www.pwc.cz/tbn

Tax & Business News

Tax, accounting, advisory and assurance newsletter

March 2011

Content

Theme of the month

VAT Act Amendment signed by the President

The amendment to the Value Added Tax Act was signed by the President on 21 February 2011 and will introduce several significant changes with effect from 1 April 2011. We have already informed you about these changes in previous issues of Tax & Business News.

We would also like to advise you of upcoming changes to VAT rates, which were agreed by the Government during its session held on 17 February 2011. The intention is to unify the VAT rate at 20 percent and to re-classify all goods and services which are currently subject to a reduced rate to the standard rate of 20 percent. An exception should be granted for basic foodstuffs such as milk, potatoes, bread, fish, vegetables, baby milk and food for diabetics or for a gluten-free diet. These goods will be still subject to the reduced rate of 10 percent.

Martin Diviš
+420 251 152 574

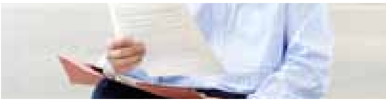
Taxes

The Amendment to the Excise Duty Act is awaiting approval by the Senate

The amendment of the Excise Duty Act should be discussed at the next sitting of the Senate. Among other changes, it will increase excise duties on tobacco products with effect from 1 January 2012. The effective date of the amendment is postponed to the first day of the month following its publication in the Collection of Laws (with the exception of the increase of excise duty on tobacco products).

The amendment will terminate the exemption from excise duty for emulsive oil, introduce an exemption from excise duty for ethyl alcohol aromatic substances designed for the production of spirits (on the condition that these substances will be deteriorated or destroyed in the presence of Customs officials) and introduce obligation to have evidence of use for persons who receive and use selected mineral oils in quantities exceeding 10 000 liters per calendar year. A new definition of cigars and cigarillos will also be introduced and the cancels the system of regulation concerning cigarettes stock levels when the rate of excise duty changes.

Pavla Polanská
+420 251 152 628
Martin Diviš
+420 251 152 574



Taxes

The deadline for submitting tax returns has changed

The new Tax Administration Act changed the common practice in respect of the deadlines within which some of the tax returns must be submitted. According to the new rules, it is understood that the last day for submitting your income tax return and, at the same time, for payment of the tax due has moved forward by one day, i.e. to 1 April. Taxpayers that are represented, for the purposes of submitting their income tax return, by a tax advisor or that are subject to statutory audit have the new deadline on 1 July.

The new legislation stipulates that the computation of the deadline determined by weeks, months and years starts on the day following the day on which the fact determining the commencement of the deadline occurred. We would like to point out that the above change does not affect the deadlines computed by days. The deadline for submitting the VAT return is an example of such a deadline.

The change in deadlines also affects the account for income tax collected as withholding tax and income tax from dependant activity. The deadline for submitting the statement of account for income tax collected as withholding tax is moved from 30 April to 1 May. The statement of account for income tax from dependent activity can be submitted until 1 March, not until 28 February as was the case previously.

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

Supreme Administration Court: The activities of permanent establishment must form considerable part of the business activities

The permanent establishment created by the provision of services, depending on fulfilling the so-called ‘time test’, must fulfil the condition governing the existence of a permanent facility for performing the business. This was stated in the recent judgment of the Supreme Administration Court that concerned the conditions for the creation and existence of a permanent establishment. The Court agreed with the conclusion of the coordination committee that the decisive criteria is whether the activities of the permanent place of business themselves create an essential and considerable part of the activities of the business as a whole.

The permanent establishment will therefore not be created if the permanent facility for performing the business is only used for the purposes of performing activities for the business that have a preparatory character or represent auxiliary activities (e.g. marketing activities, provision of information, scientific research, etc.). This can have a significant impact on Czech companies doing business through a permanent establishment abroad as well as on foreign companies doing business this way in the Czech Republic.

The above judgment concerned a dispute where a Czech company declared a permanent establishment in Austria where it provided intermediary services. The income realised by this permanent establishment was therefore taken out of its ‘global’ income and the company made these subject to tax only in Austria. The Czech-Austrian double tax treaty defines the permanent establishment as a permanent facility for performing the business through which the business performs its activity fully or partly and particular cases are named. The above treaty, however, does not make reference to the existence of so called ‘services permanent establishment’.

