

# Tax, Legal & Business News

www.pwc.cz/tbn

Tax, legal, accounting, advisory and assurance newsletter

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 (known from our mobile application)



## Tax

### ***Amendment to the Investment Incentives Act brings new possibilities for applicants***

The planned amendment to the Investment Incentives Act, which should take effect on 1 May, brings a range of advantages and new possibilities for interested parties. First they will expand the circle of possible recipients of investment incentives to include data centres and customer support centres. Next they will increase support for the creation of new employment positions up to CZK 300,000 for one newly created position, and they will expand the number of areas where this support can be used. What's more, a completely new form of incentives will be introduced – an exemption from tax on immovable assets. The amendment also reduces the administrative burden connected with submitting a request for investment incentives by cancelling the condition of having a minimum part of the investment financed by own sources as well as some supplements which

were required until now.

Now, however, it will be obligatory to submit a declaration that during the last two years before submitting the request the applicant hasn't concluded an identical activity carried out in the European Economic Area which will now be supported by incentives in the Czech Republic.

For current incentive recipients, it's crucial that the amendment reduces some sanctions and restrictions, especially in the areas of transfer pricing and company transformations. Breaching the established conditions in these areas will now no longer lead to a total loss of investment incentives. On the other hand, the amendment unequivocally provides that incentive recipients have to fulfil the special conditions (especially the minimisation of the tax base) after first fulfilling the general conditions.

The amendment passed the third reading in the Chamber of Deputies with minor proposed modifications.



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### ***TRANSFER PRICING Watch out for service fees***

In January 2015, the OECD published a commentary which it obtained from the public in connection with the proposal for changes in Chapter VII of the OECD Transfer Pricing Guidelines, which deals with services with low added value. Multinational companies often encounter these services, but they only rarely appear among independent businesses. But even these are subject to the transfer pricing rules. Thus, the OECD proposed the issuance of further instructions in the following six areas:

- The definition of intercompany services with low added value
- Specification of shareholder activities and duplicate costs
- Fair surcharges on costs
- Appropriate cost allocation keys
- Performance of a simplified benefit test
- Requirements for documentation of intercompany services with low added value

The revision of this chapter of the OECD Guidelines will also be reflected in the Czech practice. But at the same time, it will touch on a wider spectrum of transactions than Instruction D-6 of the General Financial Directorate.

The final wording of Chapter VII is expected in September 2015.

### ***Adapting to BEPS requirements***

Tax audits carried out by the tax authorities are now more stringent than before. This is one of the main reasons why companies are starting to proactively introduce changes in reaction to the OECD BEPS project. The results of a study by the global PwC network indicate a careful and uncertain anticipation in introducing the BEPS rules in individual states. From the study emerge definite fears regarding one-sided arrangements in countries that are not waiting for the final version of the BEPS rules. Some companies are waiting for further developments, while others are already proactively effecting a greater transparency towards the tax authorities and the public, with the expectation of changes in the area of transfer pricing legislation and the fact that the tax authorities are taking a stricter stance in tax audits.



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## Tax

### Children's groups benefit both employees and employers

Many companies have qualified employees who are at the age when they are deciding whether to become parents. Nowadays however the parent has to go back to work soon after the birth of the child so as not to lose professional contact or a work position. The new law on children's groups can help resolve this situation; it enables employers to set up a children's group and help employees harmonise their work life with the care of their children.

Besides the possibility for parents to go back to work earlier, a children's group also offers tax advantages for employers as well as the possibility for employees to apply a tax relief. For the founder, expenses for setting up and running the group are tax-deductible. Parents who use the services and pay even a proportion of the expenses will be able to claim the tax relief. The employer can finance the group in full or can offload the costs to parents partially or fully.

Establishing a children's group is much easier than establishing a corporate preschool. Corporate preschools are burdened with strict hygiene, safety and education requirements. Children's groups have looser rules, and almost any employer can establish one either on its own or in cooperation with other companies or communities. Moreover, a children's group can fill in for a shortage of daycare centres because even toddlers can be taken care of there. The technical requirements for construction are not demanding. Simply put, even a conference room on your company's premises could serve this purpose.

An employer offering this benefit to employees will not only enjoy the advantages of parents (especially women) coming back to work more quickly after parental leave, but it can also present this benefit as an example of being a socially responsible company and a magnet for qualified employees who are interested in this type of benefit.



