

# Tax & Business News

Tax, accounting, advisory and assurance newsletter

September|2009



Dear Business Partners,

Welcome to the September edition of Tax & Business News in which we bring you updates and news from the area of tax, accounting and financial advisory.

Changes in law, changes in interpretation, changes in accounting treatment, changes in reporting requirements, changes in EU regulations, changes in accounting periods, changes in the tax base; this month's edition of Tax & Business News is about "change" and includes articles covering all of the above – and more!

It is frightening how much change businesses have to cope with these days and in Tax & Business News we are dealing only with changes in tax and accounting! Coping with all this change is a challenge, but the thing about change – and this is clearly demonstrated in a number of the articles that follow – is that if you are aware of it early enough and have time to consider the implications, it can often provide opportunities.

One of our prime objectives in producing Tax & Business News is to highlight those tax and business changes we believe businesses should be aware of and we aim to do this as early as we can so that businesses can identify and take advantage of the opportunities these changes may provide. If you believe that your business will be impacted by any of the changes referred to in the articles that follow and you want to take advantage of the opportunities these changes give rise to, please do not hesitate to contact the author of the article in question.

I hope you find this addition of Tax & Business News helpful.

Yours sincerely,

Peter Skelhorn

Partner, Tax and Legal Services

## Payment of taxes and social insurance: The date of credit to the account is decisive

Recent amendments to insurance involved substantial innovations, which unfortunately are to the detriment of taxpayers and social insurance payers. There has been a change in the definition of the "day of tax payment" and respective "day of insurance payment", which are essential for determining when tax liability and respective obligation to pay insurance are actually met.

According to the new wording, the date of payment in cases of non-cash payments is considered the date the payment is credited to the account of the Tax administrator, or respective health insurance or social security administrator. This means that it will not be sufficient to pay the amount due on the final due date (in case of payment within the Czech Republic). It is essential that the payment has to be credited to the Tax Administrator's account or respective health insurance or Czech social security administrator.

This change harmonizes payments made from Czech bank accounts and foreign bank accounts where the date of payment is already regarded as the date when the payment is credited to the tax administrator by the due date.

We recommend that you discuss the deadline for processing the payment of taxes and social insurance with your bank to avoid any possible penalties associated with late payments. If the payment is sent in time but crediting is delayed, compensation has to be discussed between the tax payer and the provider of payment services, or respective health insurance company or social security administrator.

Change of the tax payment date will come into effect as of 1 November 2009. The dates of the health insurance and social security contribution payment shall be effective as of 1 January 2010.

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## Content

- Payment of taxes and social insurance
- Reminder: The amendment of the Administration of Taxes Act
- Deductions on social security contributions available as of August 2009
- EU VAT package waiting for approval of the Parliament
- Fund of qualified investors can result to tax savings
- Lump sum cost operating for motor vehicles
- Major changes in EU regulations on social security
- US services regs – Czech considerations
- New stricter rules on VAT exemption for goods followed by a dispatch
- Value Added Tax
- The European Commission has released a Communication on VAT grouping
- Stadeco BV – Refunds of incorrectly charged VAT conditional on issue of corrected invoices
- Tax advantages will not be lost by mortgage refinancing
- Entities may need to delay recording revenue from real estate sales
- Cross-border provision of services to be simplified
- Benefits Group – Keep costs of benefits under control
- Weakening Czech economy consumes less energy
- Retail industry observes further decline in revenues
- First Annual Report on CR
- Events...
- PwC Business Academy

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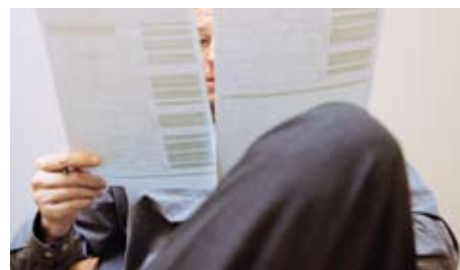
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<sup>1</sup>Amendment to the Act on the Public Health Insurance Contributions and to the Act on the Social Security Insurance Contributions



## Reminder: The amendment of the Administration of Taxes Act - due date of the additionally assessed tax

The amendment of the Administration of Taxes Act was signed by the president of the Czech Republic during the second week in August<sup>2</sup>.

We would like to remind you that as of 1 January 2010, the amendment, among other changes, introduces so-called suspensory effect of appeal against the payment assessment resulting from

a tax audit (e.g. the additionally assessed tax will be due after the rejection of the appeal against this additionally assessed tax is delivered).



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<sup>2</sup>We informed in more detail about the Administration of Taxes Act in July issue of Tax & Business News.

## Deductions on social security contributions available as of August 2009

The August deduction and extraordinary deduction must be applied for by 20 September 2009

As we informed you in our previous editions of Tax and Business News, deductions on social security insurance contributions were implemented as part of anti-crisis measures for reducing personnel costs.

