

# Tax, Legal & Business News

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Tax, legal, accounting, advisory and assurance newsletter

March 2012

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## Topic of the month

### **Czech companies will focus mainly on their domestic market and innovation this year**

PwC Czech Republic conducted, in the fourth quarter of 2011, our third Czech survey of the opinions of CEOs and owners of major companies across sectors, operating in the Czech Republic. More than half of the CEOs believe that the recipe for success this year will be to strengthen a company's position on the domestic market or come up with a new product or service to attract customers. More than four fifths of companies intend to use their own resources to finance their growth; bank loans will make up about a quarter of them. Overall, this year,

domestic enterprises expect little employment growth.

Although Czech companies are not the largest ones globally, they have still not learned to look for strong partners, or at least engage in industry cooperation.



***"Czech businesses perceived a moderate easing of credit market last year. However, stricter regulation such as Basel III could make banks tighten conditions again."***

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Only 7% of Czech CEOs see growth opportunities this year in a joint venture or strategic alliance. When one looks at the CEE average, joint ventures represent a significant growth opportunity for almost a quarter (22%) of respondents.

For more information visit:  
[www.pwc.cz/ceoagenda](http://www.pwc.cz/ceoagenda)



***"Czech companies continuously make the same strategic mistake***

***when trying to do everything by themselves. They are too small and only support the bigger players on the world markets or they take positions in marginal segments. They don't make use of their potential. The way to be successful is to capitalise on one's expertise and come together with a stronger player."***

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## Tax

### Construction works are not complicated by only the frost

Construction and assembling works that fall under Production Classification CZ CPA 41 - 43 are obliged to follow a local reverse charge mechanism as at January 2012. It is therefore the recipient of the supply who calculates and reports the VAT instead of the supplier. The intention of the legislators, when implementing this mechanism, was praiseworthy – to prevent tax evasion. The application of the scheme in practice, however, raises a lot of questions and may have a significant negative impact on the cash flow of a company, in particular when supplying construction work to state. In reaction to the problems regarding which services are subject to local reverse charge, how to proceed in cases of advance payments and how to proceed in case of a supply comprising more work, the Czech tax authorities published answers to the frequently asked questions. The published information could be found on the web pages of the Czech tax authorities. These information, however, are unfortunately not comprehensive, in particular regarding the question on which services the local reverse charge should be applied.

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### Further tightening regarding excise duties is expected

Another amendment of the Excise Duties Act has been opened up for comments. The effectiveness is planned from January 2013. This amendment will mostly affect companies that currently benefit from the exemption of mineral oils used in mineralogical or metallurgical processes, as the amendment completely cancels this exemption. The cancelled exemption will be replaced by a tax refund mechanism for mineral oils used in the above manner; however, this mechanism brings more administration and a negative cash flow impact.

The conditions should also be stricter in the case of sales of spirituous beverages at a price lower than the sum of the relevant excise duty and VAT. The amendment does

not forbid the sale of spirituous beverages for a lower price, but is implements a reporting duty towards the tax authorities. Good news for manufacturers of tobacco products is the possibility that payment of the value of tobacco stamps or a security of payment of the value of tobacco stamps will be reduced by 10 to 40% when being collected. This part of the value of tobacco stamps will be paid by the manufacturer at the due date, i.e. within 60 days after the stamps are collected. The amendment should also bring a more transparent system of sanctions in the field of excise duties but also to the introduction of new sanctions.

In addition to the above, the amendment also contains an increase in excise duties on cigarettes and other tobacco products from January 2014 that had already been announced. The planned increase in the duty on cigarettes should generate CZK 0.13 for each cigarette. A minimum rate of duty for one

cigarette would now be CZK 2.28 per piece compared to today's minimum rate of CZK 2.10 per piece. The increase in rates will thus be most reflected in the tax burden on the cheapest types of cigarettes.

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## PwC Legal

### Change in judicial decision in transferring assets

The Supreme Court experienced something of a breakthrough conclusion concerning contracts on transfer of assets subject to article 196a part 3 of the Commercial Code. According to the above-mentioned provision, an expert opinion to determine the price of the assets transferred between associated

persons which amounts to at least 10% of the value of the registered capital must be prepared. According to the Court's decision the absence of an expert's report prepared by a court-appointed expert will not be penalised by the contract being rendered invalid. The Supreme Court decided that in cases where the price is established as the market value, i.e. common in a given place and time or more favourable for the company, the absence of the expert's report will not mean that the contract is invalid.

It is therefore possible to consider a practice where, in cases where the transfer price clearly fulfils the legal requirements, the expert advice will not be assigned at all. The legal certainty of the purchasers will also increase.

From a tax perspective, the risk that transactions where there is no proper appointment of an expert by the court and that would normally have rendered the transaction invalid and then led to the transaction being challenged by tax authorities has decreased. Although the judicial decisions are not completely uniform regarding the tax impact of legal acts that are absolutely invalid, many taxpayers were concerned about whether assets acquired in violation of the requirements of article 196a part 3 could be e.g. written off or applied in the context of investment incentives. It seems that they can now sleep better if they are able to demonstrate that they have acquired the assets at the market price.

