

Tax, Legal & Business News

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Tax, legal, accounting, advisory and assurance newsletter

September 2013

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Topic of the month

The Senate has rejected the tax related changes approved by the Chamber of Deputies

On Thursday 12 September, the Senate voted down the tax law changes concerning the recodification of the new Civil Code, which had been previously approved by the Chamber of Deputies before it was dissolved. Since the proposed tax law changes were connected with the new Civil Code and Commercial Code which will come into force in January 2014, this brings a high level of uncertainty to Czech tax system if no solution is found.

The Senate did not agree with some of the proposed changes, and since the Senate is only able to accept or reject the proposal as a whole, it finally decided to reject it. As the Chamber of Deputies has already been dissolved in the meantime, it cannot overrule the veto of the Senate.. Under these circumstances the whole legislative process has to start again.

At this moment, there are two ways of achieving the crucial legislation changes, which would make the tax law conform to the new Civil Code.

Firstly, the Senate could use its authority which it obtained after the dissolution of the Chamber of Deputies and adopt so called "legal measure". Such a "legal measure" would have the power of law. The "legal measure" would then have to be approved by the new Chamber of Deputies during its first meeting.

Secondly, it is possible to wait until a new Chamber of Deputies is elected and the Government will then propose the amendment of the law for new legislative process. In such a scenario, it is highly probable that the amendment of law would not be adopted by the end of the year. Therefore, it is more likely that the measure scenario will be carried out.



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PwC Academy is a founding member of the new Association of Business Service Leaders (ABSL)

PwC is proud to be one of the founding members of ABSL, the first ever Business Services Association for the Czech Republic. Business Services is one of the biggest employers in the country and the Czech market is the second biggest in CEE.

ABSL has been formed to drive and shape the business services environment in the country and has already been joined by 15 of the biggest service providers in Czech Republic. The Association will mark its launch with the first ABSL annual conference, which will be held in PwC on the 17th October 2013. For more information, please visit www.absl.cz.



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

Law

New regulation of investment companies

New Act on Investment Companies and Investment Funds (AICIF) came into force this August. It not only completely replaces the current Act on Collective Investment but it also implements a several EU directives (AIFMD, UCITS IV and proposal for UCITS V). AICIF is primarily intended to create an environment and regulation that would make the Czech Republic more attractive for domestic and foreign funds.

As a result of the implementation of the AIFMD directive, the regulation will also be extended to those bodies that did not fall under the regulation of the collective investment so far. All the entities that collect money or things appreciable by money from more investors for the purpose of joint investment will thus be regulated, unless expressly excluded by the new law. The purpose of the AIFMD directive is to also tighten up the asset management regime within the EU and bring back the assets of the European investors from off-shore destinations. Beginning 2015, the administrators of the alternative funds outside Europe are allowed to relocate the fund to EU by subordinating the fund under the AIFMD directive regime. Based on this relocation the fund shall obtain a so called European passport. This will allow them to offer their funds within the EU Member States.

New options and diversity of the investment

The new AICIF divides the funds to the public funds - collecting funds from public and non-public funds – collecting funds from qualified investors. This division is important in particular from the regulatory point of view, as the regulation and supervision of non-public funds is significantly weaker.

While the current legislation allowed only the use of joint-stock companies and mutual funds, AICIF will also allow, for example, a trust funds, 'a special' type of joint-stock company with variable registered capital (SIVAC type) or a partnership company issuing investment bills (SICAR type).

The 'mixture' of private investment funds and trust funds, known as the 'Czech trust', significantly expands the possibilities of its use in the management of private assets. Unlike the ordinary trust fund, the administrator of this investment trust fund would have to be the person authorized to manage the investment fund, i.e. the investment company or a foreign person with permission from the Czech National Bank.

The joint-stock company with variable registered capital will be another new option how to invest. This should allow the flexibility to change the amount of registered capital without the administrative and time-consuming 'ballast'. Only 'recorded registered capital'

will be recorded in the Commercial Register in practice and it will correspond to the amount deposited by the subscription of incorporation shares. The actual amount of registered capital will, however, be floating in relation to the subscription, respectively repurchase of investment shares.