Monthly deductions on social security insurance contributions can be applied for as of August 2009, provided all conditions are fulfilled. The amount of deduction on social security insurance contributions for each employee is calculated as 3.3% of the difference between CZK 27 100 (this amount represents 1.15~ the average wage) and the actual social security insurance assessment base of an employee. The maximum deduction amounts to 25% of the social security insurance assessment base of each employee. For example, the monthly deduction for an employee with an assessment base of CZK 20 000 amounts to CZK 235. For an employee with an assessment base of CZK 8 000, the monthly deduction amounts to CZK 631.

For the month of August, employers can also apply for an extraordinary deduction on social security insurance contributions. The extraordinary deduction is calculated as a sum of all "ordinary" deductions from social security insurance contributions for the period January to July 2009.

The extraordinary deduction on insurance contributions and the deduction on insurance contributions for August 2009 must be applied for by 20 September 2009, or the entitlement for deduction will expire.

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## EU VAT package waiting for approval of the Parliament

As of 1 January 2010 the Czech Republic is obliged to implement into its legislation the so-called VAT package<sup>3</sup>. At the beginning of August 2009, the Government submitted the draft amendment of the Value Added Tax Act (which includes also the VAT package) to the Parliament for approval.

Since there is only limited time left before the VAT package is put into practice, the Parliament will discuss the amendment in summary proceedings. Instead of the standard three-reading procedure there will be only one reading of the law and

the Members of the Parliament will not be able to propose any further amendments. If the amendment is discussed during the regular meeting of the Parliament on 8 September 2009, we can expect that the amendment of the VAT Act will come into force on 1 January 2010.

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<sup>3</sup>More information about the VAT package EU can be found in April issue of Tax Flash, and March and August issue of Tax & Business News

## Fund of qualified investors can result to tax savings

As of 1st August 2009, the amendment of the Act on Collective Investment came into effect. The amendment relaxes the rules for the business activities of so-called special funds of qualified investors (FQI).

**The main changes in regulations of these funds are as follows:**

- a relaxing of the rules for the supervision of these funds from the Czech National Bank's side,
- merger of FQI allowed with other non-regulated entities provided the surviving company is the FQI and
- non-monetary contributions allowed and
- FQI in the form of a joint stock company and close end mutual fund do not have to be transformed to an open ended fund after a 10 year period.

**The main benefits of these funds are:**

- 5% corporate income tax on fund's income (instead of 20% corporate income tax for other companies)
- 0% corporate income tax on dividends distributed by these funds to its shareholders if certain conditions are met
- 0% corporate income tax on sale of shares in such funds if certain conditions are met

Fund of qualified investors can be used for example for income from the rental or sale of real estate, licenses, interest income, etc.

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<sup>4</sup>See our Tax Flash issued on 24 August 2009

## Lump sum cost operating for motor vehicles

Due to publications in the Collection of Laws, further amendments to the Income Tax Act have come into force allowing the claiming of costs as a lump sum for operating motor vehicles, i.e., personal vehicles, lorries, or motorcycles.

The amendment allows for the application of the lump sum method in the amount of CZK 5 000 per month for costs related to operating a motor vehicle, i.e. detailing actual costs is not required. This method may be used for taxable periods starting in 2009. When applying the lump sum cost, there is no requirement for keeping a log book, which is normally used as a basic means of proving the amount and purpose of the costs associated with operating motor vehicles (especially the cost of fuel consumed). In addition, it is still possible to claim tax depreciation of a motor vehicle as a tax-deductible expense when using the lump sum cost method.

### The lump sum cost may be applied under the following conditions:

- if the motor vehicle is used to generate, assure and maintain taxable income for the whole month,
- if the motor vehicle is not available for another person's use (such as for the private purposes of the employee) and
- if it is one's own vehicle (individual vehicles do not have to be included in business assets), or the vehicle is leased (whether under operating or finance leasing), i.e., the lump sum cannot be claimed for vehicles used based on so-called gratuitous contract.

### Limitation of the lump sum cost

If the vehicle is used not only for business but also for private purposes of the taxpayer (in the case of individuals), it is possible to use the reduced lump sum amount of 4 000 CZK per month. In this case, costs of consumed fuel and parking, as well as 20% of other costs incurred in connection with a motor vehicle have to be considered as tax non-deductible costs. Furthermore, only 80% tax depreciation can be claimed with respect to this vehicle.

One tax payer is entitled to claim expenses as a lump sum (or reduced lump sum) for a maximum of 3 vehicles. For additional vehicles the costs must be applied in the actual amount. However, vehicles for which the lump sum method or actual costs are used can be changed during individual months.

