

Tax, Legal & Business News

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Tax, legal, accounting, advisory and assurance newsletter

January 2012

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Theme of the month

Tax news in 2012

The following news will be introduced from 2012 in the area of corporate income tax:

- The remuneration of the members of the statutory bodies is now a tax deductible expenditure (it concerns the members of the Board of Directors of joint stock companies and the Board of Directors of the cooperatives).
- Tax depreciation of receivables cannot now be performed on statute-barred receivables where tax provisions cannot be created. Similarly, costs arising from the newly established criminal liability of companies will be tax non-deductible.
- The possibility to take advantage of tax losses in the case of cross-border transformations is being introduced in relation to the amendment of the Transformation Act. The deadlines for submitting a tax return for a cross-border split and for cases where the decisive transformation date follows the

date of decision of the general meeting concerning the approval of the transformation are amended.

- The tax obligations for investment companies and investment and mutual funds are amended in connection with the amendment of the Collective Investment Act.



„New system of taxation for the so-called paved areas of land used for business is being

introduced from 1 January 2012. Taxpayers should determine the size of these areas as at 1 January 2012, calculate the tax liability and report it by 31 January 2012.“

David Borkovec
+420 251 152 561

We further draw your attention to the Decree of the General Financial Directorate D-6 on application of the Income Tax Act which replaced the previous Decree of the Ministry of Finance D-300 and which will already be used for the taxable periods that started in 2011. The changes to D-300 concern, for example, the tax implications of terminating rent contracts in cases of technical appreciation performed by the lessee, determining the term 'part of an asset' for the depreciation purposes, low capitalisation rules or determining dividend income for the purposes of tax exemption.

Selected taxpayers will be subject to a change to the locally competent tax administrator in the course of 2012 and will be reporting to the newly established Specialised Tax Office (excluding real estate tax).

David Borkovec
+420 251 152 561

„2012 is unique in that, concerning the income tax, nothing major will occur for most taxpayers. Major changes are expected as far away as 2013 - 2014. We can, however, expect even more dramatic developments in the rest course of events on the market.“



Peter Chrenko
+420 251 152 600

„I believe that we will enjoy a relative tax standstill and that the changes that are being expected next year will shift us up a few points from the current 117 position regarding the friendliness of tax systems!“

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If you are interested in receiving Tax & Business News, please contact [Michal Horáček](#), +420 251 151 837.

Tax

Intrastat reports will be submitted through a more modern application, InStatDesk, from January 2012

According to information from the Czech Customs Administration, the application PVS (Portál veřejné správy) will be cancelled and the IDES-CZ application will be replaced by a new modern application, InStatDesk from 1 January 2012.

For submitting Intrastat reports in 2012 the users of IDES-CZ must install the new application, InStatDesk, in February 2012. They will be obliged to use it to submit Intrastat reports for January 2012 and subsequent months. The ID number of the station, e-mail address and password used to log into the IDES-CZ application remains the same for logging into the new application. To import required data into the new application users can continue using files in the CSV format; however, the ASCII format will not be supported from 2012. Besides the above-mentioned changes, there are no changes in the form and manner of Intrastat reporting.

The IDES-CZ application will be open until 17 July 2012 only for the purpose of correcting Intrastat reports submitted before the end of 2011. The last regular reports that

can be submitted through the IDES-CZ application are Intrastat reports for December 2011. The subsequent reports must be reported through the new InStatDesk application.

Hana Krausová

+420 251 152 575

Martin Diviš

+420 251 152 574

What will change for physical persons in tax and insurance in 2012

1. Tax allowances

Return of yearly tax allowance on taxpayer from last year's CZK 23 640 to CZK 24 840 (abolishment of the so-called „flood hundred-crown note“) and increase in the child tax allowance from CZK 967 to CZK 1 117 monthly.

2. Insurance thresholds

Decrease in the yearly threshold from last year's CZK 1 781 280 to CZK 1 206 576 for the payment of social security. The threshold for payment of health insurance premiums in 2012 is CZK 1 809 864 yearly.

3. The extension of the group of insured persons

Executives will be subject to health insurance. Members of the collective bodies of legal persons, for example,

members of the Board, will now be subject to social security.

4. The Contract on Work Performance

Monthly income in excess of CZK 10 000 will be subject to public insurance. All contracts concluded for the same employer shall be cumulative. At the same time, the volume of work for one employer is being increased from 150 to 300 hours per year.

