

Tax, Legal & Business News

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Tax, legal, accounting, advisory and assurance newsletter

October/November 2014

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(known from our mobile application)



Tax

Amendment to the Income Taxes Act is moving on to the Senate

Six months of experience have shown the problems that arose by incorporating the inheritance and gift taxes under the income tax regime and by amending the Civil Code. One of the goals of the amendment is to correct that oversight, be it factual or conceptual. The amendment significantly affects investment funds – the current regime with the advantageous 5% income tax rate will basically be preserved only for publically accessible funds, while the others will be seen as regular corporate taxpayers with a 19% rate.

Among other things, the amendment also touches on the following items:

- Dissolution of a reserve fund falls under the same regime as a reduction in share capital.
- Tax neutrality will also be guaranteed for multiple mergers and similar transformations.
- Taxpayers will no longer be limited in any way in additional loss claims and other deductions (before it was possible only if the tax base was at least CZK 1,000), but any penalties will be calculated from the original

amounts before their additional adjustments.

- The possibility to change tax non-deductible costs to deductible ones will be narrowed only to re invoicing, if a directly related income exists.
- The application of benefits in, for example, the realm of taxation of dividends and capital gains in relation to Iceland, Norway and Switzerland is extended to Liechtenstein at the moment when the recently agreed double taxation treaty takes effect.
- In the case of asset contributions, it is possible to increase the overtaken tax entry price for depreciation by e.g. the tax from acquisition of assets.
- The definition of financial leasing will be improved with the aim of zooming in on its economic substance. If a leasing agreement is concluded for a shorter period than that defined for financial leasing, it will be considered as a contract on operational leasing.
- The period after which a 100% provision for non-statute-barred receivables can be created under § 8a of the Act on Reserves will be shortened to 30 months.

If the amendment gets through the legislative process, it will take effect on 1 January 2015, with the possibility of

already making use of some provisions for the 2014 tax period.



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Tax administration has transfer prices in its sights

The Czech tax administration announced the introduction of a new reporting obligation for legal entities who participate in transactions with related parties and who fulfil set conditions. These conditions are as follows:

- The entity's total asset value exceeds CZK 40 million, or its net turnover exceeds CZK 80 million, or its average FTE is over 50, and at the same time the entity has carried out transactions with related parties who are seated abroad.
- The entity has shown a loss in the tax return and has at the same time carried out transactions with related parties.
- The entity holds a pledge for investment incentives and uses tax credits according

to § 35a and 35b of the Income Taxes Act and has at the same time carried out transactions with related parties.

Starting from the 2014 tax period, when filing the corporate income tax return the taxpayer must also fill in a separate supplement on an overview of transactions with related parties. The taxpayer should fill in a separate supplement for each related party, regardless of the amount and materiality of the transaction with the party.

The Czech tax administration will use this supplement within the scope of risk analysis when choosing taxpayers for a tax audit. Based on the information we have, the tax administration is focused on increasing the selection of taxes within transfer prices (its goal is to choose 5 billion a year), thereby strengthening its analytical tools and capabilities.

We expect that the number of tax audits by the tax administration in the area of transfer prices will go up, and they will be focused on areas of greater risk and the specific transactions included in the supplement.



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If you are interested in receiving Tax, Legal & Business News, please contact Michal Horáček, michal.horacek@cz.pwc.com.

Tax

OECD transfer pricing guidelines: documentation and intangible assets

On 16 September, the OECD published transfer pricing guidelines related to transfer pricing documentation and intangible assets.

The OECD is proposing a three-stage approach to transfer pricing documentation, comprising the so-called Masterfile (documentation at the group level), local documentation and country-by-country (CbC) reporting. CbC reporting will be implemented at the level of the ultimate parent company in the group and will include the following data for all group companies, depending on their jurisdictions: revenues (from transactions with both related and unrelated parties), profit before tax, income tax paid, amount of own equity, earnings from previous years, number of employees and tangible assets. Some of the rules will probably be implemented into the legislation of OECD member states. So it will be necessary to state more information in the transfer pricing documentation than what is now recommended by guideline D-334 of the Ministry of Finance.

The OECD also did a revision of the chapter on intangible assets. According to the OECD, its interpretation is broader than how it's understood in common practice or defined in Czech accounting. For assigning corresponding profit arising from a given intangible asset of the respective group company, from the transfer pricing perspective, it is necessary to take into account not only its ownership but also who performs the function connected to development, maintenance and protection

of the intangible asset and who bears and controls the related risk.



