

Tax, Legal & Business News

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Tax, legal, accounting, advisory and assurance newsletter

April 2015

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 (known from our mobile application)



Tax

Correction of the VAT amount for receivables from debtors in insolvency is changing again

The Supreme Administration Court (SAC) questioned the existing administrative practice connected with correcting the VAT amount for receivables from debtors in insolvency. To date, the provisions of Section 44, para. 1 of the VAT Act have been interpreted by the Ministry of Finance and the General Financial Directorate in such a way that the corrections were possible for receivables that were older than six months in the time of bankruptcy. However, the SAC has now come to the conclusion that corrections can be made only for receivables that arose at most six months before the ruling on bankruptcy. In connection with the court's decision, we recommend reviewing those receivables which the SAC's judgement can affect and which could thus open up a chance to reduce tax.



Martin Diviš
+420 251 152 574

Excise duty on tobacco products is rising

The increase in the excise duty will relate to cigarettes as well as cigars, cigarillos, and rolling tobacco. It should have an even impact on all price categories of cigarettes. According to the submitted proposal, in the year 2016, the excise duty should increase by CZK 3 on a pack of cigarettes, which will represent an increase in the price of a pack of CZK 3.60. This is coming from the prepared amendment to the Act on Excise Duties which the Ministry of Finance announced and according to which the excise duty should be increased in three steps, effective January 2016, January 2017 and January 2018.



Pavla Polanská
+420 251 152 628

Decision rights for estate settlement and taxes

Beginning August 2015, foreign nationals with usual residency in the Czech Republic and Czech citizens with usual residency abroad can choose whether their whole estate will be settled under the laws of the country of their usual residency or those of their country of citizenship. In fact, EU Regulation no. 650/2012 of the European Parliament and of the Council takes effect and becomes directly applicable on 17 August 2015. We can help you discover and compare the tax implications of such a decision on your estate, and we can also offer related legal advising and services.



Peter Chrenko
+420 251 152 600

E-books fall under the standard VAT rate, as decided by the European Court of Justice

Member States cannot apply a reduced VAT rate on e-books, as they do for print books. This has resulted from a legal dispute brought by the European Commission against France and Luxembourg, who had considered e-books as equivalent to print books and applied the reduced VAT rate on them. But according to the European Court of Justice, in the case of e-books, it doesn't concern goods but rather services provided electronically, which must be taxed at the standard VAT rate according to the EU VAT Directive.



Martin Diviš
+420 251 152 574



If you are interested in receiving Tax, Legal & Business News, please contact [Denisa Skalova](mailto:denisa.skalova@cz.pwc.com), denisa.skalova@cz.pwc.com.

Tax

Tax proceedings: “Crime & punishment” in electronic submissions

We informed you about the new obligations for electronic submissions, so-called form submissions (e.g. tax return), in the January edition of TBN. In this respect, we need to point out that the Tax Code distinguishes between “complete” (or qualified) and “incomplete” (non-qualified) electronic submissions. According to the explicit wording of the law, however, form submissions can only be made in a qualified way.

The “complete” electronic form of the form submission is only a data report sent either from the databox or from the Tax portal with login details for the sender’s databox or with a recognised electronic signature.

The “incomplete” but frequently used form of the electronic submission is to send it from the Tax portal without the sender’s identification and login details for the databox and without an electronic signature, and the subsequent (in five days’ time) written confirmation with a document created by the Tax portal.

The tax administration has just announced that, for a temporary period in the year 2015, even print forms submitted in an “incomplete” electronic form will be accepted, i.e. there will be no appeal to remove errors in the submission or to pay a fine.



Radek Buršík
+420 251 152 509

Bitcoin and taxes...

