

Tax Flash

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Tax administration has additionally assessed nearly a billion Czech crowns of tax liabilities as a result of transfer pricing audits

During the last year, the Czech tax authorities have intensified transfer pricing audits of taxpayers who engage in intercompany transactions with related parties. Last year, 800 tax audits aimed specifically at the pricing of intercompany transactions were carried out. The tax audits resulted in CZK 450 million in additionally assessed income tax. In the first three months of the current year, another CZK 500 million in additional income tax was assessed.

The tax audits reflect the current tendencies on the world stage in the area of transfer pricing, when the number of countries that fight so-called aggressive tax planning is growing, as well as the local pressure and goal of raising state tax collections. The increasing number of tax audits focused on transfer pricing is associated with the new mandatory disclosure to the corporate income tax return (i.e. Overview of transactions with related parties), which is obligatory for many taxpayers to file together with their tax return for the taxable periods starting from 1 January 2014 and thereafter. The tax

administration analyses data stated in this mandatory disclosure and thus can better identify potential targets (taxpayers) and specific areas for tax audits. In addition, Czech tax authorities expanded their risk assessment through field investigations on transfer pricing starting from 2015, some of which led to focused tax audits. The result of this prevailing tendency is that nearly one-third of all tax audits led to an additional income tax assessment or tax loss reduction. It is expected that the tax administration will continue the current trend.



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How can we help you?

This is why we recommend not underestimating the transfer pricing setup in intercompany transactions and paying proper attention to this topic.

How can we help you?

1) We will evaluate the basic risks of related-party transactions

The company will know the same potential outcome of the risk assessment review to which the tax administration could also arrive; and will therefore be better prepared for a potential tax audit.

2) We will perform a detailed analysis of the related-party transactions including their nature, price methodology applied and available supporting documentation

We will examine the arm's length nature of the transactions. The company will be well prepared for a potential audit and will be able to make proactive modifications to the pricing policy and/or prepare the documentation and consider broader changes and opportunities for the business and pricing model.

3) We will prepare transfer pricing documentation

We will prepare transfer pricing documentation supporting the arm's length nature

of the transactions. The transfer pricing documentation will serve as a tool to defend prices during a potential tax audit and will follow the specific local requirements and guidance of the tax administration.

4) Advance Pricing Agreement ("APA")

We will prepare an application for a binding ruling from the Czech tax authorities on the methodology used in the pricing of specific transaction(s) with related parties and support the company in its negotiations with the tax administration. The APA will provide certainty over the transfer prices for the period of three years from the Czech (unilateral), or Czech and foreign (bilateral / multilateral), perspective.

5) We will perform a simulated tax audit in the area of transfer pricing

We will simulate the risk assessment and audit steps in a potential tax audit. This includes a review of legal agreements, invoices, supporting documents available to the company locally, and interviews with company personnel based on questionnaires typically used by Czech tax authorities. The company will know its risk areas and get recommendations on how to better prepare for a tax audit and/or modify its transfer pricing setup to enhance its defensibility.