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Registration with the single administrative point for VAT has begun

The Czech tax administration has launched the online registration form for the single administrative point for VAT for both the EU regime and the non-EU regime. The registration form for the non-EU regime has been prepared in a Czech-English version.

This regime concerns providers of electronic and telecommunications services and radio and television broadcasting services for end customers (B2C), which from 1 January 2015 will be taxed in individual EU member states according to the place of residence of the end customer. If the company providing these services doesn't want to register for VAT in each individual EU member state, it can register for the single administrative point regime in the country where it's seated, or for companies seated outside the EU, in any EU member state.



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Employees

Significant tightening of the conditions for exempting employer contributions to life insurance

According to an amendment to the Income Taxes Act, the conditions for exempting employer contributions to life insurance and for applying tax deductions for contributions paid by employees will be significantly tightened. From 1 January 2015, insurance contracts will no longer be able to facilitate payment of another income that isn't an insurance payment and that doesn't constitute termination of an insurance contract. If the possibility of these payments is stipulated in the insurance contract, the exemption automatically disappears. The amendment still has to be approved by the Senate.



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Confirmed – pensioners can apply for tax relief for 2013

The financial administration confirmed that old-age pensioners can apply for tax relief for the year 2013, even retrospectively. They can apply for the relief during the usual tax assessment period, which lasts three years, either with the employer or in the regular or additional tax return. This is the financial administration's reaction to the findings of the Constitutional Court which we informed you about on 26 September 2014 via the mobile application.



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Training

Czech companies with the potential to expand abroad will particularly welcome the news of the amendment to the Act on Foreigners' Residence, when the stays are for the purpose of increasing skills and qualifications in trainings. Until now, the Czech Republic hasn't had any relevant and effective tool within the immigration process that would allow local companies to invite staff from their foreign branches (non-EU, e.g. from China, India or the USA) for preparation or trainings, so that at the same time they wouldn't have such a lengthy process for work and residence permits. A similar problem was being addressed by multinational corporations

that have set up a rotation program for their talented workers, within which employees get progressively acquainted with the professional environment in more than four countries around the world and get several months of experience in each country.

But the current amendment is still very general. We're still missing the specifics on how the government will decide on the ways to categorise seconded employees in the regime of workers in training. We expect that the conditions will be further specified. We also assume that a company that will be able to train foreign workers will have to prove that it has the tools (an education programme) and processes to do so.



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Study

The quality of a company's reports strongly influences its assessment in the eyes of investors

Four out of five (80%) investment professionals consider the quality of corporate reporting in assessing how well the company is managed. Almost two-thirds of the 85 investment professionals in a global PwC study indicated that the quality of corporate reporting directly influences a company's cost of capital.

Companies don't just fulfil regulatory requirements with their financial statements; they also create their own image in the eyes of investors, banks and the public. So the difference between high quality and low quality reporting can represent the interest rates at which they are willing to offer financing to companies.

91% of respondents said that when performing their analyses they also work with companies' annual reports. These remain a valuable tool not only for financial information, but also for a company's approach to human resource management, the environment and social issues.

The study also provided a range of other important findings:

- 82% of respondents stated that when companies present information clearly and concisely, they feel more confident in their analyses.
- 70% of respondents consider business model disclosures as an important part of high quality reporting.
- 80% of investment professionals pointed out that they need to have information on a company's overall strategy in order to correctly understand its business model.
- Only 14% of respondents think that companies offer them enough information on future strategic plans to allow the respondents to make their judgements.
- 87% of respondents indicated that for their analyses it's very important to see clear links between a company's strategic goals, risks and the financial statements.

You can find out more at www.pwc.com/corporatereporting.



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Volunteers from the Brno office of PwC CR cleaned up a part of the Palava Landscape Protected Area

Twenty auditors and tax consultants from the Brno office of PwC CR used their volunteering day to clean up the Palava protected nature reserve for the third time.

On this day, thanks to the cooperation with the Nature Conservation Agency of the Czech Republic and the management of the Palava Landscape Protected Area, they cleaned up the steppes of a limestone quarry on the Holy Hill of Mikulov, more specifically in the protected area of the Holy Hill nature reserve.

Instead of working at their computers, the employees were clearing away up to 1,000 square metres of rosehip and blackthorn cuttings and other bushes and trees. With this kind of maintenance and care they have ensured better conditions for the occurrence of protected plants and insects in the next season. What's more, they removed unsuitable stones and even disposed of some blackened campfire rings on up to one hectare of the quarry.

