Tax & Business News

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Tax, accounting, advisory and assurance newsletter

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Theme of the month

End of super-gross wage and further changes to be introduced by the amendment of the Income Taxes Act

The Czech Ministry of Finance is drafting an amendment to the Income Taxes Act and related legislation that will bring many changes in the area of personal taxation. The effective date of the amendment is suggested to be 1 January 2013.

• The amendment cancels the concept of a super-gross wage and will unify the base for the calculation of the tax and health and social insurance. Newly, the tax from total wages should be introduced (suggested tax rate of 32%) that should replace social and health insurance paid by the employer.

• The rate of personal income tax will be increased to 19 %, and the rate for health insurance paid by the employee will be increased to 6,5 %. In addition, the amendment also provides different maximum annual assessment bases for calculating the premiums paid by employees – social insurance at 48 times the average wage and health insurance at 72 times the average wage.

• Abolition of the tax exemption on food vouchers should be compensated by the introduction of an employee expenditure lump sum (this is a tax credit for taxpayers with income from employment) in the amount of CZK 3,000 per year. Employees and their families can continue to enjoy recreational and sporting facilities, etc., or contributions to cultural and sporting events. Exemption of this non-monetary income will, however, be limited to the maximum annual amount of CZK 10,000.

• In the future, we must expect the possibility of a limited deduction of interest on mortgage loans.

• Taxpayers with income from employment, whose annual tax base exceeds 48 times the average monthly wage, must newly submit a tax return.

• The amendment also increases the threshold for payment of income tax advances and introduces a system for monthly advance payments.

• The deadline for signing applications for the annual settlement is being shortened

to the end of January following the calendar year in question.

• The limit for the possibility to deduct gifts provided for the purposes set up by the law will be increased from 10 % to 15 % from the tax base. The amount of the gift tax will be unified with income tax to 19%.

• The tax rate on income from mutual, investment and pension funds will be decreased to 0%. Withholding tax for legal entities in the amount of 19% will be introduced on dividend income from investment funds. Newly, it will be possible to claim a tax credit of tax deducted from dividends and profit shares.

• The amendment allows the creation of adjustments regardless of the amount of the claim and without the need to meet additional conditions (such as logging in bankruptcy) – with respect to claims older than 18 months, or respectively 36 months, from the due date in the amount of 50%, or respectively 100%, of the outstanding balance value.

• Tax investment incentives will be cancelled, while greater support is planned for research and development.

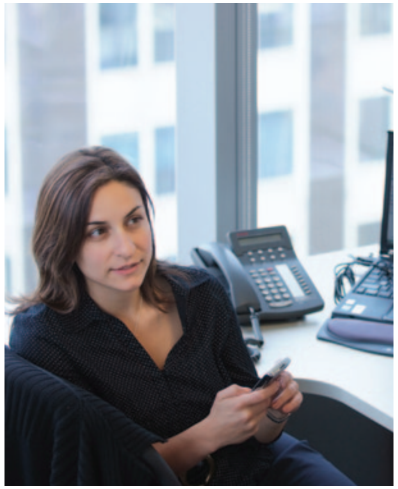
Martin Kopecký
+420 251 152 538
Tomáš Hunal
+420 251 152 516
Zuzana Vaněčková
+420 251 152 800

If you are interested in receiving Tax & Business News, please contact Marie Čapková, +420 251 151 839.

Taxes

Who is the “real payment owner”?

The Organization for Economic Cooperation and Development (OECD) is trying to more precisely define the term “real payment owner” in its proposal. This proposal is part of the commentary to the Model Tax Convention on avoidance of double taxation. According to the proposal, it is not possible to consider such person to whom a payment is remitted but who is not



entitled to freely use the payment or the underlying asset as the real payment owner, because the person is not economically entitled to the payment. This person should therefore not enjoy the benefits of a contract in connection with the collected payment.

In practice, such defined term could affect, e.g., a security transfer of rights in securities or so-called short-selling of investment instruments. The OECD believes that the clarification of the term “real payment owner” will help to resolve the situations where the legal title is separated from the economic title. This applies, e.g., to trust companies or securities transactions on financial markets, etc.

Zenon Folwarczny
+420 251 152 580
David Borkovec
+420 251 152 561

Will a common tax base be advantage-ous? Let’s size it up.

Companies or groups doing business in the EU could, in the future, have to calculate only one tax base and submit only one tax return. This possibility is being considered by the European Commission in its draft Directive on the so-called common tax base from March this year. Some member states are considering implementing this Directive as early as 2013/2014. On the other hand,

some other member states have totally refused this draft Directive.

Would this Directive have a positive impact on the taxation of your company? PwC compiled its own model, which determines the company taxation rate according to the draft Directive. We would be pleased to discuss with you personally the possibility of its use for your organisation.

David Borkovec
+420 251 152 561

One step closer to a flat VAT rate

The Czech Parliament approved the first reading of the amendment to the VAT Act yesterday, according to which the reduced VAT of 14% will apply as of 1 January 2012, and, as of 1 January 2013, only one VAT rate of 17,5 % will apply in the Czech Republic.

