Tax, Legal & Business News

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Tax, legal, accounting, advisory and assurance newsletter

September 2016

Summary

- The EU adopted a directive against tax evasion
- Possible tax changes for individuals in the next year
- Amendment of VAT Act – Mitigation of sanctions for non-submission of a control statement and other changes
- Pressure on ownership transparency is growing
- Amendment on consumer credit brings new demands on their providers

Tax

The EU adopted a directive against tax evasion

In June of this year an EU Council directive (the Anti-Tax Avoidance Directive) was approved introducing measures which should lead to a curb in aggressive tax planning.

For example, the Directive concerns the interest on credit financial instruments that can be tax-deductible only up to 30% of EBITDA, regardless of which instrument such interest accrues from and whether the creditor is a related or unrelated party.

Revenues of a foreign company that meets the definition of a foreign controlled entity will be subject to taxation in the Member State where the parent company is a tax resident. A foreign controlled entity can be any company where:

- the difference between the taxes paid in the country of tax residency and taxes that would be hypothetically paid in the controlling entity's country of tax residency is higher than the tax actually paid by the foreign controlled entity
- the controlling share in the foreign controlled entity is higher than 50% of the capital or voting rights or the controlling company is entitled to more than 50% of the profits of the foreign controlled entity.

When moving assets to foreign countries, such as in the cross-border transfer of a registered office or termination of a permanent establishment, the company will be taxed in the country where there is a cessation of activity. The tax base will be the market price of the property moved abroad.

The measures also touch on transactions that are exempt from income tax on the recipient's side but that also represent a tax-deductible expense for the payer of income. Transactions leading to a double application of the same costs in different Member States will always be recognized in only one of them.

Costs of the transactions which are not real cannot be included in the tax base, even though the inclusion of interest was explicitly allowed in the Member State.

Member States must incorporate the above rules in their domestic legislation with effect from 1 January 2019. One exception is the taxation of transferred assets to foreign countries, which will be implemented with effect from 1 January 2020.

We are currently discussing the details of implementing the individual measures in the Czech Republic with the Ministry of Finance.

If you have any questions, please contact Zenon Folwarczny or Jan Hajek (jan.hajek@cz.pwc.com).

Zenon Folwarczny
+420 251 152 580

Possible tax changes for individuals in the next year

Families with more children should be better off starting next year. The tax credit will increase again for those families that have at least two children. This discount has been regularly increasing since 2015: for 2017 the discount for the second child could be increased to CZK 19,404 and for the third and each additional child CZK 24,204 per year. The discount for the first child remains at CZK 13,404 per year.

On the other hand, the conditions for the payment of the tax bonus per child will get stricter. The payment occurs when the tax liability is less than the amount of tax relief. Those taxpayers whose annual income is equal to at least six times the minimum wage are entitled to this bonus. And now rental income and income on capital would not be counted into that income.

Another discussed change is the increase in deductibles for blood donations. Each blood draw is now valued for tax purposes as a donation in the amount of CZK 2,000. This amount could be increased to CZK 3,000 next year.

An adjustment is also being considered in the area of tax flat rates. In exchange for the return of tax reductions on children and wives for taxpayers who use flat rates, i.e. especially entrepreneurs and people living on income from rental properties, the use of these flat rates could get stricter. Also, a new ceiling for using flat rates should drop from the current two million crowns a year to one million.

Tomáš Hunal
+420 251 152 516

If you are interested in receiving Tax, Legal & Business News, please contact Jiří Horáček, jiri.horacek@cz.pwc.com.

Tax

Amendment of VAT Act – Mitigation of sanctions for non-submission of a control statement and other changes

The amendment of VAT Act provides that tax authorities will automatically remit the CZK one thousand fine for the first control statement submitted late in the respective calendar year. The other fines ranging in amounts from CZK ten thousand to CZK fifty thousand may be partially or completely remitted based on an application that will be considered by the tax authorities on a case-by-case basis.

