

### Summary

- > OECD published a final report in a BEPS Project
- > Planned changes in the area of Real Estate Tax since 2016
- > It will be necessary to plan the internal reorganisation of a group of companies carefully
- > The draft law on electronic records of sales is heading to the third reading in the Chamber of Deputies
- > IASB works on a new text on leasing standards
- > Higher cap on social security from 2016
- > Higher minimal wage from 2016
- > Chile was included into a program "working holiday"



### Tax

#### OECD published a final report in a BEPS Project

OECD published the final recommendations within the Base Erosion and Profit Shifting (BEPS) Project. BEPS Project was founded in 2013 due to increasing pressure to fight against the aggressive tax planning. Gradually, the insufficiently specified areas with the impact on cross-border transactions as digital economy or transfer prices particularly related to the intangible assets were also integrated into this project.

Altogether, 15 reports for specific action points contain recommendations, which should lead to restrictions on the ability of some enterprises to use aggressive tax planning methods in order to reduce their total tax burden. The suggestions are leading both to the adjustment of the model double tax treaty (including the comments), and to the changes in local regulations of the country concerned and the introduction of compulsory exchange of information between the tax administrations of different countries.

Czech enterprises will notice the change especially in introduction of a new reporting obligation for enterprises with a turnover of EUR 750 mil. (so-called Country-by-Country Report, starting for

the period of the year 2016). This reporting obligation will also be indirectly related to all Czech enterprises, which are the part of multinational corporations, because they will be obligated to report data of their parent company. At the same time, the methods of determining transfer prices for transactions with intangible assets, management services and the transfer of functions and risks within the multinational corporations will be adjusted.

Whereas the method of the implementation of conclusions and recommendations according to the individual action points at the multinational level is actively discussed at the level of OECD, it is possible that the affected areas will be adjusted by an international contract, which will be superordinate to the current double tax treaties, in following years. The individual provisions included in this multilateral convention would become directly obligatory after adoption within the legislative process in a particular country.

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#### Planned changes in the area of Real Estate Tax since 2016

The government discussed and approved a draft amendment to Legal Measure on Tax on Acquisition of Immovable Asset legislation. The proposed date when the amendment takes effect has been moved from the original date of 1 January 2016 to 1 April 2016.

The most significant proposed changes are:

- The unification of the person of the taxpayer – the acquirer of an immovable asset will always be taxpayer.
- The taxation of acquisition of underground utilities will be limited to the acquisition of property right to parts of underground utilities, which meet the definition of a building according to Cadastral Act.
- The exemption of the first contractual acquisition of new buildings and units will only apply to the first contractual acquisition of a finished or used building and unit, regardless of how many times these buildings and units were transferred as unfinished.
- The extension of being subject to tax

to cases of contractual extension of right to build – this change should prevent the unwanted pursuit of tax optimisation.

Other changes include, for example, simplifying the procedure for determining the tax base for the exchange of immovable assets and then the exclusion of transformations of legal entities from being subject to tax. Not only will transformations of business corporations not be taxed, but also transformations of other legal entities. In contrast to this, it is proposed that a change in ownership of immovable assets will be taxed if the assets are transferred to a partner.

Although the amendment has been discussed since March, it will only now be presented to Chamber of Deputies, because it has undergone slight changes as the result of all the comments.

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## Tax

### ***It will be necessary to plan the internal reorganisation of a group of companies carefully***

The Supreme Administrative Court ("SAC") turned down one of the appeals against the decision by a regional court and struck down the tax deductibility of interest that resulted from loans caused by an internal reorganisation and merger of some companies within a group of companies. Tax authorities have concluded that it is an abuse of law in this case and that the reorganisation of a group of companies should not have any other reason than obtaining an unjustified tax benefit.

Although a detailed justification of the SAC judgment is not yet currently available, it can be concluded that the SAC agreed with the opinion of the tax administrator and regional court which decided this case. The previous decision by the regional court is based primarily on the fact that the tax entity did not prove a connection between the loan (which represented the unpaid part of the purchase price for the intragroup transfer of shares), obligation to pay interest and achieving, securing and maintaining its taxable income sufficiently. Formerly profitable companies started to generate losses caused by larger debt burden after the aforementioned restructuring.

