

Tax, Legal & Business News

www.pwc.cz/tbn

Tax, legal, accounting, advisory and assurance newsletter

January - February 2015

Summary

- › PwC is the most desired employer in taxes in the Czech Republic
- › Tax proceedings: Mandatory electronic format of “form submissions”
- › Local reverse charge regime – new commodities from 1 April 2015
- › The Financial Administration published information about the 10% VAT rate
- › The General Financial Directorate commented on the creation of statutory provisions and the depreciation of receivables
- › Change in the taxation of executives
- › One year with the new law on Czech citizenship
- › PwC CEO Survey:
As long as we have people, we will grow, say Czech business leaders

 known from our mobile application



PwC is the most desired employer in taxes in the Czech Republic

The most desired employer in taxes in the Czech Republic is PwC CR. This was decided by the public in the competition for Tax Adviser and Tax Consultancy Firm of the year 2014. Industry professionals also further awarded PwC CR employees: Tomáš Hunal as a tax star in the taxation of individuals, Tomáš Urbášek as a tax star in the taxation of legal entities and Natalia Pryhoda as a tax star in transfer pricing. Iva Kuncová was also awarded as a tax hope for 2014.

We have a great respect for these awards, which we are receiving for the third time in their five-year history, because they show the leading position of PwC in tax consulting both in the eyes of our employees and those of professionals and the public. We emphasise both the professional quality of our work and the quality of our relationships with our employees and clients.

Tax stars



Tomáš Hunal
taxation of individuals



Tomáš Urbášek
taxation of legal entities



Natalia Pryhoda
transfer pricing

Tax hope



Iva Kuncová

Theme of the month

Tax proceedings: Mandatory electronic format of “form submissions”

From 1 January 2015, the tax administration has made it obligatory in certain cases to send in submissions (which are administered on printed forms issued by the Ministry of Finance) only electronically (by a data report). Namely, it concerns the registration application, the notification of changes to registration details, the tax return, a report, a statement of accounts, the additional tax return, a subsequent report and a supplemental accounting statement (so-called form submissions), as well as their mandatory attachments.

The data report that contains some of the above submissions must be:

- sent via the data box of the taxpayer or his representative, or
- submitted via the Tax portal, whereby the submitter will either be identified in the same way he signs in to his data box, or he should sign the report with a recognised electronic signature.

This obligation applies to the taxpayer who meets at least one of these conditions:

- the taxpayer has an accessible data box

(regardless of whether he actively uses it or not);

- the taxpayer is obliged by law to have his financial statements verified by an auditor;
- the taxpayer has a representative for tax proceedings, and this representative has an accessible data box; or
- the taxpayer has a representative for tax proceedings, and this representative is obliged to have his financial statements verified by an auditor.

If only the representative has an accessible data box, then the extent to which the representative is authorised to act on the taxpayer's behalf also matters. If the representative isn't authorised to submit the above-mentioned forms, then the obligation to submit them via a data report doesn't arise.

As soon as the obligation to submit the forms via a data report arises, both the taxpayer and his representative must comply even if only one of them has access to the data box, regardless of who performs the submission.

According to the law, a breach of this obligation to submit the forms electronically will be penalised by a fine in the amount of CZK 2,000.



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

Theme of the month

For submissions for which the law requires an electronic format and which are at the same time stated in the list published on the website of the Czech Financial Administration, a breach in submitting electronic forms isn't considered a fault. The sender will not be asked to remedy this fault. However, a breach of the given electronic means of communication in form submissions always gives rise to the above-mentioned fine.



Radek Buršík
+420 251 152 509

Share with us what new things you'd welcome in our mobile application and join a competition for interesting prizes

More than one year has passed since we launched our mobile application PwC Online, through which we bring you news in the areas of tax, law and business. Now we'd like to give you the chance to influence the next direction of our online information services, while we learn about your requirements and needs at the same time. Let us know what interests you or what you think is missing from our application.

