

Tax, Legal & Business News

www.pwc.cz/tbn

Tax, legal, accounting, advisory and assurance newsletter

February 2013

ERA & DAŇAŘ
& DAŇOVÁ firma
ROKU

Thank you for the appreciation and trust

Three tax and legal experts from PwC have won awards in the ERA Tax expert and tax firm of 2012 poll.

- Martin Houska has been awarded the Tax star in the area of international taxation.
- David Borkovec has been awarded in the transfer pricing area.
- Petra Nováková has been awarded in the area of tax administration.

Also, both professional and non-professional respondents chose PwC ČR as the most desired employer in taxes for the second year in a row.



Topic of the month

Summary

- A bleak Christmas surprise
- How to pay tax and where to send the application
- Specification of the changes in the VAT Act
- Statutory body's acting with due care
- What can we expect from IASB in the future?
- Last call for submitting applications for innovation subsidies
- The list of countries whose citizens may apply for a green card is expanding
- Changes in the area of travel allowances
- We will grow in 3 years

A bleak Christmas surprise

I cannot help but go back once again to the tax changes which were approved by the Parliament in December and signed by the President shortly before Christmas. So by Christmas it was already clear that we wouldn't be able to expect anything good from 2013 onwards, at least with regard to taxes. To be honest, I was hoping that the changes would ultimately not be approved in this form. So in the end I was unpleasantly surprised. Well, even though I didn't swallow the bone from my carp, I was not enthusiastic about the end of the year.

I won't go into detail regarding all the particular changes. I'll just briefly summarize that the main changes were increased VAT by one percentage point (to 15% and 21%) and income tax especially for persons with higher income. And this is a really penetrative increase. To illustrate this, I will give a simple example. Imagine a manager of a large company that earned more than CZK 150,000 monthly in 2012. The amount of his income which

exceeded the threshold of CZK 150,000 was then subject to 15% income tax. The situation is very different in 2013. Not only is this income (from the threshold of CZK 100,000) subject to additional 'solidarity' income tax in the amount of 7%, but on top of that an employee will pay an additional 4.5% and an employer 9% on insurance due to the abolition of the limit on health insurance. So, in total, income exceeding the above-mentioned limit will be subject to an additional levy amounting to 20.5%, which is more than twice as much as in 2012.

Thus one can ask whether it was necessary to increase the VAT and the income tax and what effect it will have. Regarding the contribution to the state budget, the Ministry of Finance expects, according to an explanatory memorandum, that the increase in VAT will bring approximately CZK 13 billion per year and the introduction of a 'solidarity' tax about CZK 1.5 billion per year. I agree that the VAT increase will bring

additional income for the state budget. In my view, an increase of one percent should not even negatively affect domestic consumption. But where my opinion is significantly different from the estimate of the Ministry is in the benefits of an income tax increase. I'm afraid that not only will the tax increase not bring the expected additional resources into the budget, but it can have exactly the opposite effect. High-income individuals usually have some flexibility in the way they will pay taxes: in which country they will pay, and when and in what form they will receive the income. These individuals, who in the past have willingly paid 15% income tax to the Czech budget, may decide that they are simply not willing to pay double. Thus, not only does the Czech Republic not obtain the expected higher tax but it does not get any tax. I perceive this risk as very real.

The second question is whether the Czech government had another way to balance the state budget. In my opinion, it did. It would be

more appropriate to focus on a more consistent collection of existing taxes than on the introduction of new taxes. For example, in the case of VAT and excise duties, there are large reserves in the collection. An example of a clever solution in this area is, for example, a lottery of receipts, which some European and Asian countries (e.g. Malta, Taiwan, etc.) have introduced. The solution lies in the fact that each purchase receipt printed from the compulsory register has a unique number. Receipt numbers are then drawn each month and the customer with that receipt may win hundreds of thousands of Czech crowns. The Czech Ministry of Finance has unfortunately not found any innovative solution for the collection of taxes; rather, the Ministry uses the simpler solution of increasing the tax rates, which is, however, worse for citizens and businesses.

David Borkovec
+420 251 152 561



If you are interested in receiving Tax, Legal & Business News, please contact [Jana Keprta](mailto:jan.keprta@cz.pwc.com), jan.keprta@cz.pwc.com.

Tax

How to pay tax and where to send the application

The existing system of territorial financial authorities has been repealed and replaced by a system of financial administration authorities. So contact details, data box IDs and account numbers for tax payments have all been changed. According to Act no. 456/2011 Coll. on the Financial Administration of the Czech Republic, each taxpayer communicating with the financial authorities must reflect this change. This applies from 1 January 2013 (so please pay attention to VAT, road tax or real estate tax).

The system of financial authorities is made up of 15 financial offices (including the Specialized Tax Office), the Appellate Financial Directorate and the General Financial Directorate.

The seats of the individual financial offices are located in regional cities and in the capital city of Prague. Because the number of financial offices has been reduced, the territorial departments which are their integral part now play an important role. Each taxpayer's file will typically be administered at the relevant territorial department, and access to the file will be possible only at the place where it is physically located.