Companies with their seat outside the Czech Republic which are not registered for VAT in the Czech Republic that supply goods with the place of taxable supply in the Czech Republic to a Czech VAT payer will use the reverse-charge mechanism. Therefore, they will not be obliged to register for VAT in the Czech Republic. The buyer (Czech VAT payer) will be obliged to self-assess the VAT from the goods received. Already registered non-established companies may apply for VAT deregistration during the transition period of six months, provided the legal conditions are met.

Territorial jurisdiction for companies which are not seated but VAT registered in the Czech Republic will be changed from the Tax Office for Prague 1 to the Tax Office for the Moravia-Silesian region. This provision will come into force on 1 September 2016. After this date, non-established companies will apply to the Tax Office for Moravian-Silesian region for VAT registrations. Those non-seated entities already VAT registered in the Czech Republic will be automatically relocated within the following 12 months and will receive a decision from the tax office regarding the change. Until then, the territorial tax office remains the Tax Office for Prague 1.

There was also a change in the provision in relation with the new Customs Code, mainly regarding the classification of customs regimes. Henceforth, the tax document for export is a commercial invoice and not a single administrative document.

Tomáš Vlk
+420 251 152 609

Law

Pressure on ownership transparency is growing

Preventing and combating tax evasion has become a priority for a number of states, which directly translates into new directives and regulations adopted at the international (OECD, EU) and national levels.

Mostly this involves:

- evidence of the actual business owners,
- automatic exchange of information on financial accounts,
- proof of assets' origins.

The first two changes ensure that tax administrations will have more information about the individuals standing behind the curtain of legal entities and the balances on selected financial accounts, including those from abroad. The third amendment will provide a direct tool for tax administrations for additional tax assessments if the value of the taxpayer's assets does not correspond with the declared taxable income.

Zuzana Hájková
+420 251 152 508

Radek Buršík
+420 251 152 509

Amendment on consumer credit brings new demands on their providers

The Consumer Credit Act, which takes effect 1 December 2016, provides a common legal framework for the provider and credit agents as well as for the consumer. It also sets new requirements for the performance of activities of consumer credit providers, who will only be able to continue their business on the basis of an authorization that they receive from the Czech National Bank. Existing service providers must apply electronically for a licence for non-bank providers of consumer credit by 1 March 2017.

Daniel Pikal
+420 251 152 974

Study

Increased employment of older people could raise GDP in OECD countries by USD 2.6 trillion

OECD countries could increase their GDP by USD 2.6 trillion if the employment rate of people over 55 in the country was at least 70%, say PwC economists from the UK in a study called Golden Age Index.

The index measures how countries can exploit the economic potential of older workers based on the weighted average of indicators, including employment levels, income and participation in training / practice sessions that reflect the impact of the labour market on workers aged over 55 in 34 OECD countries.

The potential of older workers is being exploited best in Iceland, New Zealand and Sweden. The Czech Republic ranked in 20th place and overtook not only Slovakia, but also countries like the Netherlands and France.

The ageing European population is currently a problem particularly with regard to the increasing pressure on health and social care systems. *"It also represents a threat to the financial sustainability of certain public and private pension systems. Individual countries could offset these high costs with greater involvement of older workers in the labour market, which would not only increase their GDP, but also tax revenue,"* said John Hawksworth, PwC's chief economist and author of the study.

The whole study can be found here.

Andrea Linhartová
+420 251 152 568

PwC

Start-up PrPom teaching first aid to PwC CR auditors

In mid-June, in the region of Vysocina, three hundred auditors from PwC CR learned how to properly provide medical first aid. On this occasion, they collected CZK 21,260 for the creation of educational materials on first aid for children from orphanages.

"Thanks to the course, I know exactly what to do with a wounded man, and what could on the other hand hurt him," said Jan Klein, an assistant from the Audit department.

The first aid course was led by a start-up, PrPom, one of the winners from last year's Social Impact Award and a participant in the summer acceleration program at PwC CR. At PwC we have been supporting this competition for aspiring social entrepreneurs since its founding five years ago. Within our philanthropic activities, we provide expert advice on tax and legal problems, but we also help them draft business plans, financial and strategic plans. After the competition, we try to keep supporting them and to use their services.

