

Tax & Business News

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Theme of the month

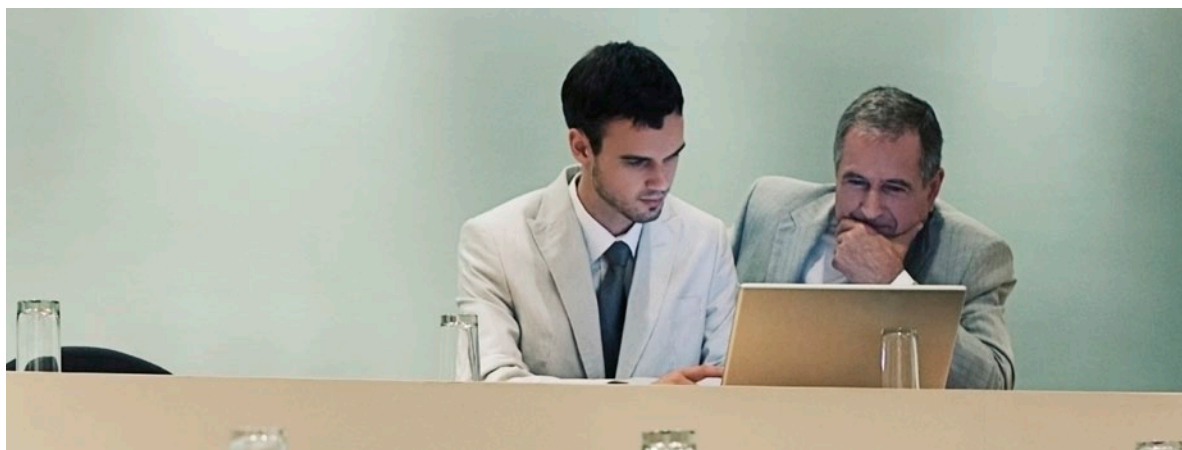
Tax reform – a step further

In June, the Ministry of Finance moved on for comments the proposal of the Act on changes to acts in connection with the establishment of one collection point (OCP). This is a series of amendments to the laws governing direct taxes and

compulsory insurance claims, which represents the so-called third pillar of tax reform. The amendment is to build on the existing first pillar (the new Tax Code) and the forthcoming second institutional pillar (OCP). It aims to simplify communication with the authorities by introducing one form, one payment and one transfer account to which taxes and insurance will be paid. As with the OCP, the

effectiveness of the proposed law is set for 1 January 2013. Taxpayers and tax administrators will therefore have more time to prepare for the new system.

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Taxes

Beware of higher securities for customs debt

Customs rules for securing customs debt were changed in the Czech Republic with effect from 1 July 2011. Regarding suspension regimes where provision of a security is not mandatory, customs authorities can now, at their discretion, require a security of up to 100% of the customs debt. So far, in these cases the maximum amount of the security had been set at 10% of the customs debt. If the Customs Office turns to you regarding the application of these stricter conditions, we are ready to resolve the situation with you.

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Taxes

Investment incentives, now better?

Given the increasing competitiveness of the Czech Republic in attracting foreign investment, the Ministry of Industry and Trade prepared an amendment to the Act on Investment Incentives. The proposal primarily provides a change in the existing support in the manufacturing industry and newly introduces support for technology centres and strategic services.

However, the proposal, which is currently in the comments procedure,



remains in conflict with the proposal of the Ministry of Finance. The latter, in its amendment to the Income Taxes Act, proposes to remove tax credit without compensation from 2013. An exception would be only

those taxpayers who have already received the promise of investment incentives. They could apply the tax credit until the end of set deadlines.

The fate of the draft at this point cannot be predicted. The possible abolition of incentives would, however, significantly limit the ability of the Czech Republic to effectively acquire new foreign investors.

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News in international taxation

A new double tax treaty with China will come into effect as of 1 January 2012 and will replace the current one from 1987. Based on this treaty, withholding tax on dividends under certain conditions will be reduced from 10% to 5%. Also, interest payments will be reduced from 10% to 7.5%, and for selected instruments to 0%. Gains from the sale of shares in a Chinese company can now be taxed in China, regardless of the size of the share. It will no longer be possible to credit the allegedly withheld tax of 20% regarding royalties. Further, a double tax treaty between the Czech

Republic and Hong Kong was signed at the beginning of June, as well as an agreement on the exchange of information in tax matters with British Virgin Islands. Both treaties will come into effect after they are ratified.

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New obligations for owners of hard surfaces

Owners of parking lots, warehouses or other paved areas, except those on which a building stands with a vertical supporting structure, are awaiting a change in tax liability. According to an amendment to the Act on Real Estate Tax, these areas will be taxed as land with a special tax rate, based on the method of use of the space, at a rate of CZK 1 or CZK 5 per m² as of 1 January 2012. In this way, however, only the hard parts of the land will be taxed, and the taxpayer himself must figure out the acreage.

