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.

Czech Republic

19 February 2015

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Specialised Financial Office launched nationwide inspections

On 18 February, the Specialised Financial Office ("SFO") published information on its portal, based on which it launched nationwide inspections of transfer pricing in multinational companies.

The inspections by the SFO aim to verify the correctness of the transfer pricing between related companies.

The primary goals are to:

- **prevent a deliberate or accidental outflow of profits from the Czech Republic abroad, and**
- **prevent the improper distribution of profits between a Czech subsidiary and its foreign parent company.**

The inspection is taking place in several waves. In the first wave, at the turn of January and February, the SFO launched tax audits focused solely on the transfer pricing in certain taxpayers (e.g. manufacturing, services, financial institutions). Another wave of such inspections will follow.

Taxpayers are selected for inspection based on the analysis of data they provided in the voluntary questionnaire survey, which took place last year, and based on information and research data of the SFO.

Country-by-Country Reporting: Key Implementation Points

Following the publication in September of revised standards for transfer pricing documentation and a template for country-by-country reporting ("CBCR"), key implementation elements have now been agreed.

CBCR is a transparent report disclosing the income, earnings, taxes paid and other information on the economic activity of multinational groups, which is **in addition to the current content of the transfer pricing documentation**. The CBCR template was first released by the OECD in September 2014 under **Action 13 of the BEPS Action Plan**.

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On 6 February 2015, the OECD published its General report to the G20 Finance Ministers and central bank governors on “BEPS, Tax transparency through information exchange, and Tax and Development”. The report provides important implementation elements for the upcoming CBCR, such as:

(i) The first CBCR reports will be prepared for fiscal periods starting from the year **2016**, and thus the first pieces of CBCR information will be obtained by tax authorities by 2017.

(ii) Multinationals with turnover above **EUR 750 million** will be obliged to prepare and file the CBCR.

(iii) Information will be **filed in the country of residence of the multinational** and will be further **automatically exchanged with other countries** fulfilling a number of conditions, in particular confidentiality and proper use of the information.

(iv) Local filing will be deemed appropriate only in a limited number of cases.

This report was signed and will therefore be implemented by the OECD (thus including the Czech Republic) and G20 countries. A work plan for the implementation package to support the exchange of CBCR information has also been approved, and details will be developed by April 2015.

CBCR requires multinationals to provide the following information for each entity in each tax jurisdiction of the multinational:

- Revenues: unrelated party, related party, total;
- Profit (loss) before income tax;
- Income tax paid (on a cash basis);
- Income taxes accrued (current year);
- Stated capital;
- Accumulated earnings;
- Number of full-time employees; and
- Tangible assets (other than cash and cash equivalents).

In addition to the above, the disclosures to CBCR will specify the main business activity (e.g. R&D, holding, procurement, manufacturing, distribution, support services, etc.) of each entity, as well as information on the tax jurisdiction of the organisation/incorporation of the multinational.

Summary

CBCR can become a powerful tool for the tax authorities for risk assessment in terms of transfer pricing and other international tax matters. Information from CBCR will be available to the tax jurisdictions of the multinationals, as well as to other tax jurisdictions through the automatic exchange of information.

It can be expected that the Czech tax authorities will have access to this detailed CBCR information from 2017, and the tax audits will be focused on “high risk” areas selected through CBCR, similar to the current wave of inspections by the SFO.

Given this latest development in the transfer pricing area, we recommend that companies review the transfer pricing policy and documentation and perform transfer pricing risk reviews in advance of the SFO’s inspection and the implementation of CBCR.

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