

# Tax & Business News

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Tax, accounting, advisory and assurance newsletter

September 2011

## Content

- > Parliament approves new structure of financial administration
- > Grants of up to CZK 200 million for innovations
- > No need to return the grant due to breach of formal grant conditions
- > To Bermuda just for sun now
- > Insurance of statutory bodies with overlapping functions to be resolved by the amendment
- > 'Švarcsystém' will also be punishable under the Employment Act
- > Impact of new IFRS - continued
- > Easier access to employment in the Czech Republic for young Canadians
- > The next decade will see as many innovations introduced as since the industrial revolution
- > Tax traps of marketing and advertising campaigns



## Theme of the month

### Parliament approves new structure of financial administration

This is how the new financial administration structure will look according to the draft act that is currently going through Parliament: tax offices having scope for particular regions and Prague, an Appeals Financial Directorate for all tax offices,

the existing General Financial Directorate and for the largest taxpayers and those of financial services Specialised Tax Office. The new model should bring about the centralisation of certain activities and thus a unified approach regarding tax inspections. Implementation should start from 1 January 2012.

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## Taxes

### Grants of up to CZK 200 million for innovations

Until 30 September 2011 businesses can apply for support through grants to establish industrial research development and innovation centres. Grants can reach up to CZK 200 million and are intended for the purchase of land, buildings, machinery, equipment and other facilities necessary for ensuring the activities of these centres. The project must be implemented in the Czech Republic outside the territory of Prague.

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### No need to return the grant due to breach of formal grant conditions

A formal breach of grant conditions is not a reason for it to be returned. This has recently been confirmed by a decision from the Supreme Administrative Court. The beneficiary in this court case did not report the change of legal entity when he sold his farm for which he received a grant. The Supreme Administrative Court concluded that the sanctions where it is required to return the subsidies, that were already provided, to the state budget cannot be imposed only on a purely formulaic condition, which was also formulated incoherently in the contract for the provision of subsidies. This ruling can be used as an argument in other disputes with the administrators of grants.

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If you are interested in receiving Tax & Business News, please contact Petra Chloubová, +420 251 151 837.

## Taxes

### To Bermuda just for sun now

To achieve savings in taxes by setting up a company in Bermuda, British Virgin Islands, the Isle of Jersey or the Isle of Man is no longer very simple. In early summer, the Ministry of Finance started a number of negotiations with so-called tax havens. The result is the signing of international treaties on the exchange of information. On the basis of these treaties, the Czech Tax Administration is entitled to ask for information from the competent authorities of the other state, particularly in the area of income tax. Treaties on the exchange of information in tax matters should ensure proper taxation of foreign income of Czech tax residents. In addition to agreements on information exchange, an agreement on the avoidance of double taxation was concluded with Hong Kong. Under this treaty, for example, dividends are taxed in the state of resource; interest is taxed solely in the state of the authorised recipient.

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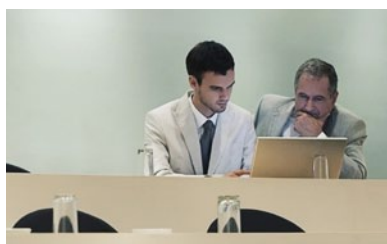
### Insurance of statutory bodies with overlapping functions to be resolved by the amendment

Statutory bodies or their members who by virtue of the simultaneous, and therefore invalid, employment paid their premiums will become, under the present amendment of the Act on Sickness Insurance, participants in the social security system. According to the amendment, partners and managing directors of limited liability companies and members of the board of directors of joint-stock companies will also be parties to the system provided they receive remuneration for their work that is, for tax purposes, considered to be remuneration from employment. The proposal still does not contain the possibility to act as a statutory body within the employment relationship. On the contrary, the remuneration of statutory bodies will be tax deductible. The amendment to the Sickness Insurance Act should apply from 1 January 2012. From that date, participation in insurance begins.