The tax entity defended itself within the proceedings and stated that the transaction was in conformity with business conditions related to the proprietary reorganisation of a group in the Czech Republic. According to the statement by the tax entity, the purpose of the transaction was to create a stable international corporate structure which

could generate stable revenue and increase the potential for bank financing. The court did not agree with this statement and justified its decision on the basis of the abuse of the law, where the main reason and result of the whole transaction was to obtain a tax benefit for the whole group. The formality of the transfer is also proven by the fact that property continues to be (indirectly) owned by the original foreign holding companies.

Whereas the SAC took the side of the General Directorate of Finance and the regional court, it is possible that the SAC will also come to the coincident conclusion in the case of other unfinished court litigations regarding the same issues.

In this context, more than ever before, it will be necessary to very carefully plan potential internal reorganisations of a group. It is necessary to evaluate the legal, commercial and other reasons for this reorganisation in detail and analyze the related tax impacts in order to minimise the risk of prospective disputes with tax administrator. From the above-mentioned judicial decision, it is evident that such an assessment is necessary when one of the impacts of reorganisation could also be an increase in debt burden of companies in the Czech Republic.



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## Law

### ***The draft law on electronic records of sales is heading to the third reading in the Chamber of Deputies***

The draft law on electronic records of sales, which we have already informed you about, advanced to the third reading in the Chamber of Deputies. This is determined just for a vote on a draft and adjustments of the legislative and technical and grammatical errors. Before that, a few amendments will be voted on, which are related to the period from which the act will apply to individual groups of entrepreneurs. If the draft is approved by the Chamber of Deputies and subsequently by the Senate, it is likely that the draft will be accepted in the current version with the exception of time limits.

The government draft expects that the act should first come into effect for persons providing catering and accommodation services as restaurants, hotels and catering facilities.

From the first day of the fourth month after the act enters into force, the obligation to record sales electronically will apply to persons performing retail and wholesale business and, subsequently, after six months from the effective day, to all other business entities.

The entrepreneur, who has sales which are subject to electronic record keeping, will be obligated to furnish business premises with an electronic cashier with the internet connection and with relevant software, which will arrange an online connection with the Financial Administration.



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## Accounting

### ***IASB works on a new text on leasing standards***

IASB (International Accounting Standards Board) informed us that a new standard for dealing with accounting policies applicable to leases should come into existence within three months.

After publication of IFRS 15 – *Revenue from Contracts with Customers*, it is another big project which will significantly affect reporting according to IFRS. It is fundamental that the indebtedness of a large part of companies and corporations, which report according to IFRS, will increase due to the effectiveness of this standard. It is good to have this fact in mind during credit contract negotiations, which includes the terms related to the debt ratio.

Many leasing and lease contracts, which existed outside of the balance sheet, will be included in the accounting as a right to use rented assets and on the other side as an obligation to pay rent – in the amount corresponding to the length of the entire lease (or leasing) contract. Short-term leasing contracts shorter than 12 months will be saved. The obligation to report them in the balance sheet will not apply.

The above-mentioned applies for lessees. Any significant changes are improbable for lessors. The accounting model will be taken from IAS 17. We will return to the impacts of the new standard on different types of contracts at the turn of the year when the new standard has been published.



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## Employees

### Higher cap on social security from 2016

From 1 January 2016, the cap on social insurance contributions which has an impact on the amount of income tax (via "supergross wage") will be increased to CZK 1,296,288 per annum. Due to this increase, the limit for payment of solidarity tax will also be higher and the solidarity tax will be paid from monthly taxable income exceeding CZK 108,024.

### Higher minimal wage from 2016

From the New Year, monthly minimal wage will also be increased to CZK 9,900 (from the present CZK 9,200). This increase will impact, for example, the payment of health insurance during unpaid leave or the tax credit in the form of kindergarten allowance which is bound to a minimal wage.



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### Chile was included into a program "working holiday"

Representatives of the Czech Republic and of Chile signed a bilateral agreement

in early October on the working holiday program.

The Czech Republic also entered into a similar agreement with Canada, South Korea and New Zealand.