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### 📱 Practical changes in electronic submissions application

The Tax portal used for electronic submissions to the Financial Office has been expanded with new functions. Now for certain tax submissions a so-called QR code is generated, which contains payment information inside. This function is activated in case the obligation to pay tax arises from the tax return. In other cases, the QR code will not be generated. In addition, after filling out the tax return you can now find a link under the icon "Full copy for print" to detailed information about the bank account where a VAT payment should be remitted. More information about both changes can be found on the Financial Office's website.



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## Law

### The end of trust funds?

Including trust funds in the Civil Code struck up a significant outrage particularly from the Ministry of Finance, the Ministry of the Interior and the head state attorney's office. In reaction to the pressing remarks of these institutions, the Ministry of Justice has just set about drawing up a draft of a so-called urgent amendment to the Civil Code, which should answer the most burning questions connected with the legal arrangement of trust funds.

A trust fund means earmarking funds that will eventually be looked after by a trustee, and it's practically impossible to find out who deposited the assets into the fund. And this is the problem. The head state attorney's office criticised trust funds for unclear ownership structure, and it initiated the total cancellation of these funds. As a certain compromise, the amendment introduces record-keeping for trust funds with constitutive effects of the record. Amending the Act on Public Records should likewise establish the obligation to register as the founder of a trust fund and as a trustee or beneficiary. In my opinion, what seems especially problematic is the legislators' proposal that among the facts entered into the trust funds' records should be a list of beneficiaries for whom earnings will result from the trust funds. These people would thus be exposed to the unpleasant consequence of a violation of their privacy rights.

The interdepartmental comments procedure has already ended, and the draft is slowly making its way to the Chamber of Deputies. The effective date of the amendment, if it passes through the legislative procedure relatively unchanged, is planned for the second half of this year. This targeted "de-anonymisation" would in all probability discourage many interested parties from using this instrument.



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## Accounting

### Audit reports will change considerably starting 2016 – they will provide more information!

If you've ever become absorbed in reading audit reports on financial statements, have they ever seemed to you like two peas in a pod? Has it ever occurred to you that an auditor could offer more useful information from his work (which often lasts several weeks) to the audit report recipients?

If you're nodding your head in agreement, know that a new regulation in this area is heading right for you. For 2016 financial statements, auditors will already have to act according to the newly published standards, which substantially increase the requirements for informativeness and transparency in audit reports, especially for listed companies.

The most significant change is the requirement that auditors of financial statements of listed companies submit an overview of the audit's key issues or areas which, in the auditors' opinion, determined the course of the audit the most. The overview should be accompanied by an explanation of how these issues were resolved. At the same time, auditors will pay

greater attention to the problem of the time projection of an audited company in the near future, including information published about this question in the financial statements.



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## Employees

### Foreigners with free rein on labour market after amendment

An amendment to the Act on Foreigners' Residence and the related amendment to the Employment Act from last year have expanded the possibilities of employing foreigners who are already residing on the territory but for purposes other than employment.

Besides foreigners with permanent residency in the Czech Republic or students and graduates of Czech schools and colleges—who are already exceptions to the rule to request a work permit or employment card—the category has now grown to include relatives with granted long-term residency and foreigners in training (we wrote about the latter in the TBN October 2014 edition). Although the above-mentioned groups of foreigners can take advantage of the exception, their employers cannot forget to fulfil their information requirements with the relevant labour office, at the latest by the day the foreigner starts his employment.



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## Study

### PwC protected the Oscar secrets again

It's been presiding over the counting process for 81 years

This year PwC is celebrating 81 years during which entrusted by the American Academy of Motion Picture Arts and Sciences it has been counting up the ballots in order to award the Oscars. Brian Cullinan and Martha L. Ruiz, partners at PwC, are the only two people in the world who knew this year's winners before the actual awarding of the prizes. This took place during a live television broadcast on the American station ABC on Sunday 22 February 2015 at 4pm Pacific Standard Time.

PwC is continuing in its traditional role where it covers all aspects of the voting process, from gathering ballots to maintaining confidentiality about the results. PwC's long well-established system guarantees an exact count of all the ballots in a confidential place in order to ensure the highest possible degree of trust, objectivity and accuracy. During the whole time that the Academy has been cooperating with PwC on the counting process, there haven't been any errors in security.