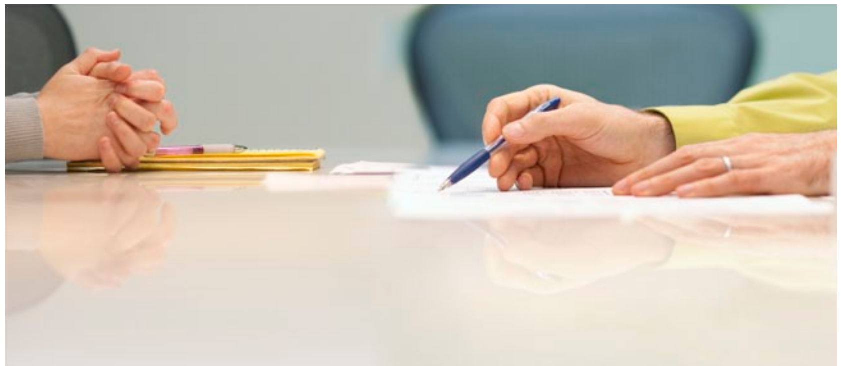
Martin Diviš
+420 251 152 574

Accounting

The IASB has issued new standards

The IASB (the International Accounting Standards Board) issued several new and amended standards in May. The new guidance relates to accounting for defined benefit pension plans and financial reporting of interests in subsidiaries, joint arrangements and associates. As a response to the risks identified during the economic crisis, the IASB also issued a new standard, IFRS 12 - Disclosure of Interests with Other Entities.

Milan Zelený
+420 251 152 088
Petr Kříž
+420 251 152 045



Employees

Employment of illegal aliens threatens severe penalties

Work performed for an employer by an alien without a valid residence permit is illegal. An amendment to the Employment Act, together with this standpoint, determines the obligation of employers to retain copies of residence permits for foreign workers for the period of employment and the next 3 years. Violation of the law threatens severe penalties – an employer could lose the licence to practice, may be excluded from participation in public procurement or would have to say goodbye to contributions to new jobs. Penalised employers will also not be eligible for investment incentives for new jobs or for requalification. Incentives are granted for 12 months before issuing a fine, then the employer is obliged to return them.

Petra Nováková
+420 251 152 679
Peter Chrenko
+420 251 152 600

Holidays in Croatia with a Schengen visa or residence permit

Just like last year, Croatia will facilitate entry into the country for tourists from countries outside the European Union. The Republic of Croatia is available to holders of a valid Schengen visa or a residence permit, who come here solely for tourism from 1 April 2011 to 31 October 2011.

On a trip to this popular destination, it is necessary to pack your passport with the Schengen visa or a residence permit valid for at least another 14 days after returning from the trip.

It is also necessary to have proof of an accommodation reservation in the name of the foreign passenger and travel insurance valid for the stay in Croatia.

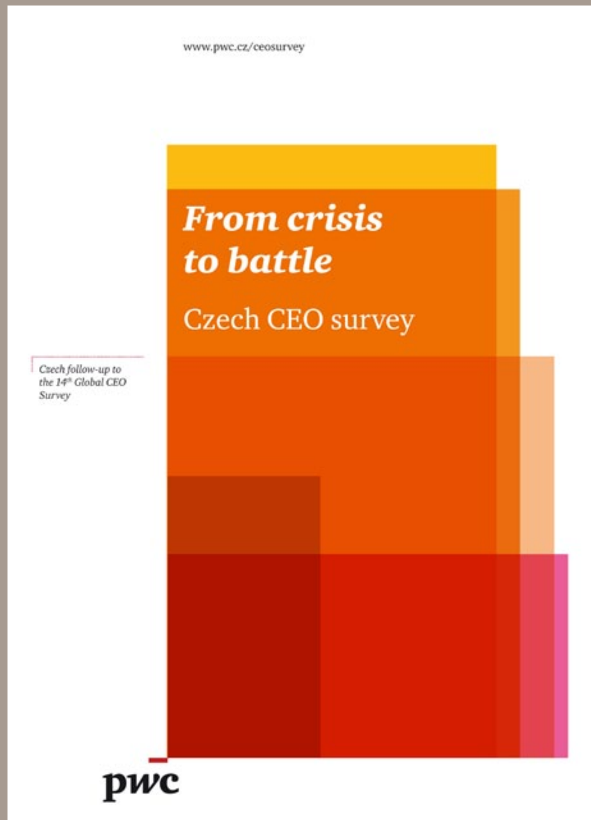
Jana Zelová
+420 251 152 567
William Schofield
+420 251 152 500

Market

From crisis to battle:
Czech CEOs have healthy scepticism

Only 13% very confident about revenue growth prospects

PwC Czech Republic again follows up on the traditional Global CEO Survey by asking Czech CEOs about their perspectives for this year, the motto is “From crisis to battle”. Almost half of global CEOs are very confident about their companies’ growth prospects this year, whereas only 13% of Czech CEOs are that optimistic. The good news is that this number has doubled compared to the previous year. We can also see growth in the number of those who are somewhat confident about growth, at almost 57%. The growth expectation of the vast majority shouldn’t be threatened by the lower volume of state contracts due to the government’s effort to reduce the rising public debt. Prudent fiscal policy is generally welcomed by CEOs. However, almost half believe that the current government coalition will survive to the next regular election.



More information on: www.pwc.cz/ceo

Contact

Jiří Moser
Country Managing Partner,
PwC CR,
Lead Advisory Services Partner
+420 251 152 048

Paul Stewart
Partner
Tax & Legal Services
+420 251 152 711

Paul Cunningham
Partner
Assurance Services
+420 251 152 012

Lenka Mrázová
Director
Tax & Legal Services
+420 251 152 553

Prague Office
Kateřinská 40, 120 00 Prague 2
+420 251 151 111

Brno Office
náměstí Svobody 20,
602 00 Brno
+420 542 520 111

Ostrava Office
Zámecká 20, 702 00 Ostrava
+420 595 137 111