

# Tax, Legal & Business News

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Tax, legal, accounting, advisory and assurance newsletter

February 2014

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## Topic of the month

### Tax news planned by the new coalition

The government three-coalition has published the text of the Coalition Treaty which, among other things, outlines what tax news awaits us in the coming years. The Coalition Treaty brings rather positive messages such as not raising income taxes. On the other hand, it is likely that the tax exemption for dividends will not be put in place, which should have been the case from 2015.

The coalition plans to introduce a reduced VAT rate on pharmaceuticals, books, nappies and children's nutrition; increase the taxation on gambling and re-introduce the tax relief for working pensioners from 2015. The government is also planning to abolish the concept of the super-gross wage and the solidarity tax and introduce a second tax rate for the personal income tax instead.

The planned restrictions regarding the amount of the lump-sum costs for the self-employed are

also a substantial change for small entrepreneurs as well as the introduction of a rule according to which the self-employed who do not show a profit from their business in the long term will not be entitled to tax advantages.

The government coalition also plans to cancel the previously approved amendments to the Income Taxes Act, which originally introduced the so-called one collection point from 2015 and unified the submission of personal income tax returns and insurance premiums on health and social insurance. The abolition of this amendment will also bury the exemption of dividends and shares in profits from tax, as this was part of the amendment.



David Musil  
+420 251 152 722

### Tax advisers of the year from PwC ČR

The results of **Era Tax Advisor & Tax Firm of 2013** poll were announced on Friday 24 January 2014. **Tomáš Urbášek**, Director in the Tax and Legal Department of the Brno Office of PwC Czech Republic, was among the awarded individuals and was declared the **Tax Star of 2013 in the Corporate Income Tax category**.

**David Borkovec**, Partner in the Tax and Legal Department of PwC Czech Republic, was also among the awarded individuals and defended his **Tax Star award in the Transfer Pricing category**.

**Tomáš Hunal**, Senior Manager in the Tax and Legal Department of PwC Czech Republic, won a place in the Dream Tax Advisory Firm that consists of the professionals that received the highest number of votes.



David Borkovec  
+420 251 152 561



Tomáš Hunal  
+420 251 152 516



Tomáš Urbášek  
+420 542 520 255



If you are interested in receiving Tax, Legal & Business News, please contact [Michal Horáček](mailto:michal.horacek@cz.pwc.com), [michal.horacek@cz.pwc.com](mailto:michal.horacek@cz.pwc.com).

## Tax

### News for VAT payers in Slovakia

All VAT payers in Slovakia are obliged to communicate with the tax and customs administrations only electronically from 1 January 2014. This can be done either via an advanced electronic signature or without it provided they have concluded an Agreement on Electronic Delivery with the respective authorities.

At the same time, VAT payers registered in Slovakia have a new liability to submit the **Local Listing** in an electronic format from 1 January 2014. This report must list in detail all issued and received invoices for domestic transactions. Thus, the Local Listing does not have to contain transactions that are not reported in other reports such as the EC Sales List or the central register of SADs. The deadline for submitting the Local Listing is the same as the deadline for submitting VAT returns – the 25th day of the month following the respective taxable period. If the liability of filing the Local Listing is breached repeatedly, a penalty of up to EUR 100,000 may be imposed.

### Will the recipient of a supply report the VAT also in the case of further commodities?

An amendment to the EU VAT Directive will extend the list of commodities for which member states can apply the local reverse charge, i.e. the regime of transferring the liability to pay and report the VAT to the recipient of the supply without a previous approval from the EU Commission. The supply of the following

commodities can be subject to the local reverse charge – mobile phones, integrated circuit devices, gas and electricity, defined telecommunication services, game consoles, tablets and laptops, cereals and industrial crops, and raw and semi-finished metals. The above measures can be accepted by a member state for a minimum period of two years, but by the end of 2018 maximum.



Martin Diviš  
+420 251 152 574

## Law

### Concerns: a new opportunity or a threat to statutory bodies?

The new legislation brings a new approach to the regulation of concerns from 1 January 2014. All persons who are subject to the common management of a controlling person are now considered a concern without exception. The actual status is thus decided when the controlling person is able to assert its interests in the long term and influence the business of each company.

The statutory bodies of the companies that are part of the concern as well as the controlling person are responsible for the damage that occurs to 'their' companies within the concern. You can, however, be released from this unpleasant liability. First, the statutory body must publish the membership of the company in the concern. Second, it is necessary to prove

## Law

that the given damage will be settled within the concern. The settlement can be reasonable compensation or another demonstrable benefit of the company resulting from membership in the concern.