You can find more information on our CSR activities at www.pwc.cz/odpovednost.



Tax Manager Tomáš Ráček together with colleagues remove and dispose of undesirable bushes under the supervision of the administrator of the Palava Landscape Protected Area.

We invite you

Seminar: Changes in VAT from 2015

19.11.2014 8:30am-12pm

PwC Prague office

Registration:

dph.seminare@cz.pwc.com

Seminar: Developments in transfer pricing

24.11.2014 9am-12pm

Holiday Inn Brno

Registration:

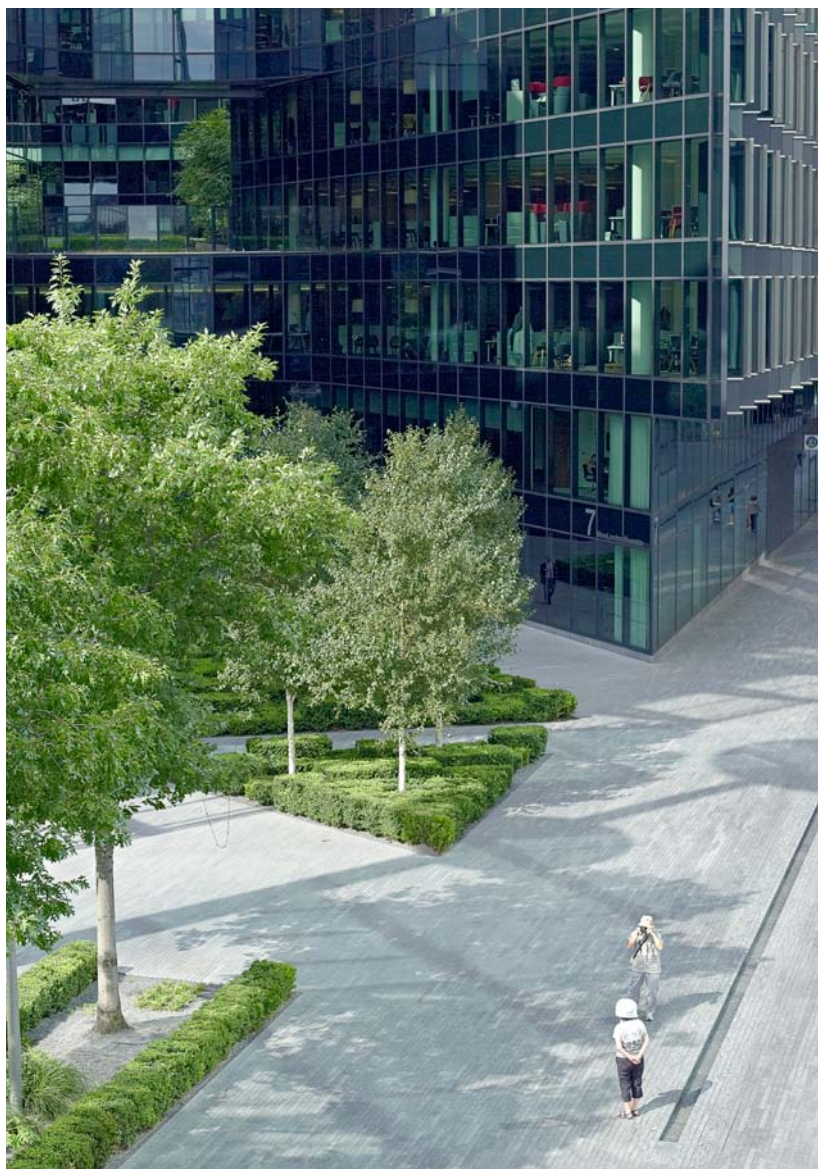
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The Academy

November IFRS seminars

You can look forward to several seminars on IFRS standards in November:

- 18 November 2014: Financial tools – IAS 32, IAS 39 and IFRS 7
- 20 November 2014: IFRS – news for 2014; new and amended standards valid for 2014
- 24 November 2014: Hedge accounting – a practical perspective on using hedge accounting in compliance with IAS 39
- 25 November 2014: Cash Flow, or how to compile a statement on cash flows using the indirect method (half-day seminar).

Venue: City Green Court, Hvězdova 1734/2c, Prague 4

Language: český

Price for a one-day seminar: CZK 6,900 + VAT

Price for a half-day seminar: CZK 3,900 + VAT

How to reserve a place?

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 Daria Zmatlíková, tel.: +420 251 152 446.

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