### Consider VAT

Although the new regulation may, in particular, help smaller entrepreneurs simplify the administrative burden associated with proving costs for operating motor vehicles, it should be noted that in the case of VAT the equivalent adjustments do not apply. If a person claims input VAT (especially for fuel), he must prove that the vehicle was used for business purposes (e.g., through a log book).



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## Major changes in EU regulations on social security

As of spring 2010, new EU regulations on social security will bring a number of changes in determining the social security system for workers migrating to the EU.

The main objective of the new regulation is to modernize, simplify and clarify existing rules. The new regulation sets, for example, different conditions for the preservation of the social system of the home country, in particular with parallel work in two or more Member States. The current system, based on the E101 forms (certificate of membership to the legislation of a certain state), will be replaced by a new electronic system<sup>5</sup>.

### Details and timing

The new regulation comes into force on 1 March 2010. As it will not automatically be adopted by Iceland, Liechtenstein, Norway and Switzerland, special attention will have to be paid to the determination of legislation for workers migrating to those countries or from them. The following overview represents the most important changes that will be applicable as of 1 March 2010.

It is assumed, however, that some further changes will be made before the new regulation comes into force. We recommend consulting an expert in all cases of the migration of workers.

### Substantive changes

- The new regulation in its current version does not contain rules for third-country nationals working in the EU. For those people the current regulations will still be applicable.
- Persons seconded to another EU Member State for a period which does not exceed 24 months will be subject to the domestic social security system, provided that they do not substitute another seconded person. Currently, this rule applies only for the secondment which does not last for more than 12 months.
- However, as is the case currently, it is expected that posted workers may remain insured in their home country social security scheme for up to 5 years (depending on the practice of the countries involved) under a special exception, provided that both the home and host authorities agree.
- Persons working in the territory of two or more States are subject to the social security system of the Member State in whose territory they reside, provided that they carry out employment on a regular basis in that State. In relation to employment, the new regulation introduced requirements to carry out a substantial part in the relevant State, where at least 25% of the time and/or income of the employment is considered as substantial part.
- The new Regulation also aims to strengthen the principle of the rule of law of a single State. Therefore, no exceptions that would allow individuals to be insured in more than one Member State at the same time should exist. This change may have a particular impact on persons who are employed in the territory of one Member State and concurrently self-employed in another Member State.
- EU Member States will be entitled to claim debts and liabilities arising from social security against individuals and employers in other Member States.

## Administrative changes

- Employees, who are currently on a foreign assignment, will temporarily continue to be subject to processes laid down by the original regulation.
- Under the new regulation, E101 forms will no longer be issued. They will be replaced by an electronic system of „certificates“ while the temporary system of paper certificates will be used until the implementation of the electronic one.

### The new regulation contains both challenges and opportunities, and therefore cross-border workers and employers should consider, for example, the following questions:

- How will the new rules affect existing ways of assignment of employees abroad and how is it possible to modify existing methods of assignment in order to reduce the cost of social security insurance and lower the administrative costs?
- What impact will the changes have on assigned persons in respect of the amount of insurance benefits and convenience of the systems of individual countries?
- What changes in existing practices and processes will the employer have to implement during the transitional period in which the original regulations (for those already assigned) and the new regulations will be simultaneously valid?
- What will be the tax implications of any changes made in this context?

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<sup>5</sup>Currently, the social security systems to which the migrant workers within the European Union, Iceland, Liechtenstein, Norway and Switzerland belong is determined by Council Regulation (EC) No 1408/71 on the application of social security schemes to employed persons and their families moving within the Community. This Regulation also regulates the entitlement of migrant workers and their families to benefit from the state social system. New European Parliament and Council Regulation (EC) No 883/2004 on the coordination of social security systems, together with new implementing regulation will replace the existing Regulation 1408/71 together with implementing regulation 574/72. The new Regulation 883/2004 will come into force on 1 March 2010. The exceptions – Iceland, Liechtenstein, Norway and Switzerland – will continue to be governed by the original Regulation 1408/71 until these States adopt a new regulation themselves.



## New stricter rules on VAT exemption for goods followed by a dispatch

Under current EU rules, the importation of goods is exempt from VAT if followed by a supply or transfer of those goods to a taxable person in another EU Member State. Each EU Member State can currently set its own conditions under which the exemption is granted. As some businesses use different terms to avoid VAT payment, the Council of the European Union decided to unify the conditions for the exemption, and therefore a new Directive has been adopted.

Under the newly adopted Directive<sup>6</sup> exemption for these types of imports will only apply if, at the time of importation, the importer has provided the authorities of the EU Member State of importation with at least his VAT identification number and also the VAT identification number of the customer for the goods (issued in the EU Member State where the transport of the goods will end). The importer may also provide his VAT identification number issued in the EU Member State where the goods will be dispatched. A competent EU Member State's authority can require additional evidence that the imported goods are intended to be transported or dispatched from the EU Member State of importation to another EU Member State.