The so-called working holiday is intended for young people aged between 18 and 30 who are interested in exploring another country and traveling around it for up to one year. These people must have enough money for it, nevertheless they can also work during their stay, but gainful employment should not be a primary target of their journey. This program is very similar by its intention to American program for Czech university students called Work and Travel.

It is not yet clear what the level of interest in this program by young people from both of countries will be. Nevertheless, it can be expected that Chilean citizens will be more interested in staying in the Czech Republic, because they could also travel to other EU states on the basis of the long-term visa granted under this program. Currently, Chilean citizens can travel around the Schengen area as tourists without a visa (up to three months out of every six months). For the purpose of employment, they must go through a complicated process of arranging relevant residence and working permits. This type of program was widely used by the citizens of the Czech Republic for travels to Canada and New Zealand.



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## PwC

### Olga Cilečková became director of the Treasury Risk Department at PwC



**Olga Cilečková**

Olga Cilečková became Head of the Department of Treasury Risk for corporate clients within PwC Czech Republic. She will be responsible for managing financial and commodity risks and accounting advisory. Olga Cilečková returns to PwC Czech Republic after decade of working in the London office of PwC United Kingdom, where she was focused on providing advisory in the area of managing financial and commodity risks for major British corporations.

"The newly established Department of Treasury Risk reacts to the demands of our client to manage currency and commodity risks. Especially, currency risk is a very current topic on the Czech market. Companies should prepare for when the Czech National Bank stops artificially keeping the exchange rate

of Czech Crown leading in one year to a Czech Crown that could be significantly stronger than it is now. Farsighted clients have already started to lead discussions with us about this issue," says Olga Cilečková.

Olga Cilečková started to work in the Prague office of PwC Czech Republic in 2000. In 2005, she went to the London office of PwC, where she acted as Head of the Department of Financial and Commodity Risk Management for corporate clients. Olga Cilečková has more than 13 years of experience with financial products and of managing financial and commodity risks. She gained her experience on both the Czech and British financial markets. She likes mountain climbing in her free time.

### PwC Czech Republic celebrates success in the „TOP responsible company 2015“ competition

PwC achieved the highest appreciation in three categories and the most awards from all participating companies. Overall, we gained two gold, two silver and two bronze certificates.

We were able to gain the highest appreciation in these categories:

- Socially beneficial project 2015
- Leader in environment 2015
- Responsible reporting 20

We got also on the winners' podium in the following categories:

- TOP responsible large company 2015 (silver certificate)
- Diversity 2015 (bronze certificate)
- Work place of the future 2015 (bronze certificate)
- Company and school 2015 (bronze certificate)



**In the photo from left: Radka Nedvěďová, manager of Academy Department who is dedicated to non-financial reporting and Pavla Zemanová, CSR coordinator of PwC Czech Republic.**

## Study

### Companies for more than 2 trillions crowns has been sold since the beginning of the independent Czech Republic

**The biggest privatisation transaction was the sale of regional gas companies, then the other transaction was the sale of the brewing company StarBev.**

In the Czech Republic since its independence in 1993, mergers and acquisitions worth more than two trillions Czech Crowns have taken place. This follows from an analysis by the consulting company PwC Czech Republic which was prepared by its professionals to celebrate 25 years of PwC on the Czech market. PwC consultants and auditors started to help local and foreign companies in the then Czechoslovakia in 1990.

#### The phases of historical development of transactional activity:

##### 90s

- Smaller number of transactions and their size was rather small.
- Privatisation in the form of coupon privatisation, at the same time there were a few significant strategic privatizations (e.g. Škoda Auto).

*„The subjects of the largest transactions were both companies in the main sectors of the economy, especially financial institutions, infrastructure*

*and energetics, and some major enterprises, e.g. Škoda Auto or large breweries,” explains Jan Hadrava.*

##### 2001–2008

- A sharp increase in the number of transactions, large privatisations and other transactions took place.
- Year 2005 – the biggest volume of transactions – total value over CZK 300 billion.
- Year 2007 – the largest number of transaction in history – almost 100 transactions.