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## Accounting

### Illustrative consolidated financial statements according to 2011 IFRS in Czech

A group of PwC IFRS experts has prepared for you a set of Illustrative consolidated financial statements according to 2011 IFRS in Czech. The publication contains the consolidated accounts for entrepreneurs drawn up in accordance with international financial reporting standards (IFRS). Companies can use this tool as a guide when drawing up their own accounts according to IFRS (and even in the version adopted by the EU). This article reflecting some specifics of the Czech environment could be found at [www.pwc.cz/ifrspublicace](http://www.pwc.cz/ifrspublicace). The multinational English publication Illustrative IFRS corporate consolidated financial statements 2011, on which the Czech version is based, along with other publications in the field of IFRS can be found at [www.pwc.cz/ifrspublications](http://www.pwc.cz/ifrspublications).

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## Employees

### Validation of foreign education is needed for the issuing of work permits to foreigners

Since the beginning of this year, the labour office requires that foreigners from countries outside the EU support their first request for a work permit, green or blue card with a validation that proves that the education received abroad is equivalent to that offered in the Czech Republic. Recognition of an education received in a foreign university is typically provided by Czech public universities; in the case of secondary education, this is provided by regional authorities. Foreigners who have received an education in the country with which the Czech Republic has concluded a bilateral agreement on the recognition of the equivalence of documents (Bulgaria, Slovenia, etc.) are issued with the respective certificate by the Ministry of Education, Youth and Sports.

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### Agreements to complete a job – health insurance and social security

From 1 January 2012, employees working based on agreements to complete a job (ACJ) are subject to health insurance (HI) and social security (SS) provided their income reached an amount higher than CZK 10,000 in the given month.

The incomes from more ACJs with the same employer are cumulated for the purposes of SS. HI does not address this situation directly, however, it also sets up the sum of the incomes as the base for contribution payments. The Ministry of Health, however, sent a standpoint to health insurance companies specifying that incomes from more ACJs with the same employer do not cumulate in one month, i.e. the income from each concluded ACJ is to be considered separately.

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**"A different approach will certainly not relieve the already high administrative burden of employers."**

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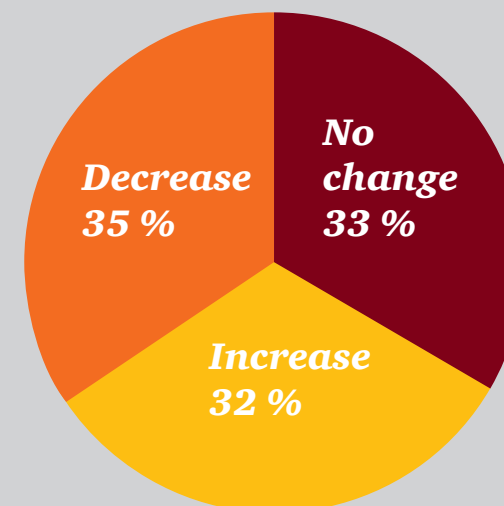
## Study

### There will not be less work this year

About half of the companies increased the number of employees, less than a quarter kept the same number of employees and more than a quarter dismissed some of their staff last year. If we compare this with the plans for 2011, it shows that companies usually accepted more employees than originally planned or they dismissed less. No dramatic changes in the number of employees are expected this year either. The firms learned their lesson from 2008 and no massive dismissal is expected. This information comes from the 3rd annual CEO survey.

More information is available  
[www.pwc.cz/ceoagenda](http://www.pwc.cz/ceoagenda)

Planned changes in the number of employees



**"2008 brought certain pessimism when firms dismissed the high-quality, strategically important staff that they would greatly miss a few months later. Now that they have learned their lesson, economic measures shall be carried out with more selection and care and with regard to the strategic needs in the coming years."**

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**The Academy****”Tax – how to manage them?”****The Academy seminars on current tax topics:**

- Compilation of tax return - 15 May 2012
- Tax administration training - 16 May 2012
- Transfer pricing - 4-5 June 2012
- Introduction to the Czech tax system for foreigners (in English) - 12 June 2012
- Employee benefits from the tax point of view - 7 December 2012
- Deferred tax according to Czech accounting standards and IFRS – accounting and tax view - 10 December 2012

**In PwC, we have extensive experience in tax advisory and we would be pleased to share this with you!**

We educate our clients on a regular basis, sharing our practical experiences and explaining the latest trends. All seminars also include, except for theoretical explanations, case studies focused on practical applications

**Details**

**Venue:** PwC premises, Kateřinská 40, Prague 2

**Time:** 9:00 - 16:30.

**Language:** Czech (if not stated otherwise)

**Price of one day seminar:** CZK 8, 900 + VAT

**Price of two day seminar:** CZK 17, 800 + VAT

The price of the seminar includes study materials, and morning and afternoon refreshments.

For participating in one day of any seminar, you will get 7 points in total for your CPD (Continuous Professional Development).

**Do you want to know more?**

For more information and registration visit [www.pwc.cz/academy](http://www.pwc.cz/academy), contact **Martina Kopsova**, tel.: +420 251 151 816 or write to [the.academy@cz.pwc.com](mailto:the.academy@cz.pwc.com).

**Professionalism. Expertise. Flexibility.**

**We invite you**

**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:

- Tax documents
- International trade in goods for VAT and customs duties
- Specific transactions not only for VAT or customs specialist seminars

**[www.pwc.cz/events](http://www.pwc.cz/events)**

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