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### ‘Švarcsystém’ will also be punishable under the Employment Act

Dependent work performed by an individual outside the employment relationship. This is how illegal work is redefined by the prepared amendment to the Employment Act. Its aim is to prevent firms from concluding commercial contracts where employment should be in place. The amendment also attempts to simplify the controls of illegal work. If the relationship between two entities qualifies as “performance of a dependent activity”, it will have an impact not only on the tax but now it will be possible to also grant such a de facto employer a sanction under the Employment Act.



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## Accounting

### Impact of new IFRS - continued

Users of financial statements prepared under IFRS will be able to better evaluate the risks and financial effects associated with holdings in other companies. New IFRS 12, which was issued in May of this year by the International Accounting Standards Board (IASB) in the package of new standards, introduced modifications in the requirements for the disclosure of holdings in subsidiaries and associated companies. In addition to IFRS 12 - ‘Disclosure of interests in other entities’, IFRS 10 - ‘Consolidated Financial Statements’, IFRS 11 - ‘joint arrangements’ and IFRS 13 - ‘Fair Value Measurement’ were also issued. We informed you about the content of IFRS 10 in our last issue.

IFRS 11 replaces the current IAS 31 ‘Interests in Joint Ventures’. The main change is the elimination of the possibility of reporting participation in joint ventures using proportionate consolidation. Under the new standard, it will be possible to account for companies under common control only using

the equity method. If a company participates in other forms of joint venture, it will account for such activities as it had in the past.

IFRS 13 describes how to measure assets and liabilities at fair value and requires new disclosures on the use of fair values in IFRS financial statements. This standard does not cover cases in which the assets and liabilities must be measured at fair value since the relevant rules are contained in other IFRS standards relating to the individual accounting topics. Likewise, IFRS 13 does not introduce a wider use of fair value nor does it change the possibility of their use.

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**Employess****Easier access to employment in the Czech Republic for young Canadians**

Citizens of Canada and the Czech Republic between 18 to 35 years of age may, after fulfilling the set conditions, use the bilateral agreements between these countries and spend up to one year working on a long-stay visa in the other country, with no limit on the number of hours worked or the amount of earnings. An application for a Czech visa is to be made at the Czech embassy in Canada. It is exempt from the administrative fee and there is no need to have a work permit and accommodation arranged in advance. The visa is processed in a shorter period of 60 days. Upon arrival in the Czech Republic, it is necessary to comply with the residence requirement and to report to the foreign police within three days.

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**Market**

## ***The next decade will see as many innovations introduced as since the industrial revolution***

**Innovation – in the form of developing new products and services – has become as important to growth for CEOs as increasing their share of existing markets. A PwC survey of 1200 CEOs from around the world found that innovation, along with increasing their existing business, now outstrips all other means of potential expansion, including moving into new markets, mergers and acquisitions, and joint ventures and other alliances.**

In all, 78 per cent of CEOs surveyed believe innovation will generate 'significant' new revenue and cost reduction opportunities over the next three years. But it is highest for those where technology is changing customer expectations. In both the pharmaceutical and the entertainment and media sectors, for example, more than 40 per cent of CEOs believe

their greatest opportunities for growth come from spawning new products and services.

In terms of expectations, Czech CEOs are more cautious than their global colleagues, but they also recognise that innovation is the only one way to keep up with competitors, or gain a leading market position.





## Invitation

## Tax traps of marketing and advertising campaigns

### Course details

**Date:** 8 December 2011  
**Time:** 9 a.m. – 12:30 p.m.  
**Venue:** PwC premises, Kateřinská 40, Praha 2  
**Price:** CZK 5 900 + VAT

### How to reserve a place?

For more information and to register to attend, please fill in the registration form at [www.pwc.cz/academy](http://www.pwc.cz/academy), or write an e-mail to [the.academy@cz.pwc.com](mailto:the.academy@cz.pwc.com)

Should you have any questions, please do not hesitate to contact **Martina Kopsová, +420 251 151 816.**



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