Tomáš Hunal

+420 251 152 516

PwC Legal

Reminder: criminal liability of legal persons starts in January 2012

Criminal liability touches all Czech legal persons and entities that do business on the territory of the Czech Republic and it also applies to offences committed abroad.

The company is responsible if it commits an offence in its own name or in the framework of its activities or if it is committed by an employee authorised by the statutory authority or by an authorised superior.

It concerns, in particular, offences

PwC Legal



„The company is also responsible for the conduct of an employee over which the employer has failed

to undertake appropriate control and surveillance.“

Martin Strnad

+420 251 152 904

against property (e.g., fraud), economic (reduction of taxes, fees and similar obligatory payments, the non-payment of taxes, insurance premiums on social security and similar obligatory payments, failure to comply with the notification requirement in the tax proceedings, distortion of the data on the status of the management and assets, etc.), and more.

The legal persons can be punished by, for example, the confiscation of property, a financial penalty or even dissolution of the legal person, the prohibition of the performance of public contracts or the prohibition of the acceptance of grants and subsidies.

Martin Strnad

+420 251 152 904

Accounting

A number of companies will have to change their method of reporting revenue

Companies preparing financial statements according to IFRS or US GAAP can send their comments to the new proposal on accounting of revenue from contracts with customers up to 13 March 2012. The proposal was published in November by IASB and FASB. This proposal makes it necessary for companies to change their method of reporting revenue, probably from January 2015.

- The main principles applied to reporting revenue and the scope of the proposal published in June 2010 do not change, however, the various aspects of the application of these principles do. A new proposal was therefore published to contribute to transparency and to minimise the possible adverse effects of the changes made to the draft standard.
- The proposed model is based on the assessment of individual contracts. The management of the company will first determine individual supplies in the framework of the contract and then it will allocate the contract price to these transactions. The revenue is recognised at the moment the conditions of the transfer of control over the goods or service to the

Accounting

customer are fulfilled. The transfer of control can occur either at a given moment or in the course of time.

- The new standard also deals with the reporting of unfavourable (loss) contracts and the costs of obtaining a contract with the customer and the costs necessary for the implementation/realisation of the contract. Certain sectors and certain activities generating the revenues will be affected differently by the changes – some more and some less. We expect the sectors to which the changes to have the most impact are: telecommunications, investment advisory, sectors where extended warranty periods are normally provided, the arms industry and certain other sectors.
- We expect the new proposal to be issued in the course of 2012.

Milan Zelený

+420 251 152 088

Petr Kříž

+420 251 152 045



Employees

Changes in the area of travel allowances to take effect from 1 January 2012

- It is required that the domestic and foreign food allowance are reduced where the employees are, during the business trip, provided with free meals.
- „Excess“ food allowance to the employee will be subject to tax, health insurance and social security.
- Mandatory reduction will also affect pocket money.
- The amount of domestic food allowance will increase slightly.
- The changes in the amount of domestic food allowance will also affect the tax deductibility of meal tickets.
- Foreign food allowance rates will be reduced for Ireland, Korea and Tunisia.

Tomáš Hunal

+420 251 152 516

A series of amendments addressed the legalisation of the stay by foreign nationals outside the EU

The year 2011 was rich in news with regards to legislation concerning foreign nationals from countries outside the EU residing in the Czech Republic. A key change was the transfer of competencies related to the approval and prolongation of long-term visas and residency permits from the Foreigners' Police Office to the Department of Asylum and Migration of the Ministry of the Interior of the Czech Republic. This change, valid from 1 January 2011, caused considerable complications and delays with the approval of the submitted applications, even up to several months. We discussed the situation intensively with our clients and we helped to find the best solution for each individual case.

The fingerprinting of foreign nationals resident in the territory of the Czech Republic also started in July of last year. Fingerprints are a necessary part of the biometric cards which fully replaced the visa stickers in passports of foreign nationals. Another innovation valid since last year is the blue card enabling highly qualified workers to be employed in

the Czech Republic. The employment contract with a Czech company with a wage corresponding to at least 1.5 times the average gross wage is the condition for having this card.

Jana Zelová

+420 251 152 567

Steve Couch

+420 251 152 500

PwC News

Petr Sedláček will lead the team of advisory services for banks, insurance companies and other financial institutions

Petr Sedláček (47) has joined PwC Czech Republic as a director in the department of advisory services for financial institutions. He has many years of experience working in the financial sector. He has spent seven years as the general director of Global Payments Europe which is publically traded on the New York stock exchange (NYSE). In his new position, Petr will focus on further business development of advisory services in the financial sector. His team of experts covers a wide range of areas in the functioning of financial institutions, from IT and

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processes, through staff to marketing and sales.



