

# Tax, Legal & Business News

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Tax, legal, accounting, advisory and assurance newsletter

January 2014

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## Tax

### The criteria for an unreliable VAT payer are being extended

A VAT payer that breaks the obligations laid down by the law with the result that the tax administrator will not accept a VAT deduction claimed by the VAT payer in the amount of at least CZK 500,000 will newly become an unreliable VAT payer. If the VAT payer does not pay the assessed or additionally assessed VAT even within the alternative maturity, the tax administrator can consider the payer unreliable.

Subsequently, the customers of this payer will guarantee the VAT that he did not pay as the supplier. The General Financial Directorate published this **information** on Friday 6 December 2013.



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### PwC Online is now available for Android

We informed you about the launch of our free internet information service **PwC Online**, at the beginning of November. This service sends you the news in tax, law and business, including technical comments from our experts, on a regular basis.

We are pleased to inform you that a version for the Android operating system is now available to download in addition to the Apple iOS platform version.

We will present the version of the application for BlackBerry in the very near future.

Instructions on how to download the PwC Online application to your mobile or tablet are available **here**

([www.pwc.com/cz/cs/online](http://www.pwc.com/cz/cs/online)), where you can also find all current topics of this service.



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

## Tax

### Unrealized exchange rate differences belong in the tax base

You don't know what to do with unrealized exchange rate differences and their impact on the income tax base? Are you confused by the Supreme Administrative Court decision and the subsequent conflicting opinion of the Financial Directorate in recent years? An amendment to the Income Taxes Act, effective from January 2014, could answer the question of how to deal with unrealized exchange rate differences kept in the records.

The purpose of the modified definition of expenses and revenues in a new wording was to avoid confusion and to clarify that unrealized exchange rate differences kept in the records should be included in the tax base. That's not news for most taxpayers. What's important is that those who decided to follow the Court's decision may do so even in the periods commencing in 2013. Nevertheless, they must not forget to follow the decision in the same manner for both foreign exchange rate gains and losses. And at the same time, they must bear in mind that the real exchange rate profit or loss and not the book profit will be subject to taxation at the time of payment.



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## Law

### A new era in Czech legislation - Amend your founding documents and opt in

A reduction in the minimum amount of registered capital for a limited liability company to CZK 1; the possibility to connect special rights with the business share, such as a preferential right to a dividend; the possibility of introducing the monistic management system for joint stock companies and establishing the administrative board and the statutory director instead of the dualistic management system; cancellation of the chaining ban... All this and much more is being introduced by the new legislation which took effect on 1 January 2014.

How should you proceed if you want to avoid penalties and, in extreme cases, the dissolution of your company? Just accepting the new legislation is not enough; you have to take active steps. First, you should focus on the founding documents, because there has been a fundamental change requiring their revision. The founding documents must be amended no later than 30 June 2014, or the company will be dissolved by a court decision and liquidated. At the same time, any provisions of the founding documents which contradict the compulsory provisions of the Act on Commercial Corporations (ACC) are automatically cancelled as of the beginning of 2014. You should therefore make the amendments as soon as possible.

On a side note, after amending the

founding documents, you should focus on changing the contract on performance of a function. In particular, you should amend the provisions on remuneration so that these comply with the new legislation also by 30 June 2014. Otherwise, the execution of a function would be considered to be free of charge.

When you amend the founding documents, you should focus on two steps: bring the founding documents in accordance with the compulsory provisions of the ACC and incorporate the provisions the company will benefit from. The new legislation does allow the founding documents to be amended differently from the ACC provisions in many cases.

The new legislation sets out different elements of the founding documents which must be observed. Limited liability companies will be required to specify the number of executives, the types of shares of each shareholder and the rights and obligations associated with them if the articles of association allow such different kinds of shares. The specification of the types of shares is related to some important news: the possibility of recognizing a setup of different types of shares with which it is possible to associate various rights and obligations. Such rights include the preferential right to a dividend or the right to decide in a given decision-making process (or to have a decisive voice).

In addition to the requirement to amend the articles of association so that they are in line with the

compulsory ACC provisions, we also recommend amending the founding documents with provisions that are beneficial for your company. For example, it is newly defined that if the articles of association do not explicitly restrict the transferability of shares to a third person, the share is always transferable with the consent of the general meeting. If you do not incorporate such a provision into the articles of association, the majority shareholder alone could approve the transfer of shares to any third party, and a minority shareholder will not be able to control this procedure at all.

Articles of association are newly required as a condition for setting up a joint-stock company, taking into account that the founder is the one who has adopted the articles of association and participated in the subscription of shares. The obligation to specify the number of votes associated with one share and the total number of votes in the company in the articles of association is also newly introduced. All this and much more is being introduced by the new legislation that represents one of the biggest changes in the Czech legal system affecting the vast majority of legal areas, from corporate to real estate law.



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## Employee

### Employee card replaces the residence and employment permit

The Ministry of the Interior will issue a new type of residence permit based on an amendment to the Act on the Residence of Foreign Nationals – an employee card. The employee card will have a dual nature, being the residence and employment permit at the same time. Terms like permission to stay over 90 days for the purpose of employment and green card will completely disappear from the legislation.

The amendment is primarily intended to ensure the implementation of the directive (of European Parliament and Council 2011/98/EU) which requires a single procedure in dealing with applications for work and residence permits for citizens of third countries.

