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Law

Register of real owners

Following the recently adopted the Fourth AML Directive (Directive), the Ministry of Finance is preparing an amendment of the Public Registers Act (Amendment), which should reflect the following two requirements of the Directive in the Czech law: (I.) the obligation that legal persons registered in the public register should always have adequate, accurate and timely information of their actual owners and (II.) the competent organs and person should have access to this information.

What information are needed?

They will required the following data: accurately identify a person – beneficial owner (name, address, social security number, nationality), and provide information about the nature and extent of its holdings of participation or its controlling interest in the legal entity (the share of voting rights, share of distribution of resources). The Directive requires not only information about who is the real owner, but also why he is the real owner in a particular case. This detail reveals the structure of a legal person.

Information about companies and trust funds will be entered into the Commercial register.

Who is the real owner?

The amendment proposes to define the real owner is same as the definition of the beneficial owner under Act no. 253/2008 Coll., about some measures against the legalization of proceeds from crime and terrorist financing.

The real owner will therefore be understood as the particular individual who factually or legally executes direct or indirect control over the management or operation of the business establishment of the entrepreneurs; indirect influence means influence exercised through another person or other persons.

An indicator of direct ownership is equity or ownership interest greater than 25%, which an individual holds in the company. An indicator of indirect ownership is equity or ownership interest greater than 25%, which is held by a company controlled by one or more individuals, or several companies controlled by the same individual or individuals.

In the case of trust funds, it is mainly

about the person of the founder, trustee or appointed person. Penalties for failure to comply with this information requirement can be a financial penalty, and, in extreme cases, it could be the dissolution of the company.

Who will have access to information?

The proposed amendment is provisionally developed in two versions, which differ in the degree of disclosure of the information recorded in public registers. In the case of the first option, the data about the real owners would have not been published in a publicly accessible part of the register, but would be accessible only to (I.) authorised state authorities on the basis of registration (e.g. Tax administrator, CNB, Financial Analytical Unit), and (II.) persons who demonstrate a legal interest in relation to the prevention of abuse of the financial system (e.g. an investigative journalist). These applications will be decided by the Court of Registration.

The second option, preferred by the European Parliament, would allow wider access to information such as name, surname, year, month of birth and nationality of the real owner. Other facts and figures about the proportion of voting rights, the share of distributed

funds and the position of real owner would be again on request.

An amendment is currently on the interdepartmental comment procedure. The deadline for implementing the Directive is June 2017. The Directive also applies to foundations and associations, not only in the EU but also in the EEA countries, such as Norway, Iceland and Liechtenstein.



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Tax

Excise duty on tobacco products will increase

The increase in excise duty will apply to cigarettes, cigars, cigarillos and also loose tobacco, and should have a uniform impact on the price categories of all cigarettes. According to the proposal submitted, the excise duty on cigarettes should increase by CZK 3 per pack from 2016, which will mean a CZK 3.60 increase in the price of a pack of cigarettes. This follows from the planned amendment of the Excise Tax Act, which is being discussed by the Chamber of Deputies and according to which there should be an increase in excise tax in three steps, with effect from January 2016, January 2017 and January 2018.



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The Financial Office will have the right to prompt you to prove incomes

The obligation to prove incomes when prompted by the tax administrator should be part of the Income Tax Act from 2016. The orders will be sent to those with whom the tax administrator has reasonable doubt about whether declared incomes correspond to the increase in wealth or consumption of that person. The Financial office will

consider there to be reasonable doubt about total wealth especially if the tax authority, after the preliminary assessment, concludes that the difference between incomes and the increase of wealth comes to more than CZK 7 million. When that person does not provide facts required in the order of proof of incomes, the tax authority can request the submission of a declaration of assets. Information about a trust fund for which the person is a founder or a beneficiary also has to be mentioned in the declaration of assets. When the tax authority concludes that the total value of a taxpayer's assets exceeds CZK 10 million, he will also be ordered to declare his assets. The taxpayer is considered to have criminal responsibility when this obligation is not fulfilled.



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Verification of annual reports for this year under new rules

An Amendment to the Accounting Act came into force that transposes the new EU accounting directive and the related amendment to the Auditors Act.

In the audit, the auditor's responsibilities are extended in the area of verification of annual reports and, in particular, there is a new obligation to issue one audit report to both the

financial statements and to the annual report. These new requirements will be applicable to all audit reports issued after 31. 12. 2015, i.e. they will already affect the audit approach of financial statements for 2015. Therefore, it is recommended to agree, as soon as possible, any adjustments to audit time schedules and to the preparation of the annual report between the corporation and the auditor.

The changes in accounting requirements include primarily:

- Obligation to prepare cash flow statements and statements of changes in equity for medium and large companies
- Obligation to prepare consolidated financial statements for medium-sized groups
- Changes in the format of the balance sheet and profit and loss account and certain other accounting changes.

For most corporations these changes will be relevant for financial statements for 2016.