The law no longer requires an auditor's verification of the Related Party Transaction Report, which raises the statutory body's responsibility for the content of the report. However, this relief applies only to the reports for 2014 and only for the companies that will accept the new regulation.

Therefore, ask yourself the following questions. Are you part of a concern? How can you prove its existence? How can you prove the damage settlement and what it is a demonstrable benefit? What documentation do you need to prepare? And how does it all relate to the issue of transfer pricing?

Do you have answers to any of the above questions? We can help with the rest. It is necessary to produce quality legal and tax documentation to correctly set up a functional concern, taking advantage of its benefits and minimising the risks of the statutory body. Please contact us for more information.



Ondřej Plánička  
+420 251 152 934



Zenon Folwarczny  
+420 251 152 580

## Employees

### Contractual foreign employees are socially insured from the very first day

Beginning 1 January 2014, employers must pay Czech social insurance for contractual foreign employees from the very first day. Previously, this obligation arose only after the expiry of a 270-day period if the foreign employees were involved in the compulsory pension insurance in their home country and documented this fact in the Czech Republic. A contractual foreign employee is an employee who was sent to work in the Czech Republic under an international hire of labour agreement from a non-EU country with which the Czech Republic has not concluded an international agreement on social insurance (currently, e.g. Russia, India or China).

Jaroslava Špinarová  
+420 251 152 608

Tomáš Hunal  
+420 251 152 516

### The government approved the proposed Act on Children's Groups

One of the last acts of Prime Minister Rusnok's government was a re-approval of a draft law allowing the establishment of children's groups. Its intention is to facilitate the early return of employed parents to work.

Employees would newly be able to deduct expenses for nursery schools in the form of a discount on income tax. The annual

discount should be up to the amount of the minimum wage for each child placed in the care of a children's preschool facility, including children's groups. Employers will be able to recognise the costs of providing care for the employees' children as tax-effective. The number of children can be—depending on the number of caregivers, the available premises or sanitary equipment—up to 24 in a single children's group.

### Wage compensation period for employers has been shortened

From January 2014, employers are obliged to pay compensation for wages to their employees that were recognised as temporarily disabled for work for the period of the first 14 calendar days of the incapacity for work, instead of the previous 21 days. This is a return to the situation that was in place in 2010 before the adoption of saving measures, which temporarily extended the provision of compensation for wages by the employer from 14 to 21 days. The rule that the compensation for wages does not apply for the first three days of illness continues to apply. This change can save resources for employers with a high proportion of workers who are ill for more than 2 weeks.



Tomáš Hunal  
+420 251 152 516

## Employees

### Work permit: how and when to authenticate the proof of education

The Labour Office (Prague regional branch) confirmed that foreign nationals applying for work permits no longer need to present the authenticated proof of education. Authenticated proof of education will continue to be required only if the applicant wishes to perform a job on the list of the Ministry of Labour and Social Affairs as a regulated profession in the territory of the Czech Republic or in the event that the foreign national asks for a blue or green card.

In this context, we would like to inform you that the activity of the University Education Centre was terminated at the end of last year. This organisation was a great help in the process of recognising university education equivalence. Applicants for a work permit who must submit an authenticated diploma are now dependent on a lengthier authentication process led by public universities.

Authentication, i.e. a certificate of recognition of a foreign education degree for foreign nationals, has so far been required from almost all applicants for a work permit, with the exception of employees transferred within the same company or foreign nationals occupying leading and management positions.



**Jana Zelová**  
+420 251 152 567

### Employees who are required to pay the “solidarity tax” will have to submit a tax return for 2013!

Employees with income higher than **CZK 103,536** per month are liable to pay a **7% solidarity tax**.

These workers will also be obliged to submit a tax return and will no longer be able to get an annual tax settlement from their employer in addition to the obligation to pay the solidarity tax.

This obligation will also apply to employees who, for example, received a bonus and are thus obliged to pay the solidarity tax only for one month.

#### Have you thought about it?

- How can you help your employees?
- How are other companies dealing with this issue?
- How will this change be reflected in the tasks of HR departments?
- What is your company obliged to do according to the law?

Please contact us for more information.



