

Tax, Legal & Business News

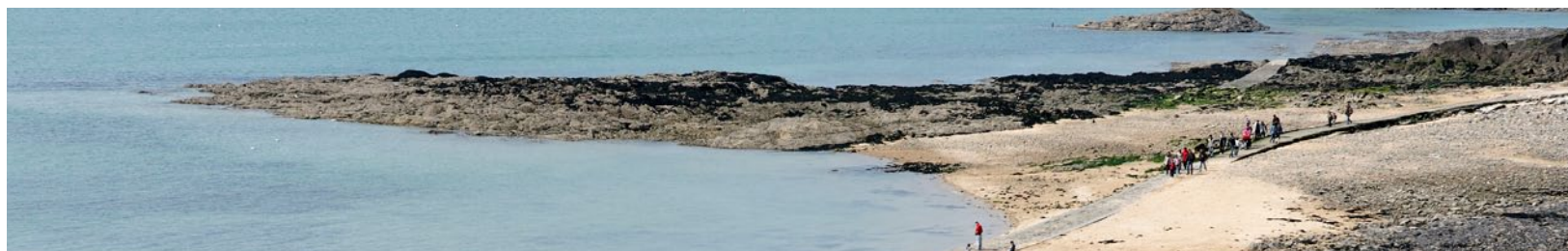
www.pwc.cz/tbn

Tax, legal, accounting, advisory and assurance newsletter

June 2012

Summary

- › How should we successfully face the current debt crisis spreading across Europe yet keep pace with the world?
- › Obligation to file tax return from 2013
- › VAT on phone cards and other types of bills
- › Serial changes of the Civil Code
- › Linking land & property
- › The terms for US GAAP and some other reporting frameworks were prolonged for foreign issuers
- › Children travelling newly with own travel document
- › One third of Czech companies will change their owners in next two years
- › We invite you



Topic of the month

How should we successfully face the current debt crisis spreading across Europe yet keep pace with the world?

Introducing global trends in tax policy

The competitive struggle between states is pushing down tax rates. On the other hand, several countries protect their own territorial revenues. We bring you an overview of the ten most important trends that run the world of tax policy:

1. Reducing rates, broadening tax bases

- International tax competition is pushing tax rates even lower. How does one prevent a rapid decline in tax revenues? Compensate for reducing rates by extending the tax base.

2. Moving from direct taxes to indirect taxes

Excise taxes are not as discouraging as direct taxes when it comes to the working individual. It is possible to achieve higher tax revenues while maintaining the economic activity of citizens, which supports economic growth.

3. Computerization of tax administration

Electronic tax returns, online payments, e-mail communication – all reduce costs to the taxpayer and public administration. Some states face problems with the implementation of these electronic tools.

4. The emphasis on cooperation in the fight against tax optimization, implementation of new rules (so-called GAAR)

During the period of fiscal consolidation more states begin to feel a loss following international transactions, which often take place only in order to achieve tax benefits.

5. Focusing on pro-growth measures to stimulate growth (R & D support, export).

6. Tax inspections and audits based on risk analysis results
Less checks, but more targeted and therefore more efficient.

7. Transparency and disclosure
- requirements are increasing sharply due to the need to defend their own tax revenues.

8. Stricter rules on transfer pricing pressure, on offshore activities of taxpayers.

9. Greater emphasis on the rights of taxpayers

10. Environmental taxes.

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Are you interested in independent views and analysis on the functioning of fiscal policy and tax reforms in the Czech Republic? Visit our new website www.pwc.cz/taxpolicy. You will find comments on current tax and economic issues by PwC experts. We will also explain the present Global trends in tax policy and provide access to interesting studies and analysis from the world of tax and economic policy.

If you are interested in receiving Tax, Legal & Business News, please contact [Michal Horáček](mailto:Michal.Horacek@pwc.cz), +420 251 151 673.

Tax

Obligation to file tax return from 2013

Still not worried about filing a tax return? According to Government plans, individuals who have an annual employment income or a profit from self-employment activity above 48 times the average wage (i.e. above the cap for payment of social insurance) will have to deal with additional “red tape” starting in 2013.

In addition to “solidarity tax contribution” of 7 %, these individuals will be required to file an annual tax return and will not be able to ask their employer to do a payroll tax reconciliation instead. This also holds true for employees required to pay “solidarity contribution” only in one month because of one-time bonus that, together with regular monthly salary, will exceed circa CZK 100 thousands.

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VAT on phone cards and other types of bills

The Court of Justice of the European Union (ECJ) has decided in the case of telecommunication services provided by Lebara Ltd. that the sale of single-purpose phone cards represents a taxable supply (provision of a service) at the moment of their sale to distributors. From VAT point of view, the supply is thus not deemed to be effective at the moment of the use of the card by the end user, but at the moment of its sale to the distributor. This judgement may, in certain cases, also apply to companies involved in issuing or distributing vouchers.

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Legal

Series Changes to the Civil Code

Increasingly hot topics are the changes that will be brought by the New Civil Code, which comes into force 1 January 2014. Since every area that PwC is concerned about is to be affected, in the coming months we will be bringing you summaries of main changes in the New Civil Code and the Act on Business Corporations.

