

### Summary

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### Tax

#### Changes in the reverse charge procedure will affect electricity and gas traders

Electricity and gas traders will now pay VAT from the purchased commodities in the reverse charge regime. The regime shall also be applicable for certificates for electricity from renewable sources.

The newly approved government regulation, effective 1 February 2016, includes the possibility of a written agreement between the seller and buyer regarding the application of the reverse charge procedure for select goods (cereals, metals, mobile phones and other electronics) as well as for transactions with a value below the set limit of CZK 100 thousand. Tax authorities shall not question the process in the case of a written agreement.

The financial administration is currently preparing a notice concerning the reverse charge regime between electricity and gas traders, which should help its application. The Czech Republic and Slovakia together are working at the European Commission towards extending the reverse charge regime also for milk and meat.



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#### The Double Tax Treaty with Liechtenstein is in force

The Double Tax Treaty between the Czech Republic and Liechtenstein, in force since December 2015, should increase legal certainty for potential investors from both countries. The treaty allows withholding tax on dividends to be reduced to zero. Adjustments in the exchange of information in tax matters are relevant for the implementation of this treaty and for the mechanisms helping to prevent possible tax evasion and fraud. Also, Liechtenstein together with Switzerland signed an agreement with the EU on automatic exchange of information on financial accounts within the OECD framework. National financial authorities should have an overview of the countries where their taxpayers have bank accounts and thus oversee the proper fulfilment of their tax obligations.

#### European Commission proposes new measures against tax evasion

The European Commission presented a package including the directive against tax evasion, which contains the following measures:

- ongoing taxation of the profits of controlled companies in tax havens, regardless of the actual dividend payment (i.e. CFC rules);
- tax administrator's authority to approve in advance the tax exemption option as opposed to the option of offsetting taxes on cross-border income (i.e. switchover rule);
- taxation of the transfer of assets or residency abroad (i.e. exit tax);
- obligation to respect the characterization of income from the source country (avoiding double non-taxation of so-called hybrid instruments);
- limits on the tax deductibility of interest; and introduction of a general rule preventing the abuse of the tax law.

If approved, the Czech Republic will have to implement the proposed changes into the national legislation.



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#### Sources for asset depreciation may block payment of dividend

A new test for the payment of dividends implemented by the atypical Accounting Act affects companies that account for the results of research and development in assets. Dividends may be paid if a company maintains disposable sources in equity that are sufficient for covering the residual value of own undepreciated R&D results. As a result, part of the disposable sources are blocked for the absorption of the future depreciation of R&D assets.



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## Law

### **The Chamber of Deputies will discuss the implementation of MiFID II**

The amendment of the Ministry of Finance regulating the Act on Capital Market Undertakings, Act on Investment Companies and Investment Funds, Criminal Code, Criminal Procedure Code, Law on Banks and the Law on Savings and Credit Cooperatives, is proceeding to the third reading in the Chamber of Deputies.

The forthcoming proposal responds to the obligation to implement a set of EU regulations in the capital market – a directive and a regulation on financial instrument markets MiFID II and MiFIR, Market Abuse Regulation (MAR) and the Criminal Sanctions for Market Abuse Directive (CSMAD).

One of the things the amendment does is regulate the implementation of so-called organized trading venues, platforms for the trading of non-capital investment instruments. Further, it proposes the regulation of trading with emission allowances and its derivatives or the possibility to forbid trading with specific investment instruments that threaten the stability of financial markets.

This is how the Ministry of Finance is responding to another EU requirement.

### **New law reduces the number of non-bank loan providers**

The Ministry of Finance is preparing a new law on the consumer credit which

Imposes the obligation for credit providers to maintain capital at the minimum amount of CZK 20 mil. The law also reduces the contractual penalties for a consumer's default to 0.1% of the outstanding amount per day of delay. It also allows consumers premature repayment of housing loans, in some cases without penalty.

