

# Tax Flash

Tax 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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## Czech Republic

4 December 2014

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## Czech Republic: Final version of mandatory reporting of related party transactions

On 28 November 2014, the Czech tax administration published on its website **the final version of the form** for the new reporting obligation for legal entities that participate in transactions with related parties. Taxpayers will be obliged to file a separate **disclosure form – “Overview of Transactions with Related Parties”** – together with the corporate income tax return (“CITR”). This disclosure form will be required for the taxable period starting on or after 1 January 2014 and later periods.

The disclosure of related party transactions will be required for those legal entities that meet at least one of the following conditions for the statutory audit in the respective taxable period:

- Total assets exceeding CZK 40 million (approx. EUR 1.5 million)
- Net turnover exceeding CZK 80 million (approx. EUR 3 million) per year
- Average number of employees exceeding 50

and at the same time:

- The taxpayer participated in transaction(s) with a related party based outside the Czech Republic; or
- The taxpayer reported a loss in the respective taxable period and participated in transaction(s) with a related party (domestic and/or foreign); or
- The taxpayer is a recipient of investment incentives in the form of tax relief and participated in transaction(s) with a related party (domestic and/or foreign).

The reporting obligation **will not** apply to financial institutions and Czech permanent establishments of foreign entities.

Taxpayers will need to prepare a separate disclosure form **for each related party**, regardless of the number or materiality of transactions with that particular related party.

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The disclosure form includes basic information about the related party, its name, place of residence (i.e. country) and tax identification number. It includes the following information regarding the volume of transactions with the related party:

- Purchase / sale of long-term assets;
- Purchase / sale of stocks of material, products and goods;
- Provision / receipt of services;
- Royalties (incl. software) received / paid;
- Interest received / paid;
- Credit financial instruments received / paid;
- Shares of profits received / paid;
- Resources received / provided free of charge;
- Use of cash-pooling; and / or
- Receivables and payables with related parties.

## Summary

The disclosure of related party transactions will be used by the Czech tax administration as part of a **risk analysis when selecting entities for a tax audit**. It is expected that the tax audits will be less burdensome for tax entities whose related party transactions are **properly documented** and set up in accordance with the law and the internationally accepted arm's length principle.

For a discussion of how this new activity of the tax authorities may affect your business, please contact our transfer pricing experts:



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