

Tax, Legal & Business News

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Topic of the month

Hoteliers have reason to celebrate: the occupancy rate of Prague hotels increased last year

The average occupancy rate of Prague hotels as well as prices per room increased last year. Profit per room increased by more than 10%. That was one of the best results among European cities, reported in the annual PwC study "European Cities Hotel Forecast 2013". By contrast, for this year, it predicts stagnation in the occupancy and average prices. The PwC study looks at 19 of the most important European cities and analyses the profits and occupancy rates of the hotels in those cities.

The Olympic Games in London and the European Championship in football in Poland and Ukraine were positive influences on the European hotel market last year. However, the occupancy rate of hotels stagnated. Taking into account the growth in the number of overnight stays at the same time, this means that some guests are seeking accommodation outside hotels, such as in guest houses or hostels.

A similar trend can be expected this year. The total annual increase in performance will likely be lower this

year than last year, which also applies to Prague. But it doesn't have to be negative for European hotels. For example, tourism is growing across Europe to the exclusion of more distant destinations. It will be tourists rather than people on business trips who will positively contribute to it. This is due to the fact that companies have been under pressure to restrict travel or attendance at conferences.

Visitors from Russia will make the highest number of overnight stays in Prague hotels this year, according to the PwC analysis. They replaced German people at the head of this chart in 2012. However, we can also expect to see a modest yearly increase regarding German visitors. The Americans and Japanese will also recover their interest. We are expecting an annual increase regarding arrivals from Asia (China, Korea) and South America (Brazil). In total numbers, however, this prospective client group makes up a relatively small part of the visitors so far. Fewer visitors will arrive from southern Europe this year.

The total revenues of European hotels will slow down this year. The reason is the continuing economic decline in most economies. A drop is expected in London, which is expected in the post-Olympics period, and in Madrid. Hotels in Amsterdam, Brussels and Rome will also see a drop in revenues. Some cities, e.g. Saint Petersburg, Moscow or Frankfurt, will see continuing growth despite uncertain economic prospects. We can expect at least a modest increase in Berlin and Dublin.

The hotel industry will also be affected by the changing preferences of consumers, who will prefer to use cheaper accommodation for a shorter time in short-haul destinations this year. Also, the hotel industry is experiencing a digital revolution – the sharing of experiences on social networks or shopping via booking sites.



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An external expert can speed up the liquidation of an insurance event related to business interruption

The processing of insurance claims including business interruption is often lengthy, and companies can benefit from turning to an external expert who will help them go through the whole process and enable them to focus on the recovery of the business. An expert cooperates with the insurance company or broker to facilitate the claims process with the objective to receive the financial compensation as soon as possible and at the level covered by the insurance contract(s). During the filing process, an expert can negotiate about timely advance payments and help the company maintain cash flow during a critical period. Depending on the terms of the insurance contract, even the costs of external assistance during the recovery and insurance process can be covered.

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Tax

The rules for corrections of VAT on bad debts are changing

The tax administration has changed its opinion on the possibility to correct VAT on bad debts. This has happened with regard to the opinion of the Supreme Administrative Court (SAC) expressed in the judgement **9 Afs 69/2012 - 47** from 11 April 2013. The SAC concluded in its judgement that the correction of bad debts, which was allowed by the amendment to the VAT Act effective 1 April 2011, is not possible with respect to the debts which arose prior to that date. The respective amendment did not contain any transitional provision which would allow a correction of debts that arose prior to its taking effect.

With regard to the conclusion of the SAC, the General Financial Directorate (GFD) published a supplement to its earlier announcement on how to proceed with corrections to the VAT amount on debts from debtors in insolvency proceedings. The supplement confirms that the correction of the VAT amount according to Art. 44 of the VAT Act is not possible regarding debts that arose before 1 April 2011. At the same time, the GFD confirmed that the VAT corrections already performed regarding debts that arose prior to 1 April 2011 will not be assessed. The new approach will thus

apply purely to corrections performed after the publication of the supplement, i.e. after 26 April 2013.



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A selection of interesting court decisions

Reclassification of interest on dividends

The Supreme Administrative Court (SAC) has dealt with the question of whether or not the term „special relationship“ contained in the Treaty with Great Britain on the taxation of interest income can be identified with the concept of a „related person“ contained in the Czech law. In such a case, it would be possible to reclassify the interest in excess of the low capitalisation limit to a dividend, subject to withholding tax, both in accordance with the Czech national law and the relevant double tax treaty.

The SAC, however, came to the **conclusio (2 Afs 71/2012-87)** that these terms cannot be identified with each other, and the term „special relationship“ must therefore be proved separately.

The SAC remanded the case for further proceedings, thus complying with the taxpayer that challenged the incorrect qualification of interest.

Accuracy of transfer pricing determination

The SAC issued a decision (**1 Afs 99/2012-52**) that if a taxpayer submitted an additional tax return in which he declared a tax reduction as a result of changes to transfer pricing, it is primarily his obligation to prove the legitimacy of the reduction in the tax base and defend the incorrectness of the transfer pricing applied in the regular tax declaration.

Changes in the corporate structure in order to reduce the tax base

The SAC issued a decision (**5 Afs 34/2012-65**) that in cases where a change in the corporate structure leads to a substantial reduction in the tax base and at the same time there is no objective change in the duties of the taxpayer, this taxpayer must rationally justify the change in the tax base. In the case at hand, the taxpayer effectively transferred the tax base (rental income) to a company which applied the rental income against a tax loss. Then, the taxpayer purchased the company. The SAC expressed its opinion that, in this case, the taxpayer and the company can be seen as related persons as they formed a relationship largely for the purpose of affecting the tax base, so the court disputed the determination of the transfer pricing.