##### 2009–2014

- After a sharp drop in the number of transactions in relation to the financial crisis, the market is gradually recovering and the number of transaction is gradually returning to pre-crisis figures.
- The activity is shifting away from foreign investors towards Czech investors.
- Years 2013 and 2014 showed the largest volume of transactions after 2005 – almost CZK 200 billion.

##### Present

- This year builds on last year’s positive figures.
- Transactions worth more than 100 billion crowns were carried out during the first three quarters of 2015. This is about 40% less than in the same period last year; however, it is still one of the most successful years in the history of our country.
- Investors are interested in traditional

industries, such as engineering or energy, but also in the IT or media sector.

- The biggest transaction in the first half of the year 2015 can be considered the earmarking of the part of the O2 company into the Czech Telecommunication Infrastructure Society.

“It’s mainly local investors who buy, but there are also many foreign players in the market. We are seeing interest from Chinese capital. Sales of private Czech companies whose owners did not find a successor within their family and want to retire or do another business are increasing”, **says Jan Hadrava.**

##### Near future

- Already today, the interest of Chinese investors to invest in companies in the Czech Republic and generally in Central and Eastern Europe is growing.
- An example: during the May visit of Czech businessmen in Shanghai, the biggest Chinese private conglomerate Fosun Group announced that they are planning to invest up to 80 billion crowns in the Czech Republic. For this amount of money the conglomerate could realize nearly all transactions that have been transacted in the first half of this year in the Czech Republic.
- Chinese investors are interested in various industries (engineering, energy, services, real estate, etc.) “Chinese investors want to realize large transactions. While Czech investors with small and medium transactions are typical for the Czech

*market nowadays, when Chinese investors decide to invest here, it will be in billions more than in hundreds of millions. But will there be enough large and interesting opportunities for Chinese investors in the Czech Republic?” concludes Jan Hadrava.*

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## We invite you

### Conference:

#### Digitalization as service

**Date** 24 November 2015

**Place** Prague

**Language** Czech

#### Registration

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

### Conference: SIEM

**Date** 30 November 2015

**Place** Prague

**Language** Czech

#### Registration

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



## The Academy

### Changes in Czech accounting from 2016 with Petr Kříž

This course includes new issues (differences between 2015 and 2016) in Czech accounting standards which will come into effect on 1 January 2016. The main presenter will be Petr Kříž, a partner of the Audit Department of PwC. The course will also include updates in the area of VAT and it will focus on the interpretations by the Czech National Accounting Board.

**Date:** 30 November 2015  
**Time:** 9.00–13.00  
**Venue:** PwC, Hvězdova 1734/2c, Praha 4  
**Price:** CZK 2,100 + VAT  
**Language:** Czech

### IFRS update 2015

This course includes key information about standards or amendments that have recently come into effect and a summary of the impact of the standards effective in the EU since 1 January 2016 and later (for example: new standard for revenues). Part of the course also focuses on the most common problem areas.

**Date:** 19 November 2015  
**Time:** 9.00–17.00  
**Venue:** PwC, Hvězdova 1734/2c, Praha 4  
**Price:** CZK 5,500 + VAT  
**Language:** Czech

### The financial statement for 2015 prepared according to IFRS as adopted by the European Union

This course focuses on the preparation of financial statements in accordance with IFRS as adopted by the European Union for the year with the ending date 31 December 2015. This course emphasizes the publishing of information that is now required in comparison to the year 2015 and focuses on common mistakes / deficiencies that arise when preparing the financial statements in accordance with IFRS, such as publishing regarding financial instruments (IFRS 7 and IFRS 13), the structure of the primary financial statements, publishing the impairment of non-financial assets, terminating activities and assets held for sale, related parties, etc. This course will introduce you to the publishing requirements and, in particular, help you to understand them.

**Date:** 15 December 2015  
**Time:** 9.00–17.00  
**Venue:** PwC, Hvězdova 1734/2c, Praha 4  
**Price:** CZK 5,500 + VAT  
**Language:** Czech

For more information and registration, please visit the website [www.pwc.cz/academy](http://www.pwc.cz/academy).

Should you have any question, please contact **Lucie Kašparová**, tel.: +420 251 152 035 or write to [the.academy@cz.pwc.com](mailto:the.academy@cz.pwc.com).

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