

# Tax Flash

Czech Republic, 3 March 2009

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.

Legal Disclaimer: The material contained in this alert is provided for general information purposes only and does not contain a comprehensive analysis of each item described. Before taking (or not taking) any action, readers should seek professional advice specific to their situation. No liability is accepted for acts or omissions taken in reliance upon the contents of this alert.

© 2009 PricewaterhouseCoopers Česká republika, s.r.o. All rights reserved. „PricewaterhouseCoopers” refers to the Czech firm of PricewaterhouseCoopers Česká republika, s.r.o. or, as the context requires, the network of member firms of separate and independent legal entity.



## Contacts

**Lenka Mrázová**, Director  
lenka.mrazova@cz.pwc.com  
+420 251 152 553

**Jan Fischer**, Senior Manager  
jan.fischer@cz.pwc.com  
+420 251 152 539

PricewaterhouseCoopers  
Ambroz & Dark, advokáti, v.o.s.

**Prague office**  
Kateřinská 40,  
120 00 Praha 2  
+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

## Amendment of the Income Tax Act and the VAT Act approved by the Chamber of the Parliament

Today, the Lower Chamber of the Parliament approved two changes in the tax legislation that were hoped for by a number of tax payers. These changes are not as extensive as they are significant. The changes are aimed at thin capitalization and further relaxation of the rules for the tax deductibility of financial costs within the amendment of the Income Tax Act, and furthermore, at expansion of the entitlement to input VAT deduction on the purchase of passenger cars which was introduced in the amendment of the VAT Act.

This proposed amendment of the above tax acts still needs to be approved by the Senate and signed by the President of the Czech Republic. It is expected that the proposal will go through the whole legislative process during March 2009.

### Relaxation of the thin capitalization rules

The following changes were approved within the amendment of the Income Tax Act:

- The thin capitalization rules will not be applicable to financial costs of credits and loans between unrelated parties in case these credit and loans are secured by a related party
- The ratio between credits and loans from related parties and equity that ensures tax deductibility of financial costs is being increased to 4:1 (6:1 in case of banks and insurance companies)
- The tax non-deductibility of financial costs from subordinated credits and loans has been cancelled
- The thin capitalization rules will be newly applicable to so-called „back-to-back” credits and loans (credit and loans between related parties provided through an unrelated intermediary, e.g., a bank)

Thanks to these changes, the main features of the legal status of the thin capitalization rules that were valid in 2007 are, in effect, coming back.

The new thin capitalization rules will be valid for the tax period that started in 2009. However, according to transitory provisions, tax payers will be able to use these rules for the tax period started in 2008, as well.

These changes can influence the investment decisions you made in 2008, and, at the same time, can enhance your tax position if you assumed that the thin capitalization rules would not be changed. If you would like more information relating to these changes, **please contact:**

**Zenon Folwarczny**  
+420 251 152 580  
zenon.folwarczny@cz.pwc.com or

**David Borkovec**  
+420 251 152 561  
david.borkovec@cz.pwc.com



## Input VAT deduction for passenger cars

A new governmental VAT Act amendment contains the possibility to claim an entitlement to input VAT deduction on the purchase of passenger cars that will be used for business activities only. In case of using the passenger car for the both - business and non business activities, the entrepreneur will be entitled to claim VAT deduction to the same extent in which the passenger car will be used for business activities. If the VAT payer claims full entitlement to input VAT deduction and subsequently will also use the passenger car for non-business purposes, an obligation to pay VAT from the usage for non-business purposes will arise.

It is assumed that the amendment will be effective as of April 2009. In this case, the first entitlement to VAT deduction for passenger cars could, in practice, be claimed in the April 2009 VAT return, or alternatively in the 2Q VAT return for quarterly VAT payers. The parliamentary draft contains transitional provisions according to which it will be possible to claim the entitlement to VAT deduction only for passenger cars purchased after the effective date of the amendment.

Should you wish to obtain further information regarding the possibility to claim the entitlement to VAT deduction for passenger cars or should you wish to know more about other suggested changes of the VAT Act, **please contact:**

**Martin Diviš**  
+420 251 152 574  
martin.divis@cz.pwc.com or

**Petra Šafková**  
+420 251 152 552  
petra.safkova@cz.pwc.com

## Decision on the cancellation of the obligation to pay income tax advances

The Ministry of Finance has, within the anti-crisis measures on 23 February 2009, rendered a decision which cancels the obligation to pay income tax advances in the 2009 calendar year. This decision applies to individuals with income from entrepreneurship or other self-employed activities and to corporations, provided the individuals or corporation employed a maximum of five employees as at 1 December 2008.