At the same time, we will be trying to facilitate orientation with the new terminology.

Linking land & property

As part of our key changes overview, we would like to introduce you to the changes in real estate in a nutshell. Under the new wording a building becomes a part of the land. This relates to those cases in which the building and land share the same owner. In case that the owner of a building and the owner of land differ, there will be an option for the owner of the land to purchase the building if the owner decides to sell it. Another innovation is the establishment of the right to build, that burdens a land, where a building is located. This right is temporary; maximum length is 99 years and can be set up with or without consideration.

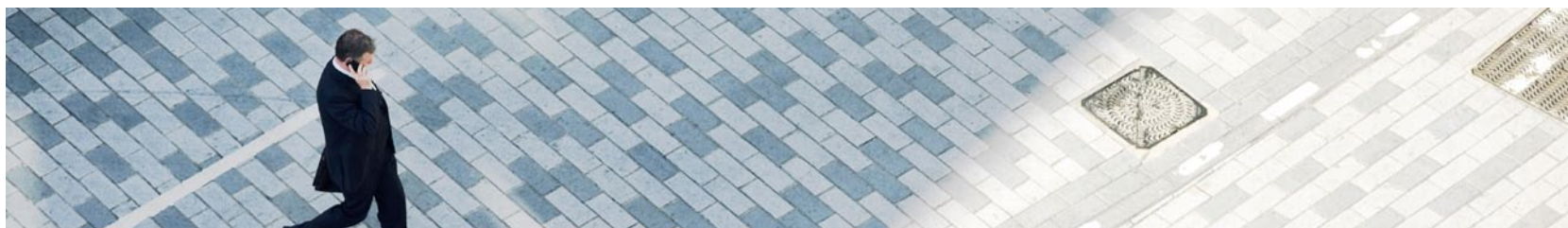
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Accounting

The terms for US GAAP and some other reporting frameworks were prolonged for foreign issuers

The European Commission prolongs the possibility to use third-country GAAP by foreign issuers listed on EU markets. The Commission declared that the EU supports, along with other key trading partners (e.g., China, Japan, South Korea, etc.), the principle of a common set of worldwide accounting standards for listed companies. The Prospectus and Transparency Directives require foreign country issuers to prepare financial reports in accordance with International Financial Reporting Standards (IFRS) or any other standard that has been declared equivalent to IFRS. At the same time, the Commission updated the equivalence mechanism. The regulation was published in the Official Journal and is effective retroactively from 1 January 2012. This prolongation gives more time to countries which had committed to converge or replace their Generally Accepted Accounting Principles (GAAPs) to IFRS and have made important progress towards that goal (e.g. India). It also enables the Commission



Accounting

to pursue discussions with other countries in order to encourage the use of IFRS throughout global financial markets. In 2007 and 2008, the Commission established a mechanism to verify the equivalence of GAAP to IFRS and determined that the US GAAP and Japanese GAAP are equivalent to IFRS. Financial statements prepared using the GAAP of China, Canada, India, and South Korea were declared acceptable within the EU on a temporary basis until 31 December 2011. The GAAP of China, Canada, and South Korea are, after the amendments, declared equivalent to IFRS. The transitional period is prolonged for Indian GAAP until 31 December 2014. These measures mean that foreign companies listed on EU markets will continue to be able to file their financial statements prepared in accordance with the above mentioned GAAP.

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Employees

Children travelling newly with own travel document

Children will need to hold own passport or ID card for their holiday trips abroad.

As at 27 June 2012, children can travel abroad only if they possess their own passport. The term of implementation of the regulation is mandatory for all member states of the European Union, including the Czech Republic.

In practice, it means that all of the children's information stated in their parent's passports or identity cards is voided on the above date.

For travelling abroad, children must have either their own passport or identity card. As of 1 January 2012, it is also possible to apply for an identity card for children younger than 15 years of age.

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This year's increase in wages will average 3.1%

The results, based on data from 2011 and they follow from the PwC study PayWell 2012 - annually monitoring trends in remuneration.

For more information, visit www.pwc.cz/paywell

Study

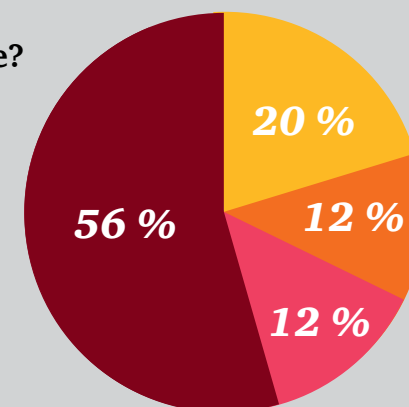
One third of Czech companies will change their owners in the next two years

During the next two years one third of Czech companies is planning to change its owner. More of one tenth of other owners intends to sell or pass onto future generations in the long term. The results are consequences of study "Today, a year, in the next generation ..." of consulting firm PwC Czech Republic.

For more information, visit www.pwc.cz/nastupnictvi

Are you planning a change in ownership structure?