Bitcoin as a virtual, decentralised and deregulated means of payment has already been functioning on the internet for several years. It’s no longer just a means of payment used in closed circles or interest groups on the web; it’s gaining ground in the real economy as an alternative to existing currencies. The regulator in the Czech Republic (the Czech National Bank) doesn’t consider cryptocurrencies as real currencies or as electronic money. Now it’s possible to liken the relationship in bitcoin transactions rather to an exchange of goods, or barter. If however someone in a bitcoin transaction makes out with a greater value than what he put in, he should calculate his profits in Czech crowns and subsequently tax and pay VAT (if he is a VAT payer) on the goods sold, even if the buyer pays with bitcoins. The first sign of regulating this problem is the methodical instruction of the Czech Ministry of Finance.



Marek Kreisl
+420 251 152 906



Law

Uncertainty about form of power of attorney

Not even a full year after the new Civil Code took effect a case has come to the Czech Supreme Court concerning the problematic question of forms of powers of attorney, which causes considerable problems especially in entrepreneurial practices with foreign elements.

In its decision, the Supreme Court submitted an interpretation of Section 441, para. 2 of the new Civil Code, according to which a power of attorney for a legal act (for which the law requires a specific form) must be done in the same form. So if the legal act should be done in the form of a notarial record, the power of attorney should also have this form. For example, if a foreign founder wanted to establish a new company in the Czech Republic using an attorney’s services, in extreme cases he would have had to come to the Czech Republic to authorise his attorney here in front of a notary; his attorney would then finish the establishment process on his behalf. Such a procedure has weakened the very meaning of representation and introduced frequent barriers for foreign entities that could have only been overcome with difficulty.

The Supreme Court explained that a power of attorney for a legal act, for which the law requires the form of a notarial record on a legal act, is not invalid due to the deficiency in the form required by the law if there is no doubt about who (which person) granted the power of attorney. In practice this means that even if the power of attorney is done for a legal act that requires the form of a notarial record, it’s sufficient if it’s done in writing and if the signature of the principal is officially verified.

Nevertheless, it should be noted that it will take awhile before the company registry courts start working with this decision. What’s more, many notaries will still demand the power of attorney in the form of a notarial record, the reason being that the Supreme Court’s decision was only related to cases of establishing business corporations, and its conclusion cannot be applied generally to the form of a power of attorney.

Although the Supreme Court’s decision was in general seen as positive in the business world, it did not bring legal certainty to the interpretation of the controversial part of Section 441, para. 2 of the Civil Code. We have no other choice but to wait for the amendment to the Civil Code, which should eliminate the interpretation issues by changing the provisions in question.



Daniel Pikal
+420 251 152 974

Employees

New service: personnel strategy for small and medium enterprises

Small and medium enterprises often cannot afford to invest great financial resources in their own team of HR experts. When a company grows, however, it’s not only necessary to recruit employees but also to ensure and correctly set up an appropriate HR strategy or development system for

Employees

employees and their remuneration. But the reality is that such companies are not concerned with the HR strategy at all – they only address the most urgent administrative issues. An effective solution for many companies can be to outsource the HR function. It will bring savings to the company in the form of expenses for permanent employees, a wide range of know-how from large enterprises, and regular support without the need for the long orientation process which is necessary for new employees.

A PwC team of experienced HR professionals has started to offer such services. Among other things, the team can help a company:

- effectively plan for the amount and structure of employees
- set up a system for assessing and measuring performance
- prepare a strategy for employee development
- design a targeted development and education program linked to the company’s real needs
- prepare a succession program
- handle other activities necessary for stabilising, developing and effectively managing the company



Andrea Linhartová - Palánová
+420 251 152 568

Study

Trends in the European hotel industry: average price of Prague hotels will exceed CZK 2,000 this year

The PwC study European cities hotel forecast for 2015 and 2016 monitors 20 significant European cities, analysing the average earnings and occupancy of hotels there. The average occupancy of Prague hotels reached 70.5% last year, which is the highest since 2007, and according to the study it should increase this year to 72%. From the hoteliers' perspective, this year Prague should rank among the five most interesting cities in Europe.