Individual EU Member States are to bring into force the laws, regulations and administrative provisions necessary to comply with the Directive with the effect from 1 January 2011.

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## US services regs – Czech considerations

On 31 July 2009, the IRS and the U.S. Treasury issued final transfer pricing regulations regarding the treatment of controlled services transactions under section 482 and the allocation of income from intangible property. These regulations are effective from 31 July 2009 and apply to taxable years beginning after 31 July 2009. Controlled taxpayers may elect to apply retroactively all of the provisions of these regulations to any taxable year beginning after 10 September 2003 and all subsequent years.

### These regulations will have an indirect impact on the Czech affiliates of US multinationals:

- Stewardship.** Czech affiliates may be charged more for management services provided by US parent companies, as the definition of “shareholder activities” was narrowed to include only such services whose „sole” rather than „primary” effect benefits the shareholder. This definition conflicts the OECD Guidelines on transfer pricing, and thus higher recharges may be challenged by the Czech tax authorities.
- Stock Options.** Czech affiliates may receive higher management or other charges from US parent companies, as current U.S. regulations require that total services costs include stock-based compensation.
- Markups.** Czech affiliates may be charged for certain services at cost (i.e. without a markup), as the U.S. regulations include a new cost-safe harbor method. In addition, there may be opportunities for higher markups charged by Czech affiliates for high-value services, as supported by benchmarking studies.

Costs for performance (in particular management services) charged to Czech affiliates are increasingly being focused on by the tax authorities and is an area subject to tax audit review. This review is focused both on the accuracy of applied transfer prices and on clarifying the fact that the services were actually provided and that the taxpayer benefits from these services. Therefore, we recommend preparing the appropriate transfer-pricing documentation in case of a tax audit.

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<sup>6</sup>Council Directive 2009/69/EC amending Directive 2006/112/EC on the common system of value added tax as regards tax evasion linked to imports

## Value Added Tax – the change of the taxable period for branches of foreign companies



The prepared VAT amendment may cause a change in the taxable period for companies that have no seat in the Czech Republic but have a VAT establishment in the Czech Republic<sup>7</sup>.

According to the Czech VAT Act since 1 January 2009 these companies have been obliged to file a VAT return quarterly. As of 1 January 2010 the taxable period will be assessed individually based on the company's turnover. If the annual turnover exceeds CZK 10 million (approx. EUR 390 000) the company is obliged to file a VAT return monthly. The turnover includes all taxable supplies excluding VAT, i.e. consideration for supplies of goods or services in the Czech Republic. This change is advantageous for companies that claim a VAT deduction.

The change is relevant for companies which have a branch in the Czech Republic.

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<sup>7</sup>For the purposes of the VAT Act a place of business is a place having permanent staff and material equipment, in which the tax payer carries out his/her economic activities

## The European Commission has released a Communication on VAT grouping

The European Commission („EC“) has adopted a Communication which sets out the principles which it considers should be part of a harmonised approach to VAT grouping across all Member States which choose to implement VAT grouping.

### These include:

- only taxable persons may join a VAT group and a taxable person may only join one VAT group at a time;
- a group is a single taxable person subject to the same rights and obligations as any other taxable person, all provisions of the VAT Directive, and the rulings of the ECJ;
- only companies or fixed establishments physically present in the Member State may be members of a VAT group;
- intra-entity ‚transactions‘ between an establishment of a member of the VAT group within the Member State and other establishments of that member outside the Member State should be subject to VAT;
- the necessary financial, economic and organisational links between VAT group members must exist simultaneously;
- the VAT group's right to deduct input VAT shall be determined on the basis of its transactions with third parties;
- transactions for consideration between members of the VAT group are considered non-existent for VAT purposes; and
- Member States should exercise the option to introduce measures to prevent tax evasion, avoidance, and abusive practices so that no unjustified advantage or harm should arise from VAT grouping.

Even though this Commission document has no formal standing, it should be borne in mind that the EC Treaty empowers the Commission to bring ECJ ‚infringement‘ proceedings against a Member State if it considers that it has failed to comply with EC law. It remains to be seen whether the Commission's views will lead to any changes to the VAT grouping rules in the Czech Republic.

In the light of the above information we suggest businesses should look closely at the opportunities/advantages which can be significant in the area of cost reduction that exist as a consequence of VAT grouping.

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## ... ECJ Corner

### Stadeco BV – Refunds of incorrectly charged VAT conditional on issue of corrected invoices

The ECJ has issued a decision concerning incorrectly charged VAT on an invoice (in this case, because the supply was exempt).