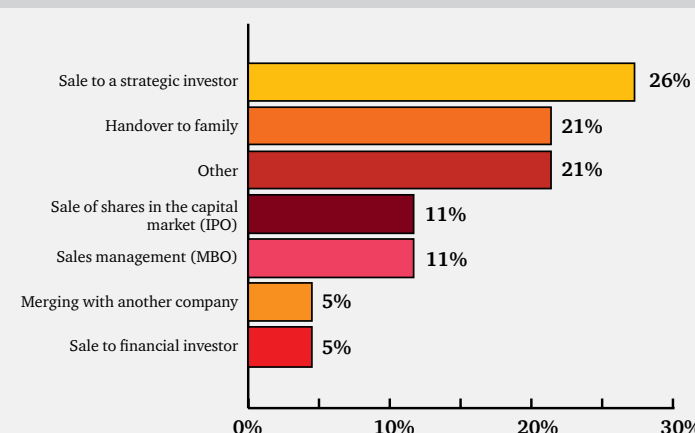
- Yes, just changing the ownership structure of our company
- Yes, in the short term (1-2 years)
- Yes, in the longer term (more than 2 years)
- No



"Study of the American Institute of Family businesses shows that only 30% of companies will survive the handover to second generation, only

12% in the third generation and only 3% of businesses fall under the fourth generation or beyond. Czech companies are just at the start, but I'm sure that similar numbers will be merciless for them."

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Topic of the month

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Legal

Accounting

Employees

Study

We invite you

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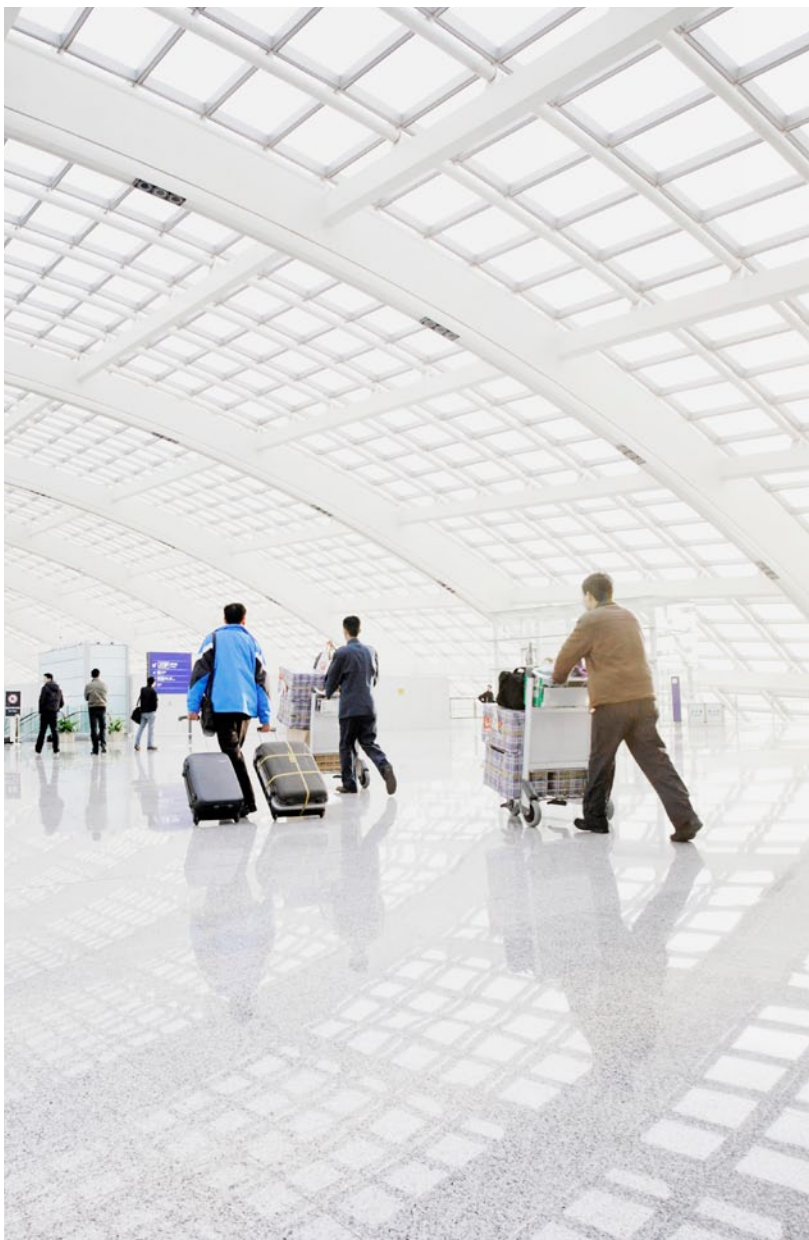
We organise technical seminars, trainings and conferences for our clients and business partners and we would be pleased to welcome you to any of these.

At the moment we are preparing:

- The amendment to the Act on Investment Incentives (CZ, Ostrava)

More information on
www.pwc.cz/events

or contact Marie Novotna,
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Notice

We would like to inform you only one issue of Tax, Legal and Business News during the summer holiday months.

Our topics and contributions will be published in the August double issue. Have a pleasant summer vacation and holidays.

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