Volunteer day at the Ostrava ZOO

Eight of our employees from the Ostrava office were sent out to help at the Ostrava Zoo. They exchanged their computers for shovels, rakes and other equipment and set about weeding the flower beds, cleaning the paddocks for pigs and replacing old benches with new ones.

"I'm glad we could at least in a small way contribute to the cosiness of the zoo, which is one of the main attractions in the Moravian-Silesian region,"

exclaimed Katerina Juchelková, assistant at the PwC Ostrava office.

The Ostrava office has been helping out at the zoo for eight years. During that time our employees have helped clean up and prepare paddocks for the animals, prepare the space for the safari, paint fences, rake hay, weed flower beds and clean the sidewalks for visitors.

More about our volunteer activities can be found at www.pwc.com/cz/en/spolecenska-odpovednost

The Academy

Czech Tax Code in English

The lecturers of this intensive workshop will guide you through the Czech tax system. They will focus mainly on corporate income tax and taxes for individuals, including social and health insurance, but they will also summarize the basic principles of VAT and the tax code. They will guide you through the elements of the tax return and explain the principles and taxation of foreign income and methods of avoiding double taxation.

Date:	**20–21 September**
Price:	**CZK 10,900 + VAT**
Language:	combined Czech and English

IFRS seminars

From September we are once again bringing you a series of training sessions on international accounting standards (IFRS). First you can look forward to the seminar IFRS 16 – Accounting leases: new standard valid from 1 January 2019. The training will introduce a fundamental change in the accounting of operating leases. You will also learn what to do in a day of transition and how to prepare in advance. Next there is a seminar ready for you focusing on Deferred tax according to Czech accounting standards and IFRS. This seminar will carry you through these issues from an accounting and tax perspective.

	IFRS 16	**Deferred tax**
Date:	**29 September**	**27 October**
Price:	**6 900 Kč + VAT (for 1 seminar)**	
Language:	Czech	

Lean Six Sigma – Get the Yellow Belt and the Green Belt at once thanks to our special offer

Lean Six Sigma is a methodology that aims to enhance quality, performance and customer satisfaction while reducing costs. The main task is the systematic elimination of inefficiency in all business processes, keeping only those activities that have actual value for the customer. The study of Lean Six Sigma is standardized in a series of trainings: Yellow Belt, Green Belt and Black Belt.

Green Belt: **Price:**	**18. – 19. 10. + 30. 10. – 1. 11. + 14. –15. 11.** **27 000 Kč + VAT**
Yellow + Green Belt: **Price:**	**17. –19. 10. + 30. 10. – 1. 11. + 14. –15. 11.** **31 900 Kč + VAT**
Language:	Czech/English

Have you already got Yellow Belt?

Register for Green Belt training and get a certificate after successfully completing the course and passing the test.

You don’t have Yellow Belt but you want to get Green Belt?

We can give you the chance to complete Yellow Belt in a shortened, one-day option compared to the conventional two-day training. The one-day option cannot be attended separately and to successfully complete both levels you have to participate in the seven-day Yellow + Green Belt program.

How to book a place?

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

We invite you

Date	Name		Registration
20. 9. 2016	EET this year	PwC, Hvězdova 1734/2c, Praha 4	Registration
24. 10. 2016	Planned and recent changes in VAT	PwC, Hvězdova 1734/2c, Praha 4	Jana Adamcová, dph.seminare@cz.pwc.com
26. 10. 2016	Planned and recent changes in VAT	Hotel Holiday Inn, Křížkovského 20, Brno	Radka Plchová radka.plchova@cz.pwc.com
12. 12. 2016	Planned and recent changes in VAT	PwC, Hvězdova 1734/2c, Praha 4	Jana Adamcová, dph.seminare@cz.pwc.com

Contact

Jiří Moser
Country Managing Partner
+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

Bořivoj Líbal
PwC Legal Partner
+420 251 152 929

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