One of the main objectives of the law is to reduce the number of non-bank loan providers of consumer credit. The proposal is in its content a reflection of the EU requirements given by the EU Directive. If it successfully passes the legislative process, the law will take effect in the first half of this year.

### **European Commission agreed that double tax treaties can be discriminatory**

Existing agreements on avoidance of double taxation within the EU might need to be adjusted. The European Commission (EC) recently addressed the problematic article Limitation of Benefits in the Double Tax Treaty between the Netherlands and Japan. According to the EC, the agreement denies advantages to some recipients of Japanese payments in a discriminatory way, which contravenes EU law.

Dutch entities whose owners originate

from different EU countries do not have a right to lower withholding tax on dividends, interests or licence fees from Japan. On the contrary, the right was recognized for entities owned by Dutch owners or whose shares are traded on the Dutch stock exchange.

The EC's decision, supported by the case law of the European Court of Justice, might affect other double tax treaties within the EU.



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## Employees

### **Increase in the tax benefit for the second child is awaiting approval**

In recent years we have experienced an increase in the tax benefits for individuals with dependent children living with them together in a private household.

The proposal waiting to be approved changes the amount of the tax benefit for the second child from the current CZK 15,804 to CZK 17,004 per year, and for the third and every other child from CZK 17,004 to CZK 20,604 per year. The amount of the tax benefit for the first child remains unchanged, i.e. CZK 13,404 per year. Also, the maximum amount of the tax bonus does not change.

If approved, the increase in the tax relief will apply retroactively from January 2016. However, the difference in the tax relief for the first months of the year 2016 will be settled after submitting the 2016 tax return or the annual settlement at the beginning of 2017.



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### **New amendment changes the legal deadline for the administration of visas and stays**

The new amendment to the Aliens Act, which has been in force since December

of last year, brings crucial changes to the maximal and minimal statutory deadlines for submitting applications for the extension of long-term visas / residence permits in the Czech Republic. The application can be submitted at the earliest 120 days before expiration of the previous residence permit, and no later than the last day that the long-term visa / residence permit is valid. But employee cards can be extended no later than 30 days before they expire.

The amendment also specifies the rules for calculating the statutory deadlines, which differ from the deadlines defined by the Administrative Code.

In particular, it concerns the last day for submitting the application with respect to public holidays or weekends.

There is also a very practical provision whereby an application for a change of the employer submitted no earlier than 120 days and no later than 30 days before the expiration of the employee card is automatically handled as an extension of the employee card.

The amendment also tightens up and narrows the definition of a family member of an EU citizen – e.g. A dependent person can only be a person younger than 21 years of age, and the relationship similar to a family is now understood only as a relationship between unmarried partners.

The Ministry of the Interior also narrowed the range of institutions that can perform a Czech language test for the purposes of permanent residence.



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## Accounting

### IFRS 16: Car acquired under an operating lease will be in the balance sheet

In mid-January, the IASB (International Accounting Standards Board) issued the expected standard IFRS 16, adjusting the accounting for a lease. The adjustment concerns mainly companies and groups reporting according to the IFRS accounting standards and using assets based on the operating lease agreements.

The main objective of the standard is to get liabilities from the operating leases to the balance sheets. According to estimates, current liabilities from the agreements of the companies reporting according to the IFRS and US GAAP standards reach in total USD 2.9 trillion. However, the increasing indebtedness will not be the only effect of the new rules.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), depreciation and interest costs will increase for companies with operating leases. The balance sheet thus increases on the asset and liability side.

In the cash flow statement, operating cash flow increases (a positive increase of cash flow) and financial cash flows will be more loaded (negative impact). Total cash flow does not change. These effects will have an influence on a number of financial indicators.

Companies with contractual obligations towards banks must communicate with their creditors about changes related to the impact of the new standard

and possibly negotiate new conditions relating to the financial ratios.

IFRS 16 will become mandatory from 1 January 2019, so that companies have time to prepare for changes in their internal information systems.



