

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

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Local reverse charge mechanism starting from 1 April 2015

On 11 March, the General Financial Directorate (GFD) published information about the application of the local reverse charge mechanism on selected products in the years 2015 and 2016 (**regime**).

The information confirms that the threshold of CZK 100,000 for application of the regime needs to be applied to the total value of the selected supplied goods. It further provides guidance on how to deal with special situations, such as receipt of an advance payment or correction of the VAT base.

The way of taxing the received advance payment will depend on the total value of the supplied goods. If the VAT base exceeds CZK 100,000, the regime will apply to each received advance payment even if it is lower than **CZK 100,000**.

In case of corrective tax documents (credit or debit notes), the local reverse charge mechanism will always apply provided it was already applied to the original supply. If the regime did not apply to the original supply, then its application in case of debit notes depends on the total value of the supplied goods after correction (i.e. after reflecting all previous VAT base corrections). If this amount exceeds **CZK 100,000**, the regime will apply to the debit note by which this threshold is exceeded.

There is also a specific treatment in case of volume rebates and other discounts that relate to more individual supplies in which some of them were subject to the local reverse charge mechanism and some of them were not (e.g. for not

reaching the threshold). In justified cases, it is possible for **both the supplier and the customer to agree on the treatment**, i.e. they can either agree to apply the regular taxation or to apply the local reverse charge.

For the sake of completeness, we would like to point out that the regime will start from **1 April 2015** and will concern for example supplies of cereals, industrial crops, selected metals, mobile phones, integrated circuits, laptops, tablets or gaming consoles. Starting on 1 September 2015, it will be further extended to the supply of sugar beets.

The exact range of products that will be subject to the regime is specified by the governmental decree no. 361/2014 coll. In case VAT payers are not entirely sure whether the regime applies, they can ask the GFD for a binding ruling or make use of the legal fiction incorporated in the Czech VAT Act. This specifies that in case of doubts, it is possible to apply the regime provided that both parties agreed to its use as they have reasonable assumptions for doing so.