The Dutch taxpayer provided exhibition services including renting, building and dismantling display stands. Between 1993 and 1995 the taxpayer supplied such services to a Dutch Ministry which had no entitlement to input tax deduction in respect of these services. The stands were erected in Germany and non-EC countries. The taxpayer's invoices included Dutch VAT even if these services were not subject to VAT in the Netherlands. Subsequently, the taxpayer applied for a refund of VAT incorrectly charged and paid.

#### The ECJ commented on:

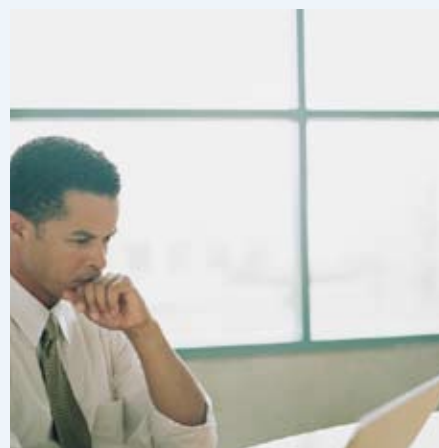
- the obligation to declare and pay incorrectly charged VAT on the invoice; and
- the possibility of correcting incorrectly issued invoices.

The ECJ's opinion is that a Member State may require that a person who has charged VAT on an invoice is liable to pay such VAT, even if no supply takes place in that state. Practically, if a tax payer charges VAT on invoices, he is obliged to pay such VAT to the state even if such supply is not subject to VAT.

The ECJ also confirmed that a Member State can insist on the correction of an invoice as a pre-condition of its repaying the erroneously charged VAT.

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## Tax advantages will not be lost by mortgage refinancing

In Instruction D-324 the Ministry of Finance returns to the debate from this spring on the tax deductibility of mortgage interests in cases where a mortgage is refinanced by another loan.

The Income Tax Act among other acts allows the taxpayer to deduct interests from the tax base on building savings or mortgage loans, once these loans are used for financing the housing need. This problem originally arose when a taxpayer refinanced a loan with another loan. Strictly speaking, this loan was not provided to finance the purchase of a flat, but to repay another loan.

By issuing guidelines the Ministry of Finance avoided giving priority to these interpretations and gave preference to the „meanings and objectives of the legislation on tax relief on housing needs.“ The Ministry stressed that the manner of loan financing is insubstantial in comparison to the fact that the loan was ultimately used to finance housing needs. It is therefore not important whether the source of the loan is the original loan or a subsequent loan.

Although Instruction D is not legislation, it is an important means of interpreting tax law. From the case law of the Supreme Administrative Court it is also implied that the Supreme Administrative Court can create a so-called „administrative practice“ and therefore impose legitimate expectations that the taxpayer will interpret the tax law in accordance with Instruction D. Such expectations may be due to the fact that such instructions are mandatory for each Tax Office

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## Entities may need to delay recording revenue from real estate sales

IFRIC 15 was issued back on 3 July 2008; however, it only became mandatorily from 1 January 2009. It was issued to address the diversity in accounting for real estate sales. Some entities recognise revenue in accordance with IAS 18, „Revenue“, (when the risks and rewards in the real estate are transferred) and others recognise revenue as the real estate developed in accordance with IAS 11, „Construction contracts“. The interpretation clarifies which standard (IAS 18 or IAS 11) should be applied to particular transactions and is likely to mean that IAS 18 will be applied to a wider range of transactions.

### What are the key impacts?

Entities that have previously recognised revenue from real estate sales under IAS 11 will be most significantly affected if their arrangements do not meet the definition of a construction contract. This might apply, for example, to entities that build residential houses or apartments for sale to individuals and might result in revenue being recognised later than under the existing accounting model. The new guidance may also have a wider impact and affect the accounting in other industries because IFRIC has stated that the interpretation may also be used by analogy in other circumstances to determine whether a transaction is accounted for as a sale of a good (IAS 18) or a construction contract (IAS 11).

### How does an entity determine whether IAS 11 or IAS 18 applies?

An entity should first consider whether a construction agreement contains more than one component. For example, a single real estate construction agreement may cover the delivery of additional goods or services such as the sale of land or the provision of property management services. An entity may need to split such an agreement into its separately identifiable components and consider each component separately to

determine the appropriate guidance and the basis for revenue recognition.

For example, a builder agrees to sell a standard apartment and provide maintenance services to the buyer for five years. There are two components to which IAS 18 should be applied. IAS 18.14 for the sale of goods is applied to the apartment and IAS 18.20 for the sale of services for the maintenance. The same builder agrees to sell a piece of land to a manufacturer and build a specialised factory on the land to a design prepared by the buyer. The sale of land is irrevocable and does not depend on the completion of construction.

