence involves keeping a list of all tax documents reported on individual lines of the tax return the precise form is not specified by law and is not sent to the tax office.

This list may be maintained in the accounting programme, in Excel or by hand on paper. The only essential point is that in accordance with this the VAT payer is able to produce a VAT return and should it be needed, it can be furnished on request to the tax office in legible form for inspection.

From 2016 however these conditions will fundamentally change. Alongside the tax return every VAT payer will

have to complete and send to the tax office a VAT control statement.

The purpose of the VAT control statement is to provide the state administration with information (in electronic form enabling automatic processing) allowing for the effective inspection of VAT. Through the automatic pairing of information the system should make it possible to check for example whether there are not claims for VAT deduction for deliveries which were not properly reported by the supplier on output.

Structure

The VAT control statement will contain the following parts:

- Invoices issued under the domestic reverse-charge mechanism (e.g. building and assembly work)
- Invoices received from the EU and outside the EU, where the recipient has the obligation to pay VAT (e.g. acquisition of goods from the EU or services from abroad)
- Invoices issued for investment gold;
- Invoices issued above CZK 10,000 with Czech VAT;
- Issued simplified tax documents to CZK 10,000 with Czech VAT and taxable supplies with no duty to issue a tax document (sales to non-VAT payers);
- Incoming invoices under domestic reverse-charge mechanism (e.g. building and assembly work);
- Incoming invoices above CZK 10,000;
- Received simplified tax documents up to CZK 10,000.

Total values of documents reported in individual parts must then correspond to the overall value reported in the tax return.



In the VAT control statement however imports, exports, rendered services with place of taxable supply outside the Czech Republic and delivery of goods to other EU states (for which the system of recapitulative statements is retained) will not be reported.

Data will have to be sent in xml format and with the required structure. A preliminary proposal for this structure has been published on the website of the financial administration; nevertheless the financial administration is still working on the final form.

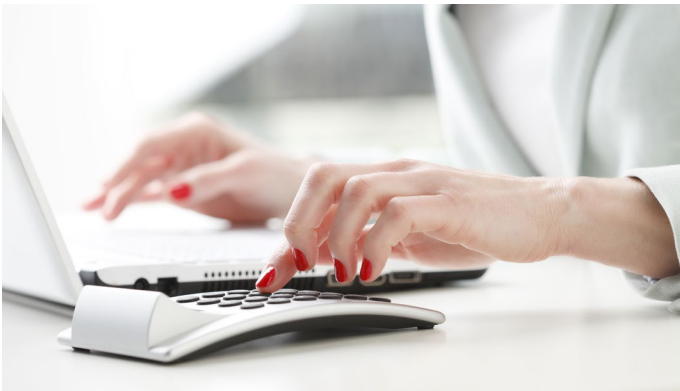
Penalties

For the system of inspection reports to function all taxpayers must report their data in time.

If it is sent late then under the law the tax office must impose the following fines:

- CZK 1,000, if it is submitted after the set deadline (even if only by a day) but before notification by the tax administrator,
- CZK 10,000, if it is submitted after notification by the tax administrator,
- CZK 50,000 if it is not submitted even after notification.

Should the data reported by providers and recipients differ and the system will not be able to pair them automatically,



the tax office will request revision of the data within the very short deadline of five calendar days. For entities which do not have a data box set up, these calls will be

delivered by e-mail and the period will begin with the day of sending regardless of whether the recipient has read the e-mail.

If the revision is not carried out in time, the tax office will impose a fine of CZK 30,000.

A fine of up to CZK 500,000 will be imposed on anyone who by not submitting an VAT control statement impedes or obstructs tax administration.

Practical Implications

I would like to point out that the introduction of VAT control statements will be the most significant change for VAT payers since 2004, when the Czech Republic entered the EU.

VAT control statement will require fundamental changes in the settings of accounting software. We recommend that you should check now whether in January 2016 your software will be able, together with the tax return, to also generate the VAT control statement.

Accountants entering data into the system will also face other requirements, such as for example precisely entering the complete registration number of the suppliers' invoices (the slightest error will disable the automatic pairing of evidence and probably result in a request from the tax office).

VAT payers will have to address their VAT duties more often (also legal entities paying VAT quarterly will have to submit an inspection report monthly).

For VAT payers inspection reports will certainly result in additional costs, whether in the form of investment in software, additional administration involved in completing inspection reports or in fines should something go wrong. If you have any further questions please do not hesitate to contact us. ■

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Tax Benefits When Employing Students

Are you considering involving students in your business? Or do you want to attract future graduates? The Law on Income Tax offers several immediate advantages.

Currently the Czech Income Tax Act (ITA) offers the following opportunities to reduce tax liabilities by supporting students:

Tax deductible items for the provision of practical training

Taxpayers providing in their workplace practical training or professional experience for secondary school or vocational college students or university students, can reduce their income tax base by special tax deductible



items (§ 34f ITA).

This support only applies to students in Czech schools, as defined in the Education Act (Act No. 561/2004 Coll.) or in the Act on Higher Education Institutions (Act No. 111/1998 Coll.). These advantages take two forms:

- **Tax deductible item for compensating expenses linked to the provision of work experience (§ 34h ITA)**
For expenses incurred by providing practical training or professional experience taxpayers can deduct from their tax base CZK 200 for every hour of student experience.
- **Tax deductible item for asset acquisition (§ 34g ITA)**

Should the taxpayer acquire a fixed asset to ensure practical training, he can, in accordance with the extent of its use (up to or more than 50%), apply a tax deductible item of 110%, or 50% of its acquisition price. Thus advantaged assets must fulfil the following conditions:

- They must be at least 30% used for practical training (this extent of use must be fulfilled in three tax periods).
- They cannot be financed by grants from public resources.
- Must not be stock, minor assets or buildings.

The amount of the tax deductible item is limited to a maximum of CZK 5,000 per hour of experience of the student.

Taxpayers can make use of tax deductible items for authorised activities that relate to the given area of education and which enter into a contract with the given educational facility on the extent, content and conditions of the organising of the professional experience. If, due to having shown a loss, the deduction cannot be made in the current year it can be transferred into the next three following periods.

Incentive payments as tax deductible cost

On the basis of a contract the taxpayer can pay a student being educated for current or future work with them an





amount of CZK 5,000 monthly, that is CZK 60,000 yearly. This amount stands for tax deductible expense. Such payment can be used to pay school fees, accommodation costs, food, travel or personal protective equipment. For university students the incentive payments can be up to CZK 10,000 monthly.

These payments can also be used to motivate existing employees in further education.

Taxation of students

The income of students on professional experience is not taxed (§ 6/9/1 ITA). This does not apply to the income of university students.

Incentive payments are subject to income tax (but not health or social insurance contributions).

Should you need further information please do not hesitate to contact us! ■



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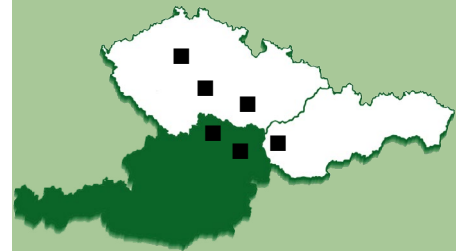


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