In connection with the above, the contact details of the individual financial offices have also been changed. All contact details,

including data box IDs, of the 'new' financial offices and their territorial departments can be found on the website of the Czech Ministry of Finance (MF) in the Financial Administration section [here](#).

Data boxes used for communicating with the financial offices up to 31 December 2012 have been locked up and applications cannot be effectively delivered there anymore. You can also find a notice from the MF on how the tax administrators are dealing with submissions delivered to the data boxes of financial offices and financial directorates from 27-31 December 2012 on the website of the MF in the Financial Administration section [here](#). We believe that the practice of tax administrators described in the notice is not correct from a procedural point of view (i.e. that, in order for the tax administrator to consider the data report as delivered on time, it must be delivered to him again on the date he provides).

This new system also means changes in the payment of taxes because the individual account numbers for tax payments changed from 1 January 2013. So payments should be directed to the new account numbers that you can also find on the website of the MF [here](#).

[Petra Nováková](#)

+420 251 152 679

[Martin Lachmann](#)

+420 251 152 664

Specification of the changes in the VAT Act

The tax administration issued information related to the following areas of the VAT Act:

- Changes in VAT from 1 January 2013
- VAT rates on medical devices
- Information related to unreliable payers
- Appendix No. 1 to the earlier information of the General Financial Directorate with respect to applying VAT in health care

We suspect that the above list is not final and that more information on the VAT changes from 2013 will be issued soon.

We have summarised the changes in the VAT Act effective from 1 January 2013 in a special issue of "VAT Flash" distributed on 21 December 2012.

Further information on general changes in VAT from 1 January 2013 can be found on the website of the Ministry of Finance (MF) in the section for the public [here](#). More information on changes in health care can be found in the same place [here](#). More detailed information about unreliable payers is available in the Financial Administration section of the MF website [here](#).

[Martin Diviš](#)

+420 251 152 574

Law

Statutory body's acting with due care

A member of a statutory body does not act with due care if its conduct is in conflict with data stated in the Commercial Register of the company. According to the latest developments of the opinion of the Supreme Court, it is also not acting with due care if its conduct conflicts with the company's Articles of Association or internal restrictions. A member of the statutory body is fully responsible for the damage that results from acting without due care.

Each member of the statutory body usually acts on behalf of the company separately. The Articles of Association or internal restrictions can, however, modify the way of acting. Internal restrictions, such as the decision of the general meeting or the rules of acting for the statutory body, are not binding for third parties, unlike the data entered in the Commercial Register. But in spite of that, violating these restrictions can have the above-mentioned consequences.

The members of the statutory body must follow the procedures given by the Articles of Association, the data entered in the Commercial Register, as well as other internal restrictions when acting on behalf of the company. To make sure that a member of the statutory body is acting with due care, it may be appropriate to obtain the opinion of a law firm.

[Ondřej Plánička](#)

+420 251 152 934

Accounting

What can we expect from IASB in the future?

The International Accounting Standards Board (IASB) published its workplan in December last year. This plan originated in July 2011 on the basis of responses obtained from more than 80 countries around the world. The year 2013 will show which of the below topics will actually become the focus of the IASB work and subsequently result in amendments to IFRS. The plan groups the proposals into five main areas:

- Granting a 'period of calm'
- Revision of the Conceptual Framework
- Targeted improvements of certain standards
- Implementation and 'maintenance' of standards
- Enhancement to the standard-setting process by front-loading the research phase before the actual work on new standards

The 'period of calm' is required mainly by companies reporting under IFRS as a result of fairly significant changes that will occur after the current IASB projects in the areas of revenue reporting, leasing accounting, financial instruments and insurance contracts are completed. Specific projects for the IASB's future work will be selected from the following areas:

- Accounting for emission trading schemes
- Business combinations (mergers and acquisitions) under common control

Accounting

- Determination of discount rates
- Equity method of accounting
- Intangible assets: extractive activities, research and development
- Financial instruments with the characteristics of equity
- Foreign currency translation
- Non-financial liabilities (reserves dealt with in IAS 37)
- Financial reporting in high inflationary economies

Milan Zelený

+420 251 152 088

Advisory

Last call for submitting applications for innovation subsidies

The Ministry of Industry and Trade and CzechInvest agency are planning the opening of the last calls for subsidy applicants this year. If you are a small or medium-sized enterprise that has new ideas or puts innovative products, technologies or services into production and on the market, or if you are thinking about improving your business processes, this call is intended for you.

The planned publication of the call is on 15 February 2013, but the applications will be accepted

Advisory

for only 14 days from 1-15 March 2013. It is planned to distribute CZK 2.4 billion within this call. Despite this high allocation of resources, it is expected that the demand will exceed the available resources, so only the highest quality projects will be supported.

Zbyněk Pokorný

+420 251 152 653

Employees

The list of countries whose citizens may apply for a green card is expanding

The list of countries whose citizens will be allowed to apply for a green card will expand. This right will newly be provided to foreign nationals from 40 countries around the world. The list will be extended to 21 countries in the case of high qualified workers and should newly include, among others, Russia, China, India, Turkey and South Africa. The decree is currently awaiting approval by the Ministry of the Interior.