Non-public investment funds will further benefit from possibility to use the partnership company issuing investment bills. The general partner in this type of company is liable for the debts without restraint while the limited partner(s) is (are) liable for the debts by the investment bills. The investment bills held by the limited partners are indefinitely and unconditionally transferable but with restrictions regarding their trading on the public market.

Conclusion

AICIF can be considered very modern legislation. Although a good portion of the new regulation is only a legislative and technical amendment to the existing regulations, the changes bring the whole area of the funds up to the standards of European fund centres.

The new legislation gives the fund business a high standard and modern regulation to provide qualified services that represent a great opportunity for the Czech Republic. Although one can assume that experienced investors and asset managers will prefer an area having a long lasting fund history and consistent

legislation for placing funds, it will be just the price of 'additional' services which will decide if the fund will be placed in Luxembourg or in the Czech Republic.



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Employees

Increase in minimum wage brings a number of changes

In accordance with Government Regulation, the minimum wage increased by CZK 500 to CZK 8 500 per month since August. This is the first increase to occur since 2007 and it will, for example, affect the following:

- increase in the minimum assessment base for health insurance payments: the premium payment for August is already increased to CZK 1,148:
 - for persons without taxable income
 - for employees on unpaid leave and with income from small-scale employment
- amount of state pensions exempt from tax from 2014
- from 2014, application of the tax advantage on the dependent child
- valorisation of the lowest level of the so called guaranteed wage

Employees

- allowance for work in a deteriorated working environment

If you are interested in the effects of the minimum wage increase on your specific conditions, please contact us.

How to correctly interpret the concept of work clothes?

In June, the Constitutional Court (CC) upheld the complaints of a company which did not tax the employees' allowances for work clothing where no indication of the employer was visible and clothes were freely available for purchase in normal trade network.

According to the CC, the interpretation of provisions of the law should not strictly follow the formal aspects. Thoughts should also be given to circumstances if such clothes can be considered as working clothes intended for the performance of the job.

It will be interesting to see how the courts will deal with this issue and what will be perceived as working clothes the provision of which is not subject to taxation or health insurance.

In the light of the subsequent judgment of another court in a similar case, it is, however, likely that any tax advantage will only cover a non-cash contribution and not a monetary payment.



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Employees

The amendment of the Foreigners' Stay Act shall simplify the immigration process

The Ministry of the Interior is now preparing an amendment to the existing law instead of the previously announced new Act on the Stay of Foreign Nationals which should have entered into effect during the next year.

This is mainly to ensure the implementation of the 2011/98/EU Directive of the European Parliament and the Council which

regulates the standard procedure when dealing with requests for a single work and residence permit for third-country nationals in Czech legislation.

The main aim of this directive is primarily to address critical labour shortages in certain professions which all EU countries are facing and further reduce the administrative burden associated with the immigration process, both on the sides of the employees and the employers.

The Ministry of the Interior will issue a new type of residence permit

- an employee card on the basis of this amendment. An employee card will have a dual nature, i.e. the residence and work permit at the same time. An employee card should among other replace the current immigration policy tool - a green card.

The expected effectiveness of the amendment is 20 December 2013.



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Study

Less than one quarter of countries uses double-entry bookkeeping which is common in each company in the 21st century

The PwC survey conducted in 100 countries showed that only 24% of them uses double-entry bookkeeping and thus accrual principles. Another 37% of countries plan to adopt this form of accounting in the next five years.

Most countries still rely on cash accounting, thus records of income and expenditure do not capture information about the assets and liabilities of the public sector and therefore only provide a very short-term perspective on the state of public finances.

The biggest wave in the transition to a double-entry bookkeeping is expected in developing countries. This trend is led by African countries (11), followed by Asian countries (10) and Latin American countries (8). The individual countries expect that mainly citizens (77%) and politicians (69%) will benefit from the accounting reforms. Governments can achieve a greater degree of transparency and accountability through this step and offer a better basis for decision-making processes. The transition to a new accounting system should lead to a better management of public funds. Financial statements at the state level must reflect the economic implications of political decisions even with those risks that will have an impact on the potential liabilities of the state in the future.

