

VAT Flash

Czech Republic

VAT Flash is an electronic newsletter prepared by PricewaterhouseCoopers Česká republika, s.r.o. to keep you up to date on the latest tax and legal news. A more complex look at key tax changes and their impact on your business is provided in our monthly newsletter, Tax & Business News.

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Changes in VAT as of 2013

On 26 September 2012 the Czech Chamber of Deputies approved the VAT Act amendment that should come into force in January 2013

In recent months, the most discussed proposed change concerning VAT was the increase in VAT rates or introduction of a single VAT rate. However, the VAT amendment about which we would like to inform in this VAT Flash brings quite different changes and the number of changes is significant. As there are only 3 months left until the proposed amendment comes into force, it is about time to start with preparation. What will be the main changes in Czech VAT law in 2013?

Changes in the rules on invoicing and archiving of tax documents

The amendment introduces a new concept of proving the authenticity of origin, the integrity of the content and the legibility of an invoice through business controls which create a reliable audit trail between an invoice and a supply of goods or services. The audit trail will have to be proved in cases of both electronic and newly also hard copy invoices.

An exception will be given to tax payers who are already issuing electronic invoices using advanced electronic signature with a qualified certificate or EDI.

It is expected that the General Financial Directorate will issue a methodology specifying details of such audit trail, to enable, proof of the direct link between tax document and the effected supply.

Changes affecting the real estate industry

One of the most important changes affecting the real estate market is the extension of the period after which the transfer of buildings, flats and non-residential space is VAT exempt from 3 to 5 years and introduction of an option to tax of transfer of real estate after expiry of this period. Real estate acquired under the old rules, will remain subject to the original three-year period, however, with an option to tax the transfer after the expiry of 3 years in accordance with this amendment.



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Changes in VAT as of 2013 – continued

Changes relating to the exemption of insurance activities

The amendment replaces the terms "insurance or reinsurance activities" with more accurate "provision of insurance" and "provision of reinsurance" limiting the scope of exemptions strictly to provision of these services. In case of related activities, including insurance and reinsurance intermediation, the exemption will apply only to services provided by insurance intermediaries. Activities concerning insurance claims settlement will be excluded from the exemption. Pension insurance schemes and their intermediation shall remain VAT exempt.

VAT payers and persons identified for VAT

The amendment introduces changes in definition of VAT payer, person identified for VAT and related changes of VAT registration. Persons, not registered for VAT, who become liable to declare VAT on goods acquired from another Member State or on services received from a person established outside the Czech Republic, as well as such persons providing services

having place of supply in another Member State, will no longer be required to register as "standard" VAT payers, but they become persons identified for VAT. As such the person identified for VAT will not be obliged to tax its effected local transactions, but will only pay VAT from received supplies (mentioned above) without being entitled to deduct related input VAT.

Introduction of unreliable VAT payers database

As a new way of fighting tax evasion, the amendment introduces the concept of a so called "unreliable VAT payer". Unreliable VAT payers will be considered those who will not comply with their VAT obligations. The database of unreliable VAT payers should be publicly accessible. In this respect, the amendment also extends the liability of the recipient of the supply for any VAT unpaid by the supplier to those cases, where the supplier is known to be an unreliable VAT payer.

New definition of "establishment" for the purpose of the place of supply of services – so called "passive establishment"

In accordance with the implementing Regulation to the EU VAT Directive, the establishment pursuant to Article 9, i.e. for purposes of determining the place of supply of services, shall also mean a branch capable to receive and use the services supplied to it for its own needs. This change applies from the effective date of the implementing Regulation and will be newly reflected in the VAT Act. The VAT Act will then use the term "establishment" in two different meanings.

Easing of doubts with respect to reverse charge mechanism applied on construction work

In connection with difficulties in determining which construction work is subject to reverse charge and which is not, the amendment introduces a fiction for cases where both supplier and recipient acting in mutual agreement apply the reverse charge. In such a case, the tax authority will not question the legitimacy of the application of the reverse charge mechanism. This should provide higher legal certainty for both supplier and recipient.

Changes in VAT as of 2013 – continued

Obligation of a VAT payer to report the bank account numbers used for its business activities

Bank account numbers of VAT payers will be publicly disclosed in the VAT payers register. The recipient of the supply will be liable for any unpaid VAT of the supplier in case he makes a payment to other than the disclosed bank account.

In addition to the above, the amendment also brings the following changes:

- Possibility to use European Central Bank currency exchange rates.
- Change in place of supply rules on hire of means of transport.
- Obligation to charge VAT on advances received even when the recipient of the advance payment does not keep Czech accounting.
- Possibility to correct VAT on bad debt claims will be limited only to cases when the debtor is under bankruptcy.
- Quarterly taxable period will be only an option for VAT payers if certain circumstances will be met.

- The taxable period for newly registered VAT payers will be a calendar month.
- Rules for determining the taxable period for VAT payers not seated in the Czech Republic will be the same as the rules for VAT payers seated in the Czech Republic. The taxable period for newly registered VAT payers not seated in the Czech Republic will be a calendar month.
- More information will have to be kept in VAT evidence.
- A wider range of waste supplies where reverse charge must be applied. The reverse charge should be newly applied on supply of silk waste, cotton waste, thread waste, chemical fibres waste, wool waste, etc.
- A VAT payer who buys fuel from a supplier not stated in the List of Fuel Suppliers kept by the Customs Authorities will be liable for any VAT unpaid by the supplier.

Mandatory electronic filing of VAT return as of 2014.

The proposed amendment also brings the obligation to file only electronically: regular and additional VAT returns, all other VAT related reporting,

attachments to the VAT return or report, notification of change of registration data and VAT registration applications.

This obligation will not apply to individuals with turnover under CZK 6 million.