#### How does the whole thing work?

The completed ballots are delivered to PwC. The head of the counting team then processes the votes by hand according to the rules set up by the Academy. Within the scope of the security measures, two complete sets of envelopes with the winners' names are prepared. The PwC partners send them to the place where they announce the awards along two different confidential routes. And just to be sure, the head of the counting team memorises all the winners' names.

The identity of the Oscar winners is kept secret until the moment the results are announced on the live broadcast. Cullinan and Ruiz are backstage during this show, and they hand off the envelopes with the winners' names directly to each announcer as they are going on stage.



### 2014 Report on long-term sustainable business and corporate responsibility

PwC CR reports using the international methodology, GRI

- \* **724 hours** dedicated to volunteering
- \* **CZK 1,247,830** for charities and sponsoring corporate responsibility activities
- \* **32%** reduction in the carbon footprint of operating the office for one employee during last period

You can find out about all of this and much more in our new CSR report, which maps our corporate responsibility activities for the 2014 financial year. We prepare the report using the international methodology, GRI. This is just one of the ways we are contributing to the development of non-financial reporting in the Czech Republic.

The CSR report is available in print (if you're interested in receiving print copies by mail, please contact Pavla Zemanová at [pavla.zemanova@cz.pwc.com](mailto:pavla.zemanova@cz.pwc.com)). You can find more details on individual activities at [www.pwc.cz/odpovednost](http://www.pwc.cz/odpovednost).

#### What is our vision?

*We strive to cultivate the Czech market environment by supporting ethical and sustainable business.*

*We want to play a key role in pushing for a responsible approach to business – from offering high quality services and building an open workplace, to cooperating with the community and controlling the ecological impact of our activities. We try to be a catalyst for change, where with the help of our abilities, our relationships and our voice we cooperate with others and influence activities that effect change and have a permanent impact on the world around us – these activities are mostly directed to the development of the market and the competitiveness of the Czech economy, and to passing on our knowledge to the non-profit sector via expert volunteering.*

*Our key activity is mentoring programs especially focused on newly created social enterprises. We help them prepare business plans, and we offer advisory in finance, tax and law. This way we promote the sustainability and competitiveness of social enterprises over the long term.*





**We invite you****Conference: Trends in mobile payments**

18.3.2015 in Prague, 9am-5pm

PwC, Hvězdova 1734/2c, Praha 4

Registration: [www.tuesday.cz/akce/trendy-v-mobilnim-placeni/registrace](http://www.tuesday.cz/akce/trendy-v-mobilnim-placeni/registrace)

PwC is a partner of the event.

Favourable entrance fee even after 3.3. for CZK 2,800,- excluding VAT

Code: Trendy-PwC

**Festival: Czech innovation**

27.3.2015 in Prague, 9am-5:30pm

National Technical Library, Prague

Technická 6/2710, 160 80 Praha 6

More information: [www.festival-cin.cz/2015](http://www.festival-cin.cz/2015)

PwC is a partner of the event.

**Breakfast: Changes in accounting for revenue according to IFRS 15**

31.3.2015 in Prague, 9am-11:30am

PwC, Hvězdova 1734/2c, Praha 4

Registration: [www.pwc.cz/ifrsevent](http://www.pwc.cz/ifrsevent)**The Academy****Test for reduction in value of non-financial assets (goodwill and other fixed assets) and recognising reserves under IFRS**

The first part of the seminar is dedicated to testing tangible and intangible long-term assets and goodwill for a reduction in value under IAS 36. After an introduction to theory, there will be an overview of the most frequent pitfalls and a demonstration of a practical calculation based on a future cash flows model. The theme of the second part of the seminar is the requirements of IAS 37 concerning recognising and appraising reserves with an emphasis on reserves for restructuring, disposal of assets, unfavourable contracts, employee benefit programs, etc. An application of the basic principles will be used as a practical example, i.e. the existence of a current liability as a result of past events.

**Date:** 17 March 2015**Place:** PwC, Hvězdova 1734/2c, Prague 4**Price:** CZK 6,900 + VAT**Language:** Czech**How to reserve a place?**

For more information and to register, please visit our website [www.pwc.cz/academy](http://www.pwc.cz/academy). If you have any questions, don't hesitate to contact Lucie Kašparová, tel: +420 251 152 035 or write to the [academy@cz.pwc.com](mailto:academy@cz.pwc.com).

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