The Czech Republic is among those progressive countries thanks to on-going reforms in public sector accounting because it has introduced a standard accounting methods in the public sector since 2010 and has begun to prepare consolidated financial statements for the entire government sector.



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The Academy

Tax Academy – tax in a new package!

We have prepared this special nine-day programme to help you easily understand fundamental principles, processes, current procedures and specific terminology in the field of Czech and international tax practices. The programme is focused on several main topics – it consists of five modules, which will introduce you to problematic issues of each topic:

| | | |
|----------|--------------------------------------|------------------------|
| Module 1 | Direct Taxation I | 7. – 8. října 2013 |
| Module 2 | Direct Taxation II | 14. – 15. října 2013 |
| Module 3 | Principles of International Taxation | 21. – 22. října 2013 |
| Module 4 | Indirect Taxation and Customs | 4. – 5. listopadu 2013 |
| Module 5 | General Tax Administration | 26. listopadu 2013 |

Who should attend?

This course is recommended to all those who want to gain complex and practical knowledge from respected experts in the tax area. The programme is aimed not only at beginners but also at those who don't want to miss the important nuts and bolts of the taxation system and need to gain a comprehensive overview of this area.

Benefits of the Tax Academy?

- The quality is guaranteed as this programme is part of our internal learning and development schedule – now we want to offer it to the Czech market as well.
- The programme is unique on the Czech market – you will have a chance to understand all crucial topics thanks to practical case studies that our international PwC network has at its disposal; thanks to practical illustrative examples, you will be able to apply this newly acquired knowledge in practice immediately.
- After each of the modules, you will have a free chance to pass a test; and after completing the programme, you will receive a PwC certification stating that your level of expertise is the same as one of PwC's tax experts.

The programme will be delivered in the Czech language in the premises of City Green Court, Hvězdova 1734/2c, Praha 4.

Price: CZK 65 000 + VAT

Special price*: CZK 55 000 + VAT

Do you want to know more?

For more information and registration, please visit our webpage www.pwc.cz/academy. Should you have any questions, please write an email to the.academy@cz.pwc.com or contact **Darii Šaškovou**, tel.: +420 251 152 446.

www.pwc.cz/academy

„In PwC we have been offering our Tax Academy - a continuous education in local and international taxation - to our tax professionals for about 10 years. We have decided to offer and share this unique PwC training experience with our clients to help them develop, retain and motivate their junior tax specialists throughout their respective careers.

This training concept is different from the tax courses available in the market. We put together small groups of people composed of individuals from other companies as well as PwC employees. The course is delivered by our experienced professional trainers who devote sufficient time to theory as well as practice. Participants can network, learn from each other and/or together for the exams.



Peter Chrenko

Leading partner
of Tax and Legal
Services

We invite you

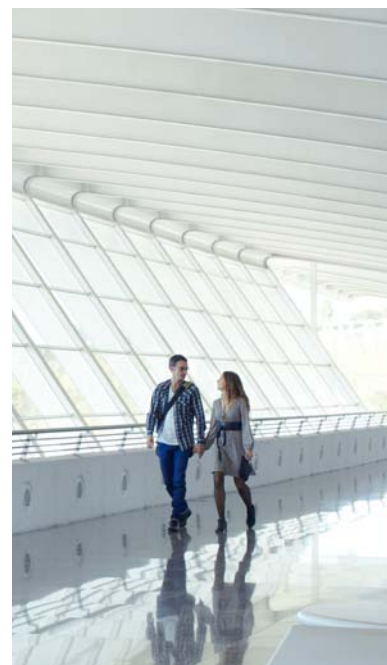
- 19 Sep 2013 in Prague,
Summer academy:
**News in the regulation
area (FATCA, NOZ, etc.)**

Registration:
www.pwc.cz/letniakademie

- 3 Oct 2013 in Prague,
Summer academy:
**Business strategy
for SME segment**

Registration:
www.pwc.cz/letniakademie

These events are in Czech. Details
available at www.pwc.cz/events



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