„The financial sector is set for another challenging year. The main topic will especially be optimisation and efficiency. Financial institutions should, however, in these difficult times not forget their long-term strategy and relationship with customers. I believe that thanks to my experience and knowledge and our team of experts we can help our clients from the areas of banks, insurance companies and investment companies to walk victoriously through this formidable period.“

Petr Sedláček

+420 251 152 076

Market

Economic crime in the Czech Republic is increasing, more and more offenders are creeping into companies via the internet

A total of 29% of companies in the Czech Republic were victims of economic crime in the past year, while in 2009, „only“ 24% of companies were in the same situation. As well as elsewhere in the world, Czech companies are also being increasingly targeted by offenders via the internet. This has been shown by 6th year of PwC Global economic crime survey.

The most common type of economic crime in the Czech Republic remains the theft or misappropriation of company property by its employees (75%). Here we are even above the global (72%) and European (69%) averages. The largest percentage of companies was affected by misappropriation and computer crime. A relatively new trend is, however, computer-related crime which is in fourth position (13%) in terms of frequency in the Czech Republic after accounting fraud and corruption (both 21%). Local companies are increasingly aware of the real danger coming from the virtual world. Almost a third of



„ This result is not surprising, since misappropriation of funds is usually better discoverable

than other types of fraud. Totally incomprehensible, however, is the belief of the majority of companies in the Czech Republic that they will not face economic crime in the next 12 months. If we take into account the current development of the world economy which will undoubtedly increase the risk of fraud including manipulation of a company's financial results, this illusion could very easily evaporate. “

Michal Kohoutek
+420 251 151 231

respondents have seen a growth in cybercrime in the previous year and the other two-thirds consider it to be roughly at the same level as in the previous year. More than half (56%) of Czech respondents, however, also stated that their organisation does not monitor the use of social networks, or are aware of it. From the perspective of economic crime, the main threat comes from inside the organisation on the part of employees (67%). This number

increased significantly compared to 2009 (50%). The most common external offenders were customers (43%) and suppliers (29%). Czech companies are not afraid to radically strike back against the offenders. The most common response in the case of employees is discharge (81%). Likewise, in 71% of cases the business relationship with external offender has been terminated. This result represents a significant increase against 2009 (30%) and is well above the average of middle and eastern Europe (53%) and globally (39%).

The survey was performed in the period of June - November 2011. Its participants responded to the questions regarding their company and country of their business. The survey, in the form of an on-line questionnaire, was completed by a total of 3 877 respondents from 78 countries. This survey is the largest study of its kind in the world.

For further details, visit
www.pwc.com/cz/hospodarska-kriminalita.



Study

PayWell

PayWell is a regular PwC study that analyses remuneration policies. It maps the trends in the development of fundamental and total wages and employee benefits for more than 700 job positions.

The most popular employee benefit in the Czech Republic is 5 weeks of holiday which means one week more compared to what is dictated by law. Meal vouchers took second place in this year's annual PwC Paywell study, followed by refreshments in the workplace and the supplementary pension insurance. The benefits that should facilitate combining work and care of children, for example, contributions to tuition fees, a nanny or nursery represent the new trends. The majority (81%) of companies in the Czech Republic enable all employees to have the equally long holiday.

Employees of 82% of companies are entitled to 5 weeks holiday. Five weeks of holiday is offered, in particular, by pharmaceutical companies, financial institutions, including insurance companies, companies operating in the field of the chemical industry, in the logistics sector or fast moving consumer goods. Collective holidays are used by 21% of companies and the average length of a collective holiday is 10 days. 76% of companies provide the very popular meal vouchers to their

employees. The value of one meal voucher per day is, on average, CZK 75. Companies that have their own catering equipment contribute, on average, CZK 46. Logistics companies and manufacturing entities are examples of the kinds of organisation that typically operate their own catering equipment.

On average, company contributions to supplementary pension insurance are in the range of CZK 1730 monthly for top management, CZK 740 monthly for middle management, and CZK 600 monthly for other employees to supplementary pension insurance. On average, 65% of employees take advantage of this benefit.