The amendments of the Accounting Act and the Auditors Act came into force on 10 September 2015 and will become effective from 1 January 2016.



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Planned changes in income tax from 2017

For discussion purposes, the Ministry of Finance has issued a summary of proposed changes of the Income tax act. These proposed changes should be implemented in three phases. Among the most important changes that the Ministry would like to implement in the first wave and which are already pending in the legislative process include:

- Unification of adjustments of taxation in the case of closed and opened basic investment funds, which will be uniformly subject to a lower tax rate
- Implementation of an amendment of the dividend directive aimed at abuse and avoidance of double non-taxation
- Cancellation of additional taxation on some types of gratuitous income.

Another wave of changes are effective from 2017 and include, for example:

- Area of taxation of gratuitous income
- Exemption of income from the sale of securities
- Clarification of the tax assessment of invoiced costs
- Adjustment of taxation on the prepayment of tax on share of profit.

In the last wave, the Ministry proposes a completely new approach to non-profit taxpayers, which will place greater emphasis on the purpose of their actions rather than their legal form.

Iran as a new potential market for your business

As part of the gradual release of commercial, political and other restrictions applicable to cooperation with Iranian companies or to direct activity in Iran, the Chamber of Deputies will discuss (at the 31. meeting) approval of the agreement on avoidance of double taxation between the Czech Republic and Iran.. In addition to this agreement, agreements that also exist with Lichtenstein, Kazakhstan and Kosovo should be discussed at the same meeting. These treaties will enter into force as soon as all the conditions are met in the legislative process of the Czech Republic and the State Party concerned, as at the day that occurs later. The relevant provisions of the treaties should subsequently be effectively applied from the calendar year following the year in which the agreement came into force i.e. probably from 1 January 2016.

In the case of Iran, it is still a specific jurisdiction for which higher caution should be maintained. For more information about possible assistance for business activities in Iran, contact Zenon Folwarczny or Jan Hájek.



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Employees

Lower social security contribution rates for families with children?

The government is considering implementing different rates of social security contributions for employees but the new rates would depend on the number of children the employee has. The benefit applies to both parents, who live together and take care of a dependent child, i.e. to a maximum age of 26 years living with parents.

The proposal assumes growth of the base rate to 7.5 % from the current 6.5 %. The rate would be gradually reduced by the number of children, as follows:

- For an employee caring for one child to 6.5 %
- For two children to 5 %
- For three children to 2.5 %

If an employee cared for four children or more, the rate would be 0 %.

The proposal does not change the rate for an employer, which stays at 25 %. However, this change would entail a higher administrative burden for the employer.



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PwC

Martina Kučová and Jan Musil are new directors in PwC Audit

Martina Kučová and Jan Musil become directors in the Assurance services department within PwC Czech Republic as of 1 October 2015. They both have more than 10 years of experience in the auditing area for companies reporting in accordance with Czech as well as with the international (IFRS) accounting standards. In their new role, both will focus on the development of services for privately-owned companies and the public sector.

“The dynamic growth of privately-owned companies and dramatic economic developments in recent years bring different perspectives and opportunities to the owners of these companies, and they also require a new approach to the management and control of the health of these companies. Therefore, I see a lot of potential in the development of our services for Czech companies and entrepreneurs”, says **Martina Kučová**.

“With the development of the Czech economy, we are meeting more Czech companies that need reliable financial results for their further growth in order to demonstrate their credibility for their business partners, capital providers, government institutions and the public. Reputable auditing firms offer not only professional validation of financial reporting, but also experience with business models in different sectors and immediate access to expert knowledge

in tax, legal and business consulting. In PwC, we pay a great deal of attention to the development of cutting-edge technologies, such as HALO – our new tool for processing, analysis and presentation of large volume of transaction data. The quality of financial information that the state receives from its organisational bodies gains on importance as well. An example is the transition to reporting according to the international European accounting standards for the public sector, which cannot be done without detailed technical knowledge and experience, which is being considered,” adds **Jan Musil**.

Martina Kučová (44) works in the audit and advisory services department. She is responsible for providing audit services for a portfolio of Czech and international companies reporting their financial statements according to Czech accounting standards, IFRS or preparing consolidated financial statements in accordance with the Czech accounting standards. She has more than 10 years of experience in the audit area and more than 7 years of experience in financial management that she gained when providing services mainly to major Czech and Slovak industrial and commercial enterprises. Besides auditing financial statements, Martina also has extensive experience in financial reporting and change management of business processes that she gained thanks to her positions as financial analyst and financial director in the Czech Republic as well as in Canada. Martina Kučová is married, has three children and she devotes her free time to her family, outdoor activities, and she likes running and yoga.

Jan Musil (41) leads audit teams on key contracts for Czech companies, multinational corporations and state enterprises in many sectors (energy, internet and the hotel industry). Before joining PwC in 2003, he worked mainly in the telecommunications sector. He has extensive experience reporting in accordance with the Czech accounting standards and IFRS that he gained in the Prague and Kiev PwC offices. He took part in many projects aimed at structuring groups of companies, business transformations and economic consulting. He is a member of the Chartered Certified Accountants (FCCA). Jan Musil is married, has two children and spends his free time with his family or doing sports.