There are two components: IAS 18 would be applied to the sale of the land and IAS 11 to construction of the factory.

Determining whether an agreement is within the scope of IAS 11 or IAS 18 requires that management use its judgement. IFRIC 15 interprets the guidance in IAS 11 and IAS 18 as follows:

- IAS 11: an agreement is a construction contract when the buyer is able to specify the major structural elements of the design either before or during construction. For example, an oil company that requires a new refinery might specify its exact requirements to the builder and monitor and change those requirements throughout construction. This illustrates the buyer specifying the major elements of design; IAS 11 would be applied to the construction of the refinery. The substance of an agreement to manufacture a large volume of similar assets to a buyer's specification should be considered to determine whether it is for the sale of goods and within the scope of IAS 18. For example, a vehicle manufacturer that receives an order for 100 buses of a standard design but painted in the operator's livery would apply IAS 18 to the delivery of each bus.

- IAS 18: an agreement is for the sale of goods when construction takes place independently of the agreement and the buyer has only a limited ability to influence the design. For example, a house builder has five different models of home in one development. The buyer specifies the model and chooses from a range of elements of interior decor. This demonstrates a limited ability to influence the design, and IAS 18 would be applied to the sale of the house.

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## Cross-border provision of services to be simplified

During the summer, the new act on free movement of services was published in the collection of laws. This act implements a European Directive in Czech law based on which such regulations are to be adopted in all member states which will, in a uniform manner, facilitate the cross-border provision of temporal and occasional services to entrepreneurs. What will the new act bring?

In the Czech Republic the service providers will have the possibility to approach the newly established contact points. These contact points will serve for persons interested in provision of services, in particular, as a source of information concerning regulation and required authorisations in the relevant area both in the Czech Republic and other member states. At the same time, it will also be possible to file applications for the relevant authorisations for the provision of services in the Czech Republic at these contact points. Both the provision of information and filing of applications at individual contact points will also be carried out via internet.

In their home countries the so-called cross-border providers will be allowed to provide their services based on authorisations which they obtained in their home country. The exception will apply where a special Czech legal regulation stipulates the cross-border provision of services differently or in the case of the so-called services of general economic interest (e.g., mail services, electric energy or gas supply, operation of airports or ports, public transport, water supply).

The above-mentioned act also regulates the exercise of supervision over the service providers upon which the Czech and foreign administrative bodies will co-operate. Among other things, a notification obligation towards service receivers is imposed on the service providers by this act. This obligation must be fulfilled before conclusion of a contract to the extent determined by the act. The information can be directly handed over to the receivers, placed in the business premises of the relevant service provider or on its web site.

The act, which will become effective in the Czech Republic from 28 December 2009, will apply to the service providers in the whole EU, EEA countries (Norway, Iceland and Lichtenstein) and Switzerland. On the other hand, it will not apply to the providers of explicitly specified services, e.g., banks or insurance companies. The act will also apply, e.g., to employment agencies and health service providers, but on a limited basis.

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## Benefits Group – Keep costs of benefits under control!

Frequent changes of taxation of employee benefits are making benefits budgeting difficult for companies. Sometimes the benefits chosen by the company, or agreed upon with trade unions, will lose their tax advantages in the future and the cost of offering them will increase.

Benefits Group of PricewaterhouseCoopers Czech Republic provides complex tax and legal consultancy services in the area of tax and insurance impacts of employee benefits. Benefits Group further focuses on identifying trends, comparison to best practice and preparation of recommendations for adjustments of internal company guidelines and collective agreements. Many benefits can become tax advantageous merely by different adjustment of the parameters or form of compensation.

Therefore, employee benefits are being evaluated from the long term perspective. We take into account not only the currently valid tax and related legislation but also the factual intention of the Ministry of Finance for the year 2010, proposals of the main political parties, the NERV group etc.

Benefits Group will allow you to easily orientate in the complex matter of employee benefits and help you negotiate collective agreements between the companies and its employees.

### Follow the traffic light!

Based on the extent of its tax favourableness, benefits can be divided into a so called traffic light, starting with green benefits being the most tax advantageous and ending with the red benefits that are unfavourable from the tax perspective of both the employee and the employer.

●	Tax deductible cost for the employer. Tax exempt for the employee (and is not included in the assessment base for social security and health insurance ("SSHI")).
●	Tax deductible cost for the employer. Taxable for the employee (but is not included in the assessment base for SSHI)
●	Tax non-deductible cost for the employer. Tax exempt for the employee (and is not included in the assessment base for SSHI).
●	Tax deductible cost for the employer. Taxable for the employee (and is included in the assessment base for SSHI).
●	Tax non-deductible cost for the employer. Taxable for the employee (and is included in the assessment base for SSHI).

