

KempHoogstad Tax News

December 2012



Content:

1. Higher tax burdens on employees with above-average incomes
2. Value added tax rates
3. Financial Administration of the Czech Republic
4. Directive issued by the General Financial Directorate no. D – 10 on services with low added value provided between related entities/associated firms
5. The General Financial Directorate informs on the Czech tax administration's involvement in pension reform
6. New rules for deferral of accessions of tax
7. KempHoogstad cooperates with the University of Economics



KempHoogstad

Tax Advice & Solutions

In the KempHoogstad Tax News 10/2012, we informed you about the changes proposed in the budget package. We would now like to inform you about the current developments and also introduce to you possible tax optimisations for 2012 with perspectives for upcoming years.

On 7 November 2012, the lower chamber of Parliament approved the budget package almost in the proposed version, and the law is currently in the process of being approved. There still may be some legislative complications, but it is expected that the law could come into effect at the end of this year since the proposed state budget anticipates it.

1. Higher tax burdens on employees with above-average incomes

Starting in January, employees with above-average incomes will be liable to considerably higher contributions from their income.

Income over 48 times the average wage (in 2013, it will be CZK 1,242,432; approximately CZK 100,000 per month) will be liable to so-called a solidary income tax increase of 7 per cent. Income above this limit will be taxed with an income tax rate of 22 per cent. An employee whose income tax or advance payment on income tax is increased by the solidary tax increase is obliged to file tax returns. Such an employee is not entitled to the annual tax settlement provided by the employer even if the solidary tax increase has been applied to only one monthly advance payment. In addition, the cap for the health insurance will be revoked; up to this point, it has been 72 times the average wage (approximately CZK 150,000 per month). The employee will pay an extra 4.5 per cent (compared to current conditions) from their gross salary above this limit; the employer will pay another 9 per cent for the health insurance contributions.

Considering the quite significant impact on the taxation of salaries above the mentioned limits, we recommend that you pay attention to the remuneration of managers. Employees and employers