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Prague hoteliers are benefitting from the weak exchange rate of the Czech currency. Moreover, this year the demand for hotel services is being strengthened by several important sport events, especially the world championship in ice hockey. The Russia-Ukraine conflict caused a drop in demand from clients from those countries, but guests from other countries in Europe, America and Asia replaced them. The average price for one hotel room in Prague reached CZK 1,982 last year; this year, according to predictions, it will go up by about 2% to about CZK 2,018. The Czech metropolis however is still—after Porto—the least

expensive of the big European cities that were followed.

Supporting the expected growth of the European hotel business are the improving economy and the revival of business trips. 2014 was already a successful year for the European hotel industry. Last year Europe welcomed 20 million more foreign tourists than in 2013. The study is expecting higher year-on-year growth this year for almost all of the observed cities except Geneva, Zurich and Moscow. The Swiss cities were impacted by a strong Swiss franc, which considerably raised the price of accommodation for foreign visitors, and Moscow is feeling the impact of international sanctions.



Jan Musil

+420 251 152 160

Occupancy of European hotels

2014	2015*	2016*
1. London (83.0%)	London (84.3%)	London (84.6%)
2. Edinburgh (80.4%)	Edinburgh (81.0%)	Edinburgh (81.3%)
3. Paris (80.3%)	Paris (80.5%)	Paris (80.9%)
4. Dublin (78.3%)	Dublin (79.6%)	Dublin (80.2%)
5. Amsterdam (77.2%)	Amsterdam (78.1%)	Amsterdam (78.4%)
6. Belfast (76.1%)	Belfast (76.8%)	Belfast (77.6%)
7. Berlin (74.2%)	Berlin (74.4%)	Berlin (75.0%)
8. Zurich (73.2%)	Barcelona (73.5%)	Vienna (74.3%)
9. Barcelona (73.0%)	Vienna (73.2%)	Barcelona (74.1%)
10. Vienna (72.0%)	Zurich (73.0%)	Lisbon (73.5%)

Czech CEO Survey 2015: 70% of companies are increasing investments in digital technology this year

Generally, CEOs don't see the speed of technological change as a big threat to their firms. Nevertheless, 70% of respondents are planning to increase investments in digital technologies this year, and about 60% want to improve their use of current technology.

Corporate processes are being automated. That's why CEOs see the biggest room for a more effective use of technology in their pursuance of increasing competitiveness.

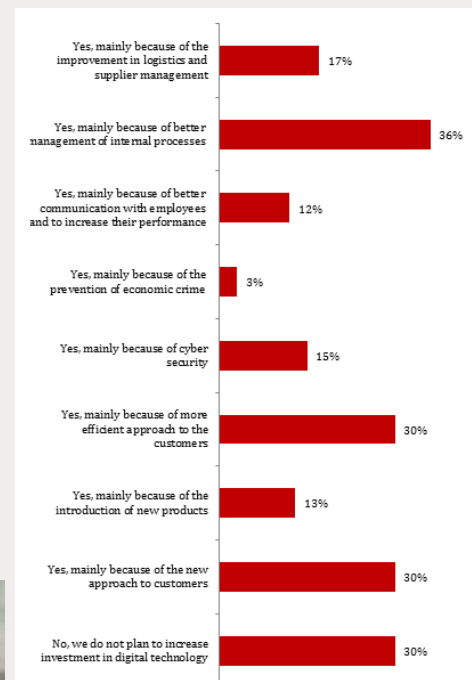
Social media, big data and mobile technology are already contributing to the development of completely new business models and the acquisition of a competitive advantage. It only depends on the decision of top management, as an ambassador of these changes, whether digital technologies will be established and will enable a competitive advantage to be gained or weaken the head start of competitors.

We have to wake up to the fact that sooner or later companies will switch over to new technologies, and the ones who will be forced to do so due to pressure from competition rather than from their own, management-supported decision will lose out.