**i** If you would like to discuss your employee benefits scheme or if you are interested in current trends in this area and cost saving opportunities, please contact:

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## Weakening Czech economy consumes less energy

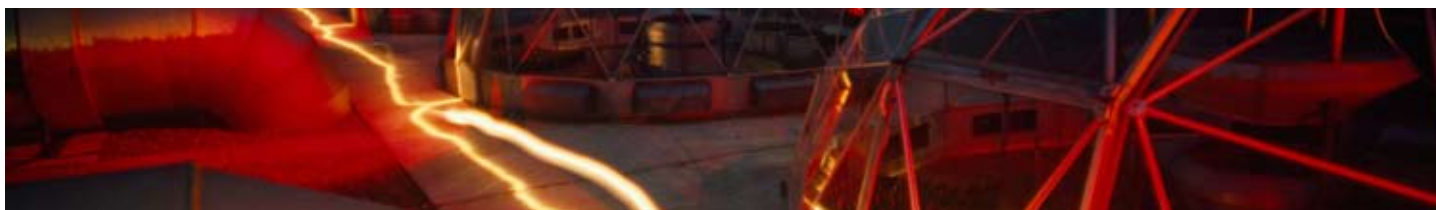
Energy regulation office stated that energy consumption dropped by 7% during the last six months in the year-to-year comparison.

**Richard Rezner from PricewaterhouseCoopers, a specialist in the energy industry, commented on the published results:**

“Figures that were issued by energy regulation office undoubtedly confirm the dependency of energy consumption development on the development in the industry and services sectors. Large-sized buyers decreased their consumption by 13% in a year-to-year comparison. Households slightly increased their energy spendings by 1.4%. This increase was caused by colder weather, which led households to pay more for heating, mainly during the month of January, but also in February and March.

The largest decrease in energy consumption was observed in both consumer groups in April. The total drop came to 15.5% (large-sized buyers 18.7%; households 9.9%). The energy industry also witnessed a slump in demand during the months of May and June in the year-to-year comparison, however the drop was relatively lower compared to previous months.

Positive signals may be derived from the industry sector development (production dropped by 12.2% which is a lower drop compared with previous months). However, this sign of change needs to be confirmed by a long-term trend.”



## Retail industry observes further decline in revenues

Revenues in retail further dropped by 4.9% in June compared to last year's figures. Declining revenues were reported by the CZ Statistical office for the ninth consecutive month.

**Jan Bízík from PricewaterhouseCoopers, an expert on retail industry, says:**

“Czech retail industry continues its expected decline and is following the developments of the Czech economy as a whole. Some non-food segments are subject to more extensive contraction. Similar to other industries, the crisis brings weak spots of the Czech industrial model to light.

Consumer confidence is further undermined by news about the prevailing decline in manufacturing production and soaring unemployment rate, which is yet to reach its peak.

Macroeconomic data about key economies in Germany and the USA bring positive signs. An increase in retail revenues will undoubtedly come with the Christmas season beginning in the autumn. In contrast with household spending from previous years, we expect households to be much more debt cautious, which will result in more aggressive forms of sales promotions”.

## Responsible Leadership: PwC Czech Republic published its first annual report on Corporate Responsibility

More than 1000 volunteering hours, almost CZK 1.6 million donated in cash, services and gifts, over 20 community beneficiaries. These are some of the highlights of the first annual Corporate Responsibility (CR) report of PricewaterhouseCoopers in the Czech Republic (PwC) for the financial year 2009.

Last year will be remembered as the time of one of the most serious global financial crises ever. Around 600 employees of PricewaterhouseCoopers in the Czech Republic as well as its business partners and stakeholders will also remember financial year 2009 as a time when PwC consolidated and expanded its social responsibility programme.

“Corporate Responsibility needs to be part of everything we do as a business – from observing ethical principals over the selection of suppliers, considering environmental impact of our activities to dealing fairly with employees,” said **Stephen Booth, Country Managing Partner, PricewaterhouseCoopers Czech Republic.**

“I believe this report demonstrates our commitment to the communities in which we live and work, to the environment we impact, to our employees, and to the marketplace in which we operate and that also is an inspiring reading for anyone who has taken responsibility to heart,” Stephen added.

You may read and download the Corporate Responsibility report in full length from our website: [www.pwc.cz/responsibility](http://www.pwc.cz/responsibility).

Responsible Leadership

## We lead the way

Corporate Responsibility Report  
for Financial year 2009



PRICEWATERHOUSECOOPERS

## Events...

### Tax Up-date

#### What already happened in 2009 and what is expected in 2010?

The 2009 became a year of significant changes also from the tax and social security perspective. Some of these changes are already in force and some will become effective from the beginning of the next year. Therefore we consider useful to inform you about the most important changes that may have impact on your company. In this respect you can expect from us a general overview of all changes in terms of taxes and social security insurance that we consider the most practical as well as warnings of the possible effects that these changes may have on you.