Here you can open a questionnaire which will take just a few clicks to complete and, by doing so, you can enter our competition. If you have the print version of our newsletter, you can find the questionnaire at www.pwc.com/cz/cs/online

Taxes

Local reverse charge regime – new commodities from 1 April 2015

A new governmental decree calls for the expansion of the local reverse charge. If the total amount of the tax base exceeds CZK 100,000 for a taxable supply, the buyer will now have to account for VAT for the following commodities:

- corn and industrial crops, including oily seeds and sugar beets (for sugar beets, this doesn't take effect until 1 September 2015)
- metals, including precious metals, with the exception of those that fall under a special regime according to Section 90 of the VAT Act and that are subjected to the local reverse charge regime under Section 92c of the VAT Act
- mobile phones
- integrated circuits, such as microprocessors and central processing units
- portable equipment for automated data processing (notebooks, tablets, etc.)
- videogame consoles

The specifications of items to which the local reverse charge applies are stated in this governmental decree with a verbal description and a link to the valid wording of the nomenclature code of the customs tariff. The local reverse charge regime continues to apply to construction and assembly work, the transfer of permits for greenhouse gas emissions, waste and the delivery of gold.

For more information and an assessment of whether some of your trade commodities fall under or will fall under the regime of shifting tax obligations, please contact our VAT specialists.

The Financial Administration published information about the 10% VAT rate

By publishing official information on its website, the Financial Administration wants to prevent ambiguities in the application of the second reduction of the VAT rate. From 1 January 2015, it applies to baby food and children's food, as well as vaccination materials, medicines and chemical contraceptive agents (intended for medical and veterinary purposes). The new rate also applies to print books, children's picture books, music sheets, and ingredients for making gluten-free foods such as flours, batter mixes, etc.

If you aren't sure which rate to apply to your traded goods, or if you want help submitting a request for a binding ruling, please contact our VAT specialists.



Martin Diviš
+420 251 152 574

The General Financial Directorate commented on the creation of statutory provisions and the depreciation of receivables

In the conclusions of the coordination committee of the Chamber of Tax Advisers, the General Financial Directorate commented on the approach to creating statutory provisions for debtors' receivables, against which the creditor registers a payable obligation at the same time. According to the General Financial Directorate, it's necessary to carry out a real mutual offset of payables and receivables, and only after that create a statutory provision. In practice, statutory provisions are often created for the net amount of the receivable (i.e. the amount of the receivable reduced by the amount of the payable), without realising a formal offset of payables and receivables. For taxpayers with promised investment incentives, who without stating objective reasons decide not to carry out a mutual offset of payables and receivables and not to create a statutory provision to the maximum possible extent, this will be considered as a breach of special conditions for the purposes of applying tax credits.

Given the ambiguities connected with the recodification of private law, the General Financial Directorate further commented on the interpretation of the temporary provisions of Section 24 2y) of the Income Taxes Act, which concern the depreciation

of receivables that arose until the year 2003. The General Financial Directorate stated that the rules for depreciating these receivables will be preserved, and they will stick to the treatment valid until the end of 2003.



David Musil
+420 251 152 722

Change in the taxation of executives

In taxing the income of executives who are tax non-residents, it's necessary to pay withholding tax starting from January 2015. This was confirmed by talks between the Chamber of Tax Advisers and the tax administration.

For income tax purposes, from 2014, an executive is considered as a member of a statutory body and never as a statutory organ itself. As a result, it's necessary to apply final withholding tax to the incomes of tax non-resident executives and no longer a tax advance, as was done until the end of 2013.

For the correct approach, it's essential to evaluate the tax residency of the executives, including the manners, forms and legal entitlements to their remuneration.

In view of the fact that in 2014 this approach wasn't entirely clear from the law, it's necessary to unconditionally apply withholding tax from 2015. The tax administration stated that for 2014, it will

Taxes

not dispute the way that was chosen for paying taxes in the taxation of non-resident executives.



Tomáš Hunal
+420 251 152 516



Employees

One year with the new law on Czech citizenship

Already one year has passed since the new law on Czech citizenship took effect. So we'd like to give you a few observations from foreigners we've helped on their newly acquired Czech citizenship.