Have a look at how we see it in PwC at www.worldinbeta.com.



Are you going to increase investment in digital technology?



Viktor Nagy

+420 251 152 061

**We invite you****Expert seminar:****International trade in goods from the VAT perspective**

27.4.2015 in Prague, 9am – 1pm

PwC, Hvězdova 1734/2c, Prague 4

Registration: dph.seminare@cz.pwc.com**Conference:****POTIFOB Project Management Day 2015**

30.4.2015 in Prague, 9am - 4:30pm

PwC, Hvězdova 1734/2c, Prague 4

Registration: <http://pmday.potifob.cz/>

Discount code for you: „PMD 01“

The Academy**April seminars on IFRS**

In April you can look forward to two seminars on IFRS. The first is Recognising revenue under IFRS (IAS 18 and IAS 11) and presenting the new standard IFRS 15, which will take place 22 April. The second is at the end of the month: Accounting for leasing and rentals under IFRS and Czech accounting standards, impact of planned amendment to IAS 17, on 28 April.

Price: CZK 6,900 + VAT**Language:** Czech**How to reserve a place?**

For more information and to register, please visit our website www.pwc.cz/academy. If you have any questions, don't hesitate to contact Lucie Kašparová, tel: +420 251 152 035 or write to the.academy@cz.pwc.com.

www.pwc.cz/academy**Contact****Jiří Moser**

Country Managing Partner

PwC ČR

+420 251 152 048

David Borkovec

Lead Tax & Legal Services Partner

+420 251 152 561

Věra Výtvarová

Lead Assurance Services Partner

+420 251 152 099

Miroslav Bratrych

PwC Advisory Partner

+420 251 152 084

Michael Mullen

PwC Legal Partner

+420 251 152 700

Prague Office

Hvězdova 2c, 140 00 Prague 4

+420 251 151 111

Brno Office

náměstí Svobody 20,

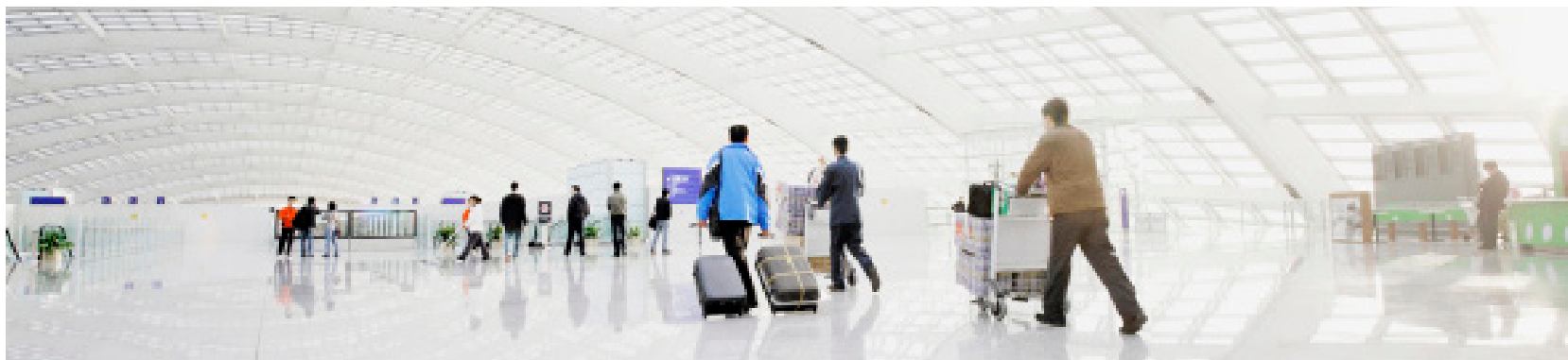
602 00 Brno

+420 542 520 111

Ostrava Office

Zámecká 20, 702 00 Ostrava

+420 595 137 111



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