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Law

Parents will be able to terminate the employment of an underage person

A legal representative will be able to terminate the employment of an underage person. It will be possible under the new Civil Code (NCC). The NCC and the Labour Act (LA) allow underage persons to perform work under an employment contract provided that he has finished compulsory education and at the same time has reached 15 years of age. While an underage person will be able to conclude an employment contract himself, his legal representative will be able to intervene in the contract and terminate the employment contract or a contract for the performance of a function in the interests of protecting the underage person.

The termination of an employment contract or a contract for the performance of a function will be possible only in cases where the underage person is under 16 years of age and if it is in the interests of his education, development or health. In doing so, it will be necessary to ask the court to assent to such legal action, and it will take into account the opinion of the underage person.

This method of employment termination will be incorporated into the upcoming amendment to the LA and will be an addition to the existing options for employment termination now referred to in the Act.

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Accounting

Leasing accounting according to IFRS will change

In the future, all leases will be reported as an asset on the balance sheet of the lessee (the right to use the leased property), and at the same time the commitment to pay fees for the whole duration of the lease will be recognised. This has been confirmed by the second public draft to the comments about leasing accounting issued by the accounting standards boards (IASB and FASB) on 16 May. The IASB and FASB thus declared a commitment to eliminate the possibility of off-balance sheet corporate financing through operational leasing. It was not possible to find one universal accounting model that would be applicable to all types of contracts due to the wide range of relationships and business models covered by leasing. Therefore, the proposal comes with two accounting models. These differ according to whether a greater than insignificant value of the leased assets is consumed or not in the course of the lease.

You will need to continue to identify and distinguish between two types of leasing contracts and then select the appropriate accounting treatment. This aspect of the IASB and FASB's proposal is likely to become the most discussed topic among the professional public and both boards. The original ambition was to simplify the leasing accounting

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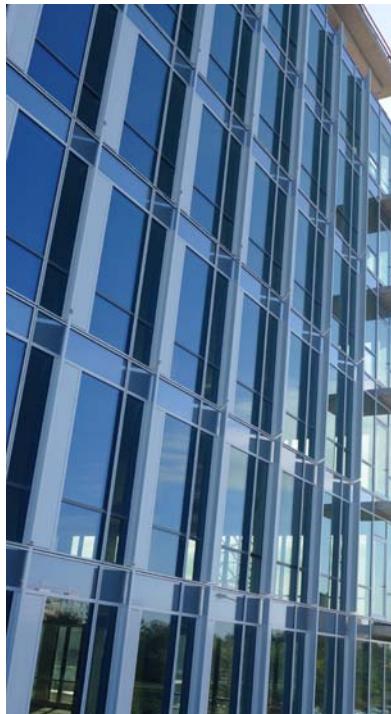
Accounting

rules, especially by unifying the reporting rules. The next few months will show whether and in what form the professional public will support this revised proposal and when we will be able to expect a new standard for leasing accounting according to IFRS.



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Employees

Croats are entering the EU: their conditions of employment in the Czech Republic are changing

Citizens of Croatia will no longer need a work permit or work visa to work in the Czech Republic after accession to the EU on 1 July 2013. They will be viewed the same way as citizens of other EU member states.

Now the Croats will only need to meet the information obligations of the employer at the labour office and acknowledge the temporary stay of an EU citizen in order to ensure a legitimate work stay in the Czech Republic. The processing of their stay formalities will thus be significantly easier.

By entry into the EU, Croatia does not automatically become part of the Schengen area, so border police checks will not disappear. However, there will be joint checks on some crossings with Slovenia and Hungary, so the passage will speed up. This will be appreciated mainly by tourists travelling to Croatia by car.



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The employment of family members of EU citizens

A marriage certificate is no longer considered to be sufficient proof for labour offices when announcing the entry into employment of family members of EU citizens (they do not need a work permit under the law). The temporary stay certificate in the form of the residence card of the EU citizen's family member is now required instead. This certificate is issued by the competent department of the Ministry of the Interior that consistently examines the applicant for the approval of applications for this type of stay irrespective of the country of origin. The approval of applications lasts up to three months in practice, and the Foreigners' Police perform personal checks of applicants in the place of their residence. These changes will require the processing of the standard work permit and work visa for persons who want to start work immediately after their arrival and who don't want to wait three months or more for confirmation of the temporary residence.

Study

Who is admired by the leaders of global firms?

Leaders of global firms most admire Winston Churchill and Steve Jobs. They made this known in the Global CEO survey conducted by PwC among 1,400 leaders of major companies around the world. At the same time, Winston Churchill is the most popular figure throughout Western Europe.

Approximately 60% of CEOs from around the world choose army leaders or post-war policymakers as models. The second most popular group consisted of leading business and historical personalities. Writers, artists, philosophers, sportsmen, religious leaders or fictional characters were less represented. Only 1% of respondents chose a colleague as a model.

The directors also mentioned 15 women among the leaders who inspire them. However, only Margaret Thatcher managed to fight her way into the top ten. Other frequently mentioned names were Angela Merkel, Ayn Rand, Mother Teresa and Queen Elizabeth I. However, women themselves were four times more likely to select another woman, rather than a man, as their model.

Top 10 leaders:

1. Winston Churchill
2. Steve Jobs
3. Mahatma Gandhi
4. Nelson Mandela
5. Jack Welch
6. Abraham Lincoln
7. Margaret Thatcher
8. Ronald Reagan
9. John F Kennedy
10. Bill Clinton/Napoleon Bonaparte



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