Martin Kopecký
+420 251 152 538
Zuzana Vaněčková
+420 251 152 800

Accounting

You can choose the period of depreciation of goodwill and valuation difference

The amendment to the implementation of decree no. 500/2002 Coll., which came into effect on 1 January 2011[1], changes the rules for depreciation of goodwill and valuation difference in respect of acquired assets. Concerning goodwill, it allows for the shortening or prolonging of the original 60-month fixed depreciation period. If the period is prolonged, however, the decision must be reasoned in the notes. Concerning active and passive valuation difference, it allows for the shortening of the depreciation period which is currently obligatory for 180 months. There is a condition that acquired assets have no parts that have a usable life longer than 15 years. The company can decide whether the depreciation period of the already existing goodwill or valuation difference will be changed starting 1 January 2011. The amendment of the decree also brings changes in the liability of disclosing information in the notes to the financial statements. The liability to disclose an explanation of the item „Formation expenses“ and information on splitting the revenues according to the activities and geographical markets has been limited to the companies that met at least 2 out of the following 3 criteria: total assets higher than CZK 350 million, net annual turnover higher than CZK 700 million and number of employees higher than 250. This change can already be applied to the financial statements for the calendar year 2010. Another new liability is to state in the notes the information on the existence of significant uncertainty on an ability of the company to continue to exist, if such significant uncertainty exists.

Petr Kříž
+420 251 152 045

[1]Decree No. 419/2010 Coll.

Employees

Pension reform – what to expect?

The government agreed on creating 'fairer' rules in respect of the calculation of pensions (decrease in the upper threshold for payment of insurance, adjustment of the calculation of pensions by the change in reduction thresholds and percentage scope).

Further parameters of the planned pension reform are:

- the possibility of taking out the contributions in the amount of 3% from the state continuous system to the private pension funds increased by a private contribution in the amount of 2%
- payment of a lifelong pension from private pension funds
- increase in the reduced VAT rate to 20% (subject to exceptions) compensated by an increase in tax relief for children

Petra Bobková
+420 251 152 515
William Schofield
+420 251 152 500

Law

Are you not publishing financial statements? You face high financial risk.

Although companies are legally bound to regularly publish financial statements in the commercial register, this liability is often ignored even if considerable financial penalties can be imposed for breaking this obligation.

Companies are often motivated to break their legal obligation by their effort to keep sensitive data on their business from being disclosed to the competition. However, starting in 2011, the tax office began to penalise companies that followed this long-tolerated practice. The law allows for the assessment of a penalty up to 3% of the assets value of a company. In addition to the tax office penalty, companies can also be penalised by the commercial register court for not obeying the requirement to complete the collection of documents with financial statements. The aim of the liability to publish financial results of companies and its more rigorous enforcing by the state authorities is to ensure the possibility for entrepreneurs to investigate their current or potential business partners based on relevant information stated in the commercial register.

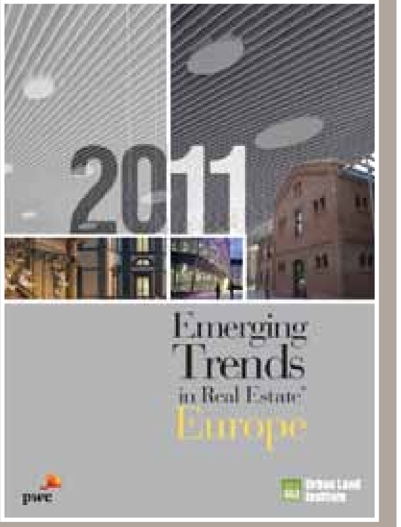
Martin Bohuslav
Ambruz & Dark, advokátní kancelář přidružená k PwC
+420 251 152 981

Market

Europe's Real Estate Industry Must Adapt to Tougher Regulations, Tighter Credit: Emerging Trends in Real Estate: Europe 2011

Tougher regulations, Austerity Europe, the sovereign debt crisis, and a still-tight lending market will challenge Europe's real estate industry in 2011, according to Emerging Trends in Real Estate 2011, published by PwC and the Urban Land Institute (ULI). The commercial real estate forecast, based on the opinions of 600 industry experts, predicts that 2011 will not be the turnaround year that the European real estate industry had hoped for, with a "two-speed" market likely to emerge that reflects a widening gap between investment hotspots and second-tier property markets.