The green card is one of the instruments of the Czech immigration policy. It allows relatively quick legalization of

Employees

labour activities of both qualified and unqualified foreign nationals who come from 12 selected countries outside the EU and who will have concluded an employment contract with an employer in the Czech Republic.

Jana Zelová

+420 251 152 567

Changes in the area of travel allowances

Small changes apply in the amount of particular travel expenses allowances from the beginning of this year:

- The domestic subsistence allowance is being slightly increased.
- The changes in the amount of the domestic subsistence allowance also affect the tax deductibility of meal vouchers.
- The rates of subsistence allowances abroad have been increased for Slovakia and decreased for Bosnia and Herzegovina, Montenegro, Estonia, Croatia and Serbia.
- The rate of basic compensation for 1 km of driving for passenger cars has been decreased to CZK 3.60.

Tomáš Hunal

+420 251 152 516

Study

We will grow in 3 years

Nine out of ten CEOs of the most important Czech companies are at least partly convinced that their companies will increase sales within three years. Half of the directors expected growth this year, but just one-fifth of them are really sure that this will happen. This is one of the findings of the Czech survey of CEOs performed by PwC Czech Republic in 2013.

The directors see room for growth in acquiring new customers and keeping existing ones. They would like to achieve this through the innovation of products and services and growth in existing markets. At the same time, more directors see potential growth in existing foreign markets (19%) than the domestic market (18). Jiří Moser, Managing Partner of PwC Czech Republic, explains this by the fact that the Czech market is already too small for a number of companies. Compared to last year, the number of directors who are planning to fund a growth using a bank loan almost doubled.

The efficiency and quality of human resources will be key issues for companies' internal development this year. Half of the general directors see this as the biggest opportunity in improving the operating efficiency of their companies. The number of bosses who are planning economy measures has decreased at the same time. Outsourcing—the trend of the past few years—is also slowly being left behind; on the contrary, a growing number of directors see opportunities for entering a new strategic alliance. The good news is that the creation of jobs will outweigh their loss. The CEOs remain concerned that they can't get or keep enough of the right people.

More than a hundred respondents participated in the survey this year, and this is the fourth year of the survey.

More information about the results can be found at:

www.pwc.cz/ceoagenda



The Academy

Diploma in IFRS

The Diploma in IFRS (DipIFR) is an internationally recognised qualification developed by the leading professional accounting organisation, Association of Chartered Certified Accountants (ACCA). Bring your professionalism in IFRS to the next level by obtaining this qualification!

A certified specialist in DipIFR will gain:

- extensive and comprehensive knowledge of the main IFRS standards and principles
- IFRS reporting skills, including the consolidation of financial statements
- in total, eight days of intensive training set up as three separate modules and a mock exam

Course dates:

20-22 March 2013	Preparation part I
17-19 April 2013	Preparation part II
5-6 June 2013	Revision
7 June 2013	Mock exam

These modules will lead up to the exam which will be held in June 2013.

Do you want to know more?

For more information and to register, please fill in the registration form at www.pwc.cz/academy. Should you have any questions, please write an email to the.academy@cz.pwc.com or contact Darie Šašková, tel.: +420 251 152 446.

www.pwc.cz/academy

We invite you

NEW HR workshops by CIPD NOW in the Czech Republic!

The Academy brings you top HR experts from CIPD (Chartered Institute of Personnel Development) in a series of seminars for HR professionals. We are now introducing new HR seminars to help you and your people gain the skills and confidence to support and advise your organisation on a range of issues.

Topics for spring 2013:

Business savvy HR – are you savvy enough?

(14 March 2013)

- How effective are you?
- Can you establish the critical success factors for your business and where HR can contribute most effectively?

Measuring the Effectiveness of HR (18 April 2013)

- Are you able to distinguish between 'efficiency' and 'effectiveness' metrics and identify how to evaluate against those metrics?

Assessing your investments in L&D (16 May 2013)

- Do you understand who your key stakeholders are and why they may have different perspectives on evaluation?

Effective Employee Reward & Talent Retention in Austerity

(11 June 2013)

- Do you know how to create and integrate effective reward processes and strategies to drive talent retention?

All workshops are conducted in the English language.

The price of each one-day workshop is CZK 11 900 + VAT.

How to register?

For more information and registration, write to the.academy@cz.pwc.com or contact Martina Kopsová, +420 251 151 816. For registration, please fill in the registration form at www.pwc.cz/academy.

www.pwc.cz/academy

Contact

Jiří Moser

Country Managing Partner
PwC ČR
+420 251 152 048

Peter Chrenko

Lead Tax & Legal Services Partner
+420 251 152 600

Věra Výtvarová

Lead Assurance Services Partner
+420 251 152 099

Miroslav Bratrych

PwC Advisory Partner
+420 251 152 084

Daniel Čekal

PwC Legal Partner
Legal Services
+420 251 152 900

Prague Office

Hvězdova 2c, 140 00 Prague 4
+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

© 2013 PricewaterhouseCoopers Česká republika, s.r.o. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers Česká republika, s.r.o., which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