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Accounting

Unregistered corporate savings banks threaten fines

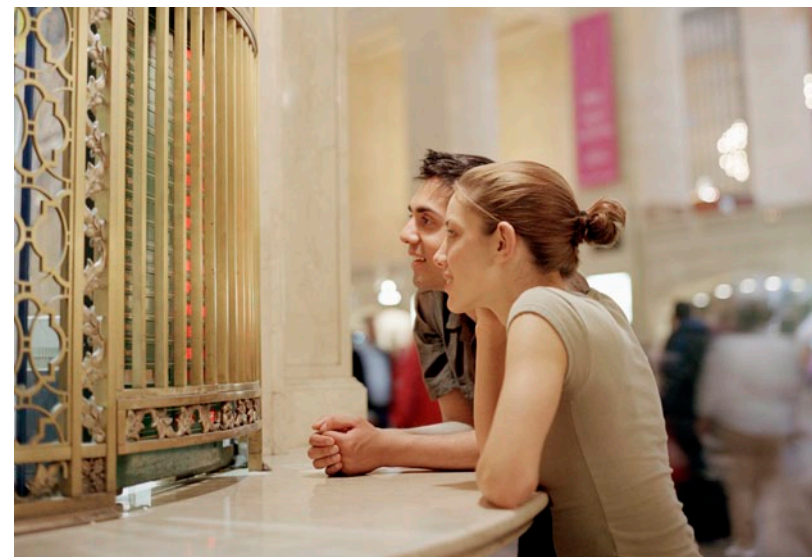
If a company operates a so-called corporate savings bank for its employees, it must be registered in the register of providers of small-scale payment services from 1 May 2011. Otherwise, the company faces a fine imposed by the CNB in administrative proceedings.

The registration requirement applies to organisations that, through their own corporate savings banks, offer their employees the management

of employee accounts, processing of payments or other payment services in the event that such payment services meet the definition of Act No. 284/2009 Coll., on a Payment System (§ 3). The corporate savings banks are not covered by the Act on Banks.

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Employees

SIS extract not only for EU citizens

Citizens from countries outside the EU that stay or are planning a long-term stay in any EU Member State can request an extract from the Schengen Information System (SIS). The extract will enable the applicant to verify the current status of his right to free movement within the Schengen countries. In some cases, it makes it easier to identify the reasons for refusal of a visa or residence permit.



The reason for the request may be the applicant's suspicion that he or she could have been entered into the system based on a breach of the rules on free movement of persons in any of the Schengen Member States. In the Czech Republic, this service is provided by the Police Presidium of the Czech Republic, and processing the request only takes a few days.

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Market

The biggest global risk to the insurance industry will be an excess of new regulations

The mass of new regulations which are currently being implemented at international and local levels poses the greatest risk which the insurance industry is now facing. This has been shown by the results of the latest study "Insurance Banana Skins", which was performed by the Centre for the Study of Financial Innovations (CSFI) in cooperation with PwC.

The new rules, by which governments are increasingly regulating the capital adequacy or market behaviour of insurance companies, can enormously burden the industry with costs and paralyse the ability of particular companies to meet regulatory requirements. It can also distract management of the insurance companies from a much more important task, which is to run profitable activities again, namely in a situation where the industry is still under great pressure.

The survey, in which nearly 500 insurance executives and analysts from 40 countries participated, assesses the greatest risks which threaten this sector within the next two to three years. Regulatory risk dominated the rankings of threats in all major markets, including North America, Europe, the Middle and Far East, Asia and the Pacific.

Directors of many insurance companies see the current regulatory requirements as excessive. They wonder whether the costs of introducing these measures will exceed their benefits. It seems that the whole industry is globally under greater fiscal pressure than in the past. This is happening in a situation where the management of insurance companies is trying to re-start growth in premiums, more clearly address new groups of customers with new products, minimise the impact of more cancellations of existing insurance contracts and, in connection with the increasing frequency of catastrophic events, better manage and effectively cover insurance risks," said Marek Richter, Managing Partner for the insurance industry in PwC Czech Republic.

The results show insurance as a sector which is under pressure from many sides and will therefore need qualified managers who can cope with all the pitfalls," said Marek.

Regardless of the high frequency of floods, bombings or oil spills in recent years, concerns about climate change, terrorism and pollution remain low. It thus appears that

these manageable risks affect insurance less than regulatory changes.



**Invitation*****The Academy thanks all its clients and welcomes them in the new school year!***

To show our gratitude to all our dear clients for their cooperation, we would like to invite you to the „Late Summer Party“, which will be held on the terrace of the PwC Club. Over a glass of wine, in an informal atmosphere, we can conclude the previous school year and start the new one. The party was moved from June 2011 due to the trade union strike, which blocked traffic.

***Are you a client of our Academy?
Come and join us!***

When?

Thursday, 8 September, 6pm

Where?

**7th floor, PwC Club
PwC, Kateřinská 40, Praha 2**

**Please confirm your participation at: the.academy@cz.pwc.com
by 31 August.**

Admission free.

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