**When:** 30 October 2009, from 9:00 to 12:00

**Where:** PwC, Kateřinská 40, Prague 2

The seminar will be conducted in [Czech language](#). Participation in the seminar is free of charge, however, due to the limited room capacity a registration is necessary. **You may register** via **e-mail:** [marketa.kroupova@cz.pwc.com](mailto:marketa.kroupova@cz.pwc.com) or by **telephone:** +420 251 152 549 **no later than 25 October 2009.**

#### Our presentation will cover:

- Corporate income tax - super-fast tax depreciation and leasing and their use in practice, flat rate for transport, news in international taxation
- Personal income tax and social security and health insurance - changes in international taxation, allowances in social security insurance
- Value-added tax - EU VAT Package from 1 January 2010 - did you set your system to the new rules?
- Administration of taxes - news in paying taxes and insurance, major law amendments and judicial decisions, the basic principles of the new Code of Tax Proceedings

We look forward to meeting you.

### Cost Effective Industrial Real Estate - best practices

**When:** 22 September 2009

**Where:** Amcham Venue in Prauge

This professional seminar will be conducted in [English language](#) and is in collaboration with American Chamber of Commerce Czech Republic.

#### Topics to be discussed:

- Issues and trends in industrial real estate, focus on restructuring and refinancing
- Cost effective solutions by TAKENAKA Corporation - Case study
- Where to find savings in today's industrial property market?
- Effective facility management - how to save money?

More details might me obtained at [Amcham web site](#).

### Retail in Detail - Loyalty over Gold

**When:** 30 September 2009

**Where:** Andel's Hotel Prague

Professional Conference.

Event is organized by the Blue Events. PricewaterhouseCoopers became a Gold Partner.

#### How retailers can adapt their strategies and tactics to the new market situation?

#### Topics to be discussed:

- Trends of loyalty systems
- Loyalty towards chains and brands
- Specific experience with loyalty programs

More information about the event might be obtained at [this web site](#).

### Global Changes vs. Local Reality: How HR can deal with that?

**When:** 15 October 2009

**Where:** Pyramida Hotel, Prague

This professional conference will be conducted in [Czech language](#).

Conference organized by Economia Publishing House and Blue Events. PricewaterhouseCoopers involved as a professional speaker.

**You may register at:** [www.hrevent.cz](http://www.hrevent.cz)

Information about events we prepare are regularly available at our website in the **Events section:** [www.pwc.cz/events](http://www.pwc.cz/events).





# Business Academy

by PRICEWATERHOUSECOOPERS 

In autumn 2009, PwC Business Academy offers several educational seminars focused on various topics important to our clients. Come and learn from the expertise of our trainers.

For more details about our seminars, please see our website [www.pwc.cz/academy](http://www.pwc.cz/academy). To register, please fill in the registration form there. Contact us on [business.academy@cz.pwc.com](mailto:business.academy@cz.pwc.com) in case you have any further questions regarding our programmes

## From the tax and legal area, you can find in our offer the following programmes:

### Transfer pricing

13 – 14 October 2009

Lecturer:

David Borkovec, Jiří Dederá

Price:

13 500 CZK + VAT

The matter of properly setting transfer prices between related companies is currently taking on new significance and proportions. This certified programme is focused on analysing the tax and legal implications of transfer prices. Significant part of the programme is devoted to practical examples.

### EU VAT package

5 November 2009

Lecturer:

Martin Diviš, Alena Balážová

Price:

5 500 CZK + VAT

You will learn in details about various legal provisions associated with EU VAT package valid from January 2010. How will it impact company business and what are the key changes the new rules will bring? You will have the chance to go together with our experts through some practical examples.

### Personal Data Protection

12 November 2009, half day seminar

Lecturer:

Klára Valentová, Petr Novotný

Price:

3 500 CZK + VAT

Be in compliance with the law and avoid any potential risks of penalties for your company. Personal Data Protection is an issue in almost every company. Do not risk, come to find out what steps are crucial to take and consult situation of your company.

### Employment of EU citizens and foreigners

25 – 26 November 2009

Lecturer:

Andrea Gruntová, Helena Budská

Price:

13 500 CZK + VAT

Manage all formalities of employing foreigners in a complex, independent and appropriate way. We are now offering a new and uniquely comprehensive programme regarding problems of employing foreigners in the Czech Republic. The programme is significantly focused on practicing all explained topics.

## Tax & Business News, Czech Republic, 7 September 2009

This Tax & Business News is produced by PricewaterhouseCoopers' tax department in co-operation with Ambruz & Dark, advokáti, v.o.s., a Law Firm associated with PricewaterhouseCoopers.

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