**Tomáš Hunal**  
+420 251 152 516

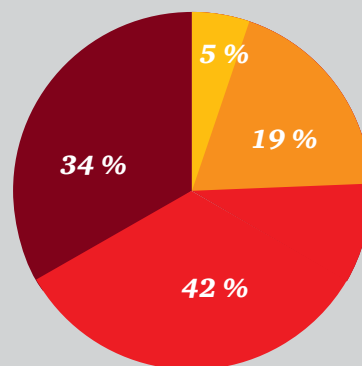
## Study

### Czech CEOs expect growth on the domestic market

PwC Czech Republic's fifth survey of the views of 140 Czech CEOs of major domestic companies showed that 95% of them believe that sales will grow at least partially over the next three years. Three-quarters (76%) of the CEOs of the most important companies operating on the Czech market expect sales to rise as early as this year. It was 60% last year. One-third (34%) of CEOs are really sure about their company's growth this year compared to 22% last year.

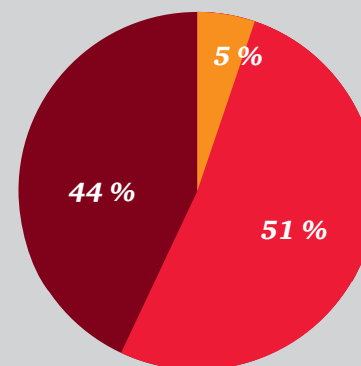
But the CEOs are still careful despite the relative optimism. They saw major growth opportunities abroad last year whereas this year they see them on the domestic market (31%). However, they will not leave the positions captured abroad: according to the CEOs, these existing foreign markets represent the second most frequent opportunity (20%). These opportunities are followed by the development of a new product or service (19%), and geographic expansion is next but with a great distance (9%).

#### Do CEOs expect the growth of their companies' profits over the next 12 months/3 years?



#### 12 months

- 34 % I definitely expect it
- 5 % I do not expect it at all
- 19 % I rather do not expect it
- 42 % I somewhat expect it



#### 3 years

- 44 % I definitely expect it
- 5 % I rather do not expect it
- 51 % I somewhat expect it



*„Companies are betting on greater certainty in the form of the known markets. Our experience from cooperation with the Czech companies shows that entry to a foreign market represents a crucial decision in the life of the company. To handle the new business environment, a different tax or legal system and specific customer requirements means a long-term investment—and not just financial—that requires courage. And they should be encouraged by the expected recovery of the Czech and the global economies.“*

Jiří Moser,  
Country Managing Partner,  
PwC Czech Republic





Topic of the month

Tax

Law

Employees

Study

The Academy

We invite you

## The Academy

### Trading companies and re-codification of private law

The seminar will take you through the re-codification of private law, mainly the new Civil Code and the Act on Commercial Corporations. The particular examples will help you get oriented in the regulations effective from 2014. We will introduce you to the fundamental parts of the re-codification, the extent of the changes and new terminology in the morning. The seminar will further be focused on the new contractual relations rules and their practical application, including the impact of a breach of the statutory and/or contractual obligations. In the afternoon, you'll learn what's new in the area of real estate, property rights, amendments relating to trading companies according to the Act on Commercial Corporations and changes in the liability and the guarantee of the statutory bodies.

Date: 20 March 2014, 9.00 – 16.30

Venue: PwC, Hvězdova 1734/2c, Prague 4

Language: czech

Price: CZK 4 900 + VAT

### How to reserve a place?

For more information and registration, please visit our webpage [www.pwc.cz/academy](http://www.pwc.cz/academy). Should you have any questions, please write an email to [the.academy@cz.pwc.com](mailto:the.academy@cz.pwc.com) or contact Daria Šašková, tel.: +420 251 152 446.

[www.pwc.cz/academy](http://www.pwc.cz/academy)

## We invite you

### Festival Česká inovace 2014 - Czech Innovation 2014 festival

14 March 2014 in Prague, 9:00 - 19:00

National Technical Library, Technická 6/2710, Prague 6

More information at: [www.festival-cin.cz](http://www.festival-cin.cz)

PwC is a partner of this event.

### 10th International Conference on Safety Management 2014

24 April 2014 in Prague, 9:00-19:00

Dorint Don Giovanni Prague, Vinohradská 157a, Prague 3

Registration: [www.kbm2014.cz](http://www.kbm2014.cz)

PwC is a partner of the event

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## 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

### Michael Mullen

PwC Legal Partner  
+420 251 152 700

### 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

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