The amendment had originally come into force in December 2013, but its effectiveness was postponed until the beginning of 2014 with regard to the current political situation.

The amendment to the Act on the Acquisition of Czech Citizenship, which we told you about in a previous issue of Tax, Legal and Business News, is also valid from 1 January 2014. Applicants for Czech state citizenship will now have to demonstrate a deeper knowledge of the cultural environment of the Czech Republic and will have to pass a test demonstrating awareness of aspects of Czech society such as the constitutional and legal system. This is in addition to the language test. The benefit of the

amendment is that foreigners will no longer need to give up their existing citizenship, i.e. they can hold two citizenships.

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### Personal income tax in 2014 – what to expect

Unlike many past years, 2014 will not bring any truly fundamental changes to either employers or employees. This is due primarily to the fact that the super-gross salary has not ended, the solidarity tax increase is continuing, the threshold on health insurance is still not fixed and tax and insurance rates are unchanged.

For completeness, the maximum assessment basis for the payment of social security premiums is CZK 1,245,216 for 2014.

#### And an outlook on 2015?

The fact that the previous Chamber of Deputies already approved the modified parameters of the income tax and other levies to individuals for 2015 has not been mentioned much yet.

If the current political representation is unable to find a consensus on taxes and public insurance, we can expect the following from 1 January 2015:

- Cancellation of the super-gross salary and the introduction of a single rate of personal income tax of 19%
- Continuation of the solidarity tax increase
- Non-existence of the health insurance threshold
- Increase in health insurance premiums paid by an employee from

4.5% to 6.5%

- Cancellation of the basic tax allowance for high-income workers
- Effective cancellation of the threshold on social security for the employer as a result of the introduction of the new “payroll” tax amounting to 32.4%, which should replace the social and health insurance paid by the employer so far.

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### Work clothes can be exempt from tax

The Supreme Administrative Court (SAC) decided that if an employer provides work clothes as a non-monetary transaction, it does not have to represent taxable income for the employee.

The SAC also stated that clothes available for purchase in the usual shops and whose use is provided for in an internal directive of the employer may, under certain conditions, represent work clothes designated by the employer for the performance of the job.

The financial contributions of the employer to the work clothes continue to represent taxable income for an employee subject to compulsory insurance.

In accordance with previous decisions, the SAC held that the exemption under the Income Taxes Act applies only to the value of provided uniforms and work clothes, and the term value applies only to non-monetary transactions.

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## Study

### Czech companies experience almost a quarter of a year of less tax obligations over the past five years

The Paying taxes 2014 study of the World Bank, IFC and PwC demonstrated that the Czech Republic has managed to achieve the largest reduction in the administrative tax burden within the European Union and the European Free Trade Association. In particular, this is thanks to a number of system simplifications and the introduction of the electronic submission of both tax returns and payments. A medium-sized Czech company thus spends an average of 413 hours processing the agendas and preparing data related to the collection of taxes. This amount dropped by an incredible 517 hours over the past five years! This equals about three months of working time which can now be dedicated to the business.

The Czech Republic is one of only six countries in the EU and the EFTA which has managed to significantly reduce the time required to fulfil tax obligations by more than 100 hours for the entire history of the Paying taxes study. At the same time, it is the only one in the region that has managed to reduce these demands for all investigated types of taxes.

But the overall difficulty of paying taxes in the Czech Republic is still among the most demanding in Europe. So there are still lots of opportunities to create a friendlier tax system. Call centres, methodological support and increased use of electronic communication and e-audits may be examples of such opportunities.

More information on the Paying Taxes study is available at [www.pwc.com/payingtaxes](http://www.pwc.com/payingtaxes).



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## The Academy

### Invitation to a seminar

#### **Slovak corporate income tax and amendment to the VAT Act, effective from 1 January 2014 in Slovakia**

##### Course content

The first part of this seminar focuses on corporate income tax payable and offers a complete overview of costs, revenues and other items, which usually require a specific treatment in the corporate income tax returns of taxpayers keeping books under Slovak Accounting Standards. The seminar also provides information about the most important changes in this area, effective from 2014. The second part of the seminar focuses on changes in the VAT law, such as changes in VAT registrations and the VAT Ledger – new requirements for all taxpayers or new reporting for credit and debit notes.

##### Course details

Date: 17 February 2014, 8.30 - 13.30.

Venue: City Green Court, Hvězdova 1734/2c, Prague 4

Language: Slovak

Price: 5,900 CZK + VAT

##### How to register?

For more information and registration, please visit our webpage [www.pwc.cz/academy](http://www.pwc.cz/academy). Should you have any questions, please write an email to [the.academy@cz.pwc.com](mailto:the.academy@cz.pwc.com) or contact **Daria Šašková**, tel.: +420 251 152 446.

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

## We invite you

### News on tax-deductible items for research and development

- **5 February 2014 in Prague** – PwC office, 9:00 - 11:00.
- **11 February 2014 in Brno** – Hotel Holiday Inn Brno, Křížkovského, 9:00 - 11:00.

More info at [www.pwc.cz/vyzkumavyvoj](http://www.pwc.cz/vyzkumavyvoj)

### Work migration in the Czech Republic

**7 February 2014 in Prague, Working breakfast**

PwC office in Prague

Registration: [darja.sykorova@cz.pwc.com](mailto:darja.sykorova@cz.pwc.com)

You can find details about these and other events at [www.pwc.cz/events](http://www.pwc.cz/events)

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