KempHoogstad Tax News

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KempHoogstad
Tax Advice & Solutions

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In our September issue of KempHoogstad Tax News, we informed you about the proposed changes included in the amendments to the Value Added Tax Act and the Income Tax Act.

Please find below an overview of the most important changes relating to the amendments that were passed in the Senate last week.

1. Amendments to acts

Amendment to the Income Tax Act

A brief overview of the most interesting changes:

- Limitations on expense allowances for self-employed persons.
- Limitations on the tax advantages of private life insurance.
- Limitations on the application of Section 24(2)(zc), which regulates the tax deductibility of non-taxable expenses with existing related profit.
- Introduction of limitations on using the 5% tax rate by investment funds.

Amendment to the Value Added Tax Act (the "rate amendment")

A brief overview of the most interesting change:

- Introduction of another reduced VAT rate of 10 per cent.

The amendments to the acts must be signed by the president.

2. Tax relief for pensioners also for 2013

At the beginning of October, the Financial Administration issued a press release confirming that pensioners can also apply the basic tax relief to income tax for 2013. The tax relief can be applied via the employer or via the tax return during the standard period for tax assessment, which is three years.

3. OECD's guidelines regarding transfer pricing

In September, the OECD published its first recommendation in connection with the international approach to tax evasion enforcement (BEPS). Among the recommendations were also guidelines regarding transfer pricing documentation. The OECD proposes that every multinational company have at its disposal transfer pricing documentation, which should include (i) "a Masterfile" containing general information on business activities and the transfer pricing policy, (ii) local documentation, and (iii) country-by-country reporting.

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Country-by-country reporting requires multinational companies to report the following information annually for each of their tax jurisdictions:

- Amount of revenues;
- Profit before tax;
- Paid and accrued income tax; and
- Other economic indicators (e.g. employment rate or amount of capital).

It is understood that the guidelines will be implemented in the jurisdictions of the individual OECD member states in the future.

4. Act on evidencing the source of property

The Ministry of Finance introduced the draft of an act relating to providing evidence of the source of property, which should come into effect from 2016. The act includes an amendment to the Income Tax Act and the Criminal Code.

The main principle of the act is taxation of undeclared income, thus situations where a taxpayer's property increases in a way that does not correspond with its declared income. It is not decisive whether the income is acquired legally or illegally. A substantial difference is considered to be at least CZK 10 million between income and the increase in the property.

If the tax payer is not able to answer the tax administrator's appeal for evidencing the source of the income and

- the estimated amount of the stipulated tax is more than CZK 2 million, then the tax administrator will use a special method for stipulating the tax using special tools and will also assess a fine amounting to 100 per cent;
- the estimated amount of the stipulated tax is less than CZK 2 million, then the tax administrator will use a standard method for stipulating the tax and will also assess a fine amounting to 20 per cent.

If the tax payer refuses to fulfil its obligation to declare the property, provides false information, or evades the obligation, this behaviour will be considered as a criminal offence.

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