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## Study

### Czech CEOs are the most optimistic of the past seven years

This year, 82% of Czech companies are expected to grow, say their CEOs. They believe the greatest threat to their growth is the lack of qualified people with sufficient knowledge and capabilities. CEOs are also concerned about the administrative burden from the government. This is coming from the latest Czech CEO Survey.

This year's survey of 110 CEOs of the most significant companies operating in the Czech Republic reflects the positive development of the Czech economy. 50% of the companies expect to hire new employees.

The strengthening Czech economy, low unemployment and increasing wages all encourage demand. Moreover, business investments are on the rise. Companies want to get the maximum benefit out of this consumer appetite for investment, so they're focusing on the domestic market. Companies put innovation in second place (21%), and in third place, the strengthening of their position on the current foreign markets (15%).

According to more than half of the CEOs, the lack of qualified people represents the biggest threat to economic growth. Also, a high percentage of the CEOs are worried by inferior legislation (43%) and excessive regulation (39%).

The highly publicized control statement and electronic sales records are among the new obligations for companies.

40% of the CEOs are concerned about the government administrative burden. Company leaders feel that government requirements and obligations are very high and that the effort to punish corrupt practices harms dutiful companies.

The survey shows that the government should establish three priority areas to support Czech business – a simple, stable and effective tax system (91%), a qualified, educated and adaptable workforce (90%) and sufficient physical and digital infrastructure (66%).



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## PwC

### Tax department helped out on a social enterprise's farm

Late last year, five colleagues from the tax department helped out on a farm in Ledce u Kladna. They helped the administrator of the social enterprise Startujeme, which is also operating the internal PwC Café, by picking apples in an orchard.

PwC Czech Republic allows each employee to spend one day per year doing volunteer activities. Last year our employees spent 553 hours providing voluntary advisory services for social enterprises. PwC Czech Republic contributed in total CZK 1,216,000 to charity.



## The Academy

### PRINCE 2

PRINCE2 (PProjects IN Controlled Environments) is a flexible methodology which aids in the successful management of projects regardless of their type or size. During the course you get familiar with the methodology, learn project management tips and tricks from experienced project managers and attempt the realization of practical tasks in the case study. At the end of the course, experienced lecturers will teach you essential techniques necessary for successfully mastering the certification exams.

The course and exam is available in two levels:

- **PRINCE2 Foundation** – suitable for project managers and project team members seeking project management qualification.
- **PRINCE2 Foundation + Practitioner** – suitable for experienced project and line managers seeking an advanced certificate proving their deep understanding of the project management processes based on PRINCE2 and its application in real life projects.

### DipIFR

The course Diploma in International Financial Standards (DipIFR) will introduce IFRS standards in detail and prepare you to successfully master the exam for the Diploma in IFRS qualification, which was created by the leading professional organisation for accountants and auditors, ACCA. During the course you will gain details and the compact knowledge of essential IFRS standards and principles and qualification for the practical application of IFRS.

#### How to book your place?

For further information and to register, please visit [www.pwc.cz/academy](http://www.pwc.cz/academy). If you have any further questions, do not hesitate to contact

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

### Details:

#### Foundation

**Date:** 7-9 March 2016  
**Address:** PwC, Hvězdova 1734/2c, Prague 4  
**Course price:** CZK 14,800 + VAT  
**Exam price:** CZK 4,700 + VAT  
**Language:** czech

#### Foundation + Practitioner

**Date:** 7-11 March 2016  
**Address:** PwC, Hvězdova 1734/2c, Prague 4  
**Course price:** CZK 28,800 + VAT  
**Exam price:** CZK 11,500 + VAT  
**Language:** Czech



### Course details:

**Date:** part 1: 18-21 April 2016  
 part 2: 16-19 May 2016  
 Sample exam: 30 May 2016  
**Address:** PwC, Hvězdova 1734/2c, Prague 4  
**Price:** CZK 29,000 + VAT  
 CZK 25,000 + VAT  
 ( if you sign up by 31 January 2016)  
**Language:** Czech

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