„ Employees value, in particular, such benefits from which they have a tangible advantage. Two new

trends occurred recently. First - benefits enabling working parents to not have to give up their career and second - greater flexibility of the benefits being provided. “

Andrew Krenek
+420 251 152 646

The Academy

Coaching for business

For whom is this programme designed?

- For managers with basic experience or even without coaching experience who would like to work more effectively with the members of their team and achieve high performance in their companies
- For organisations that want their line or executive managers with the skills necessary to implement the so-called facilitative leadership style to get the best out of their employees

What is the benefit?

- Coaching demonstrably increases the ability to learn and helps employees find it easier to take the initiative, create ideas and make quick decisions
- Many recent studies show that investments in coaching usually generate a return of over 500% (measured by ROI – return of investment) and other relevant measurable benefits

After taking the course you will be able to

- explain the nature, purpose and objectives of coaching
- focus the attention of others on achieving their objectives
- support and encourage individual responsibility
- develop your own coaching model

Programme modules and dates

1. Introduction and involvement of the coachee	11 – 12 April 2012
2. Enhancing and understanding	17 – 18 May 2012
3. Summary and conclusion	14 - 15 June 2012

The programme comprises three modules and will be in the English language. The price is CZK 100 000 exclusive of VAT.

How to register?

For more information and registration, visit www.pwc.cz/academy. Should you have any questions, please contact **Martina Kopsová, tel.: +420 251 151 816** or write at the.academy@cz.pwc.com.

We are looking forward to your participation!

Lead an expedition of HUDYsport top managers to Mount Everest and become a certified project manager!

The course is addressed to individuals who need to strengthen their project management skill sets, refresh their fundamental project management knowledge, skills and current tools and for those who are new to project management.

Seminar content:

Through a two-day simulated case study, you manage a comprehensive project from beginning to end - you learn how to successfully plan, manage and deliver projects. You use real-world tools and templates to actively present plans, control progress and close the project. **The course will be in the Czech language. At the end of the course you will receive a PwC certificate.**

Date and venue:

Date: 29 – 30 March 2012

Time: 9:00 - 16:30

Venue: PwC Česká republika, Kateřinská 40, Praha 2

Registration:

For more information and for registration, please contact **Martina Kopsová, tel.: +420 251 151 816**, or write to us at the.academy@cz.pwc.com.

We organise technical seminars, trainings and conferences for our clients and business partners and we would be pleased to welcome you to any of these. At the moment we are preparing:

- VAT yesterday, today and in 2012
- Ups and downs of transfer pricing

www.pwc.cz/events



Assurance Services

Management and conduct of corporate finance and accounting

Our experienced and qualified professionals can work for you as well

Do you need to fill a vacancy in your financial department for a specified period? Do you want to be sure that you acquire an employee with the relevant qualification who will quickly take on all the necessary responsibilities and duties? Do you have specific requirements regarding working time?

We have a solution for you

- To provide professionals, for a limited period of time, to your financial department. These professionals are qualified in accounting (Czech or international IFRS standards) and controlling.
- To analyse your situation together with you
- To provide a selection of the professionals with the relevant qualification and experience in the field of accounting and audit gained in our company, in which they have passed a range of professional trainings and are continuously educated
- To prepare a proposal for optimum inclusion of new employees in your current organisational structure, to assist in defining job content or distributing tasks in a department

When will you need us

- To replace your employee during an absence (due to maternity leave, short-term employment attachments elsewhere, or different reasons)
- To secure experienced professionals to work on projects (e.g. transition to IFRS, entrance to stock exchange, etc.)
- To reinforce the financial department during a period when increased requirements are placed on professionalism or there has been an increase in the volume of tasks

What you gain

- An employee with the relevant level of qualification
- Immediate takeover of employment and assumption of responsibilities and duties
- Replacement of an employee during regular training or illness
- Price comparable to your current employee costs
- Experience in the field of assurance services
- Expertise and professionalism (relevant qualification, continuous professional education, employee access to consultations with our experts)
- Contract duration from several weeks up to one year

We will find a suitable solution even for you!

Martina Kučová

+420 251 152 010

+420 602 648 609

Professionalism, Expertise, Flexibility

Contact

Jiří Moser

Country Managing Partner

PwC CR

Lead Advisory Services Partner

+420 251 152 048

Paul Stewart

Lead Tax & Legal Services Partner

+420 251 152 711

Chris Skirrow

Lead Assurance Services Partner

+420 251 151 840

Daniel Čekal

Partner PwC Legal

Legal Services

+420 251 152 900

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