"In future years we may look back on 2011 as a transformational year for the property industry. Real estate professionals face a challenging time. Traditional sources of debt, for refinancing properties with vacancies or in need of refurbishment, will not be available, although new sources of lending are expected in the shape of sovereign wealth funds and insurance companies," commented **Glen Lonie, Partner and Head of PwC CEE Real Estate Industry Group**, on the European industry trends.



Invitation

Academy

Calendar of our Academy events in March 2011

- **ACCA open evening**
  7. March from 17:00 to 19:00

Join us for the Spring ACCA Open Evening to head start your studies! Learn about our new ACCA Advantage study scheme, which is proving as the key formula for success at ACCA exams. You can also chat with our tutors over a glass of wine and refreshment.

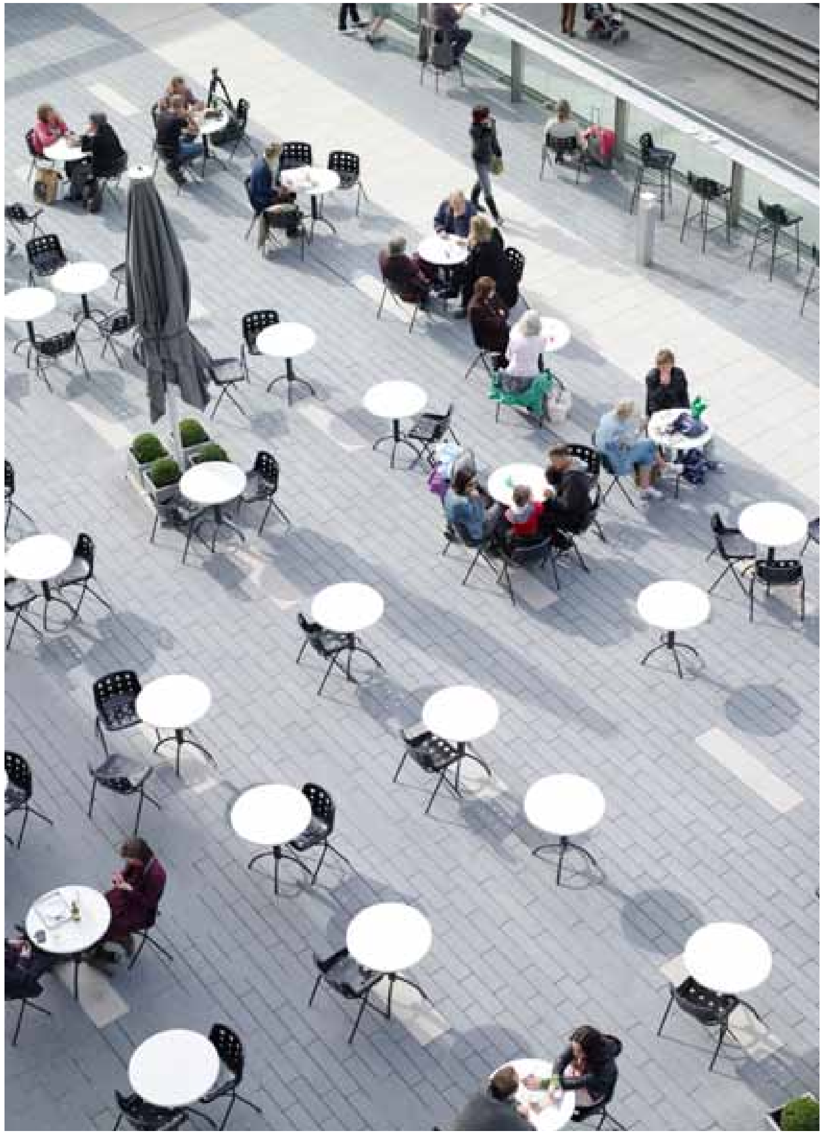
IFRS Centre of excelence:

- **IFRS Framework and foundation**
  10. March from 9:00 to 16:30
- **FX Risk management in Relation to IFRS**
  17. March from 9:00 to 12:30
- **Diploma in IFRS (ACCA Dip IFR)**
  First part of qualification starts on 21. – 23. March

Open Seminars in Management & Business skills area

- **Coaching in the workplace**
  3. March from 8:30 to 16:30
- **Influencing Skills**
  10.–11. March from 8:30 to 16:30
- **Time Management**
  29. March from 8:30 to 16:30

Contact us for more information at: **business.academy@cz.pwc.com** or call Jan Hrubý, tel. +420 251 152 030. For further information, please visit **www.pwc.cz/academy**.



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