Martina Kučová



Jan Musil

We invite you

Conference: Doing Business in Switzerland

Date:

22. 10. 2015

Place:

PwC, Hvězdova
1734/2c, Prague 4

PwC is the partner
of the conference.

For registration,
please, contact:
tkoudelkova@hst.cz

For more information,
please visit

www.pwc.cz/events

Study

Fifty six percent of Chinese companies invest more than 10% of revenues in digital

PwC's 7th Annual Digital IQ Survey, reveals that companies in China are confident they understand the value of digital technology and are able to weave it into the fabric of their organisation. They believe they have all the support they need in terms of a CEO who champions Digital and the technology skills needed to execute on their digital vision. They are positive about their deployment of technology: 90% agree or strongly agree with the statement "We proactively evaluate and plan for security and privacy risks".

They're also spending a significant amount on digital. Over half (56%) of the companies we surveyed in China are spending more than 10% of their revenue on digital enterprise investments; 10% are spending more than a fifth of their revenue on digital.

However, when compared with the global average, respondents from China are less confident around their use of data: only 32% agree/strongly agree that they "effectively use the data they capture" (vs 65% of all respondents. They see location-aware data and mobile customer interaction data as most important to their competitiveness but are perhaps not making adequate use of other and new sources of data such as social media data, data from cloud-based applications and Internet of Things and sensor data, which may provide greater value and competitive advantage.

There are a number of areas where China's results diverge from the global results and therefore where business leaders in China could consider whether an alternative approach would bring greater value. The key areas of difference are as follows:

Digital enterprise investments. In China, business leaders are spending the largest proportion of their digital budgets on IT and marketing. Globally, companies are also investing in IT and marketing, however they're also spending more of their digital budgets than China in areas such as customer service, operations and within the enterprise functions (such as HR, Finance, Risk, Compliance). The majority of respondents from China are spending less than 10% of their digital budgets in these areas.

Core digital skills (most important to their business). Respondents in China were far more likely to identify Technology Architecture and Design as the most important digital skill (76% vs 40% overall). Globally, companies are placing more importance on data analytics skills (46% vs 35% in China).

Adopting new and emerging technologies. In China, most companies take a technology-driven approach (68%). They evaluate many new and emerging technologies that might have an impact on business performance. They're less likely than the global

average (18% vs 30%) to characterise their approach as being business-driven (i.e. having a proactive and systematic approach to filtering technology based on defined business criteria).

Exploring and acting on high priority technology innovation. For companies in China, the primary way they explore and act on high priority emerging and disruptive technology innovations is through hiring a third party (40% vs 26%). Globally, companies are 3x more likely to use a dedicated innovation or lab group to explore high priority technology innovation, as compared to companies in China.

„Digital technologies are crucial for Chinese companies. Czech companies entering the Chinese market should be ready for a quite complicated and lengthy process related to legal protection of technologies that the Chinese government uses as a protection of the domestic market against imports from abroad, says Michael Mullen, leading partner of PwC Legal, which operates on Chinese market.





The Academy

Lean Six Sigma – Yellow Belt

This course will introduce you to the basic features and benefits of Lean Six Sigma methodology and guide you through the particular phases of the DMAIC (Define, Measure, Analyse, Improve, Control) process. During the course, you will understand the individual types of waste (defects, overproduction, waiting, no utilisation of human resources, transportation, inventory, movements, unnecessary processes) and go through a simulation game to help you better understand the effects of variability and waste. Furthermore, you get a basic overview of the cycle of process improvement, and the basic tools of Lean Six Sigma. The practical parts of the course are presented in the form of case studies.

Date:	12–13 October 2015
Place:	PwC, Hvězdova 1734/2c, Prague 4
Price:	9,900 CZK + VAT
Language:	Czech

Diploma in International Financial Standards (DipIFR)

Join a course that will acquaint you with IFRS standards and, in addition, will prepare you for the exam to obtain the Diploma in IFRS qualification, which is offered by the leading professional organisation for accountants and auditors – ACCA association. During the course you will get detailed and comprehensive knowledge of the basic standards and principles of IFRS and the preconditions for the practical use of IFRS.

Date:	Part 1:	19–22 October 2015
	Part 2:	23–26 November 2015
	Sample exam:	4 December 2015
Place:	PwC, Hvězdova 1734/2c, Prague 4	
Time:	9:00–17:00	
Price:	29,000 CZK + VAT	
	20,000 CZK + VAT (price for 1 person on the registration of 2 participants)	
Language:	Czech	

How to reserve a place?

For more information and to register, please visit our website www.pwc.cz/academy.

Should you have any questions, please contact **Lucie Kašparová**, tel: +420 251 152 035 or write to the.academy@cz.pwc.com.

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