They definitely see the possibility to hold on to citizenship in the home country as the most positive thing – i.e. starting last year, foreigners can have dual citizenship. This essential change was reflected in the number of citizenship applications. Last year thousands of applications were submitted. By comparison, just one year before, in 2013, the number of applications only reached in the hundreds.

Foreigners also positively view the broader and more lenient conditions for acquiring citizenship in certain categories, such as acquiring citizenship in the form of a declaration or proving previous residency in the territory in other ways than with the length or the holding of permanent residency. Thanks to these changes, a larger circle of foreigners can apply for citizenship.

Foreigners are finding it difficult to come to terms with the new format of the Czech language and facts and figures tests, as well as with the fact that there were relatively few dates for taking the tests due to the great interest in Czech citizenship. But at the end of the year, this situation got better. So one year after the law took effect, the one burning issue remains the approval process, which hasn't been able to stick to the legal limit of 180 days.



Jana Zelová
+420 251 152 567

Study

PwC CEO Survey:
As long as we have people, we will grow, say Czech business leaders

More than 80% of the general managers of the most important companies active on the Czech market expect that their turnover will grow this year. Last year it was only 76%. The sixth annual survey of the opinions of general managers, which PwC Czech Republic carried out among more than 150 directors from significant local companies, showed that they consider the biggest threat to be a shortage of people with appropriate skills and knowledge. Companies will fight for these employees because more than half of respondents are planning to increase the number of their employees this year.

The general managers see 2015 optimistically, but they are aware that the threats—which have not been so dramatic yet this year—can intensify over the next few years. In my opinion, this is the reason for the moderate decrease in the number of those who expect their companies to grow in the next three years – from 95% to 92%. The fear of a shortage of quality people and the growing share of innovators clearly show that the general managers are focused on the growth of their business and want to fight for their position on the market.

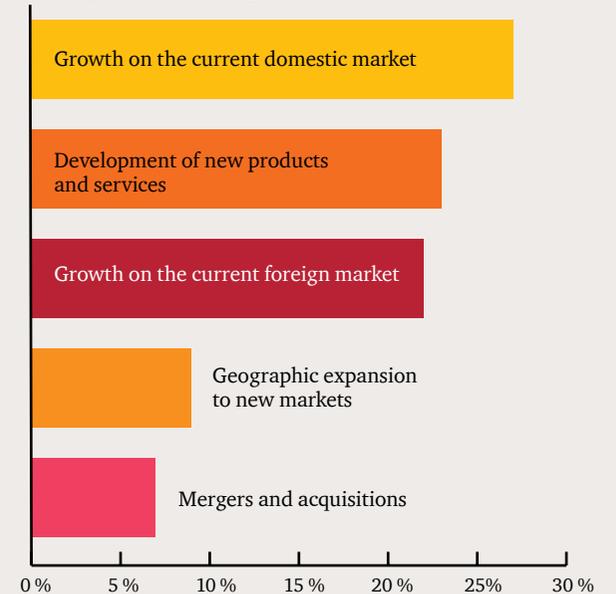
Czech entrepreneurs are planning to create new work positions this year. More than half of the companies are preparing to increase the number of employees, while only a little less than one-fifth of them will lower the number. So logically, general managers are asking themselves where they can find new quality employees. The shortage of people with appropriate education and skills has become the biggest business threat this year, which really worries 35% of respondents. This threat pushed the general managers' traditional concerns down a notch, such as low-quality legislation or its frequent changes (34%) and strict regulations (25%).

The general managers have already forgotten about the crisis and are searching for their own path to growth. But it doesn't work without quality people, and with the expected expansion it's likely they will need more of them. The global labour market has made it so that companies around the whole world compete for the best experts and managers. Even during the crisis, entrepreneurs felt the shortage of workers with a technical high school education. The cost of work has thus risen, and Czech companies will have to have enough competitive products to be able to earn money to pay for it.



Jiří Moser
+420 251 152 048

Biggest growth opportunities for this year:





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

© 2015 PricewaterhouseCoopers Česká republika, s.r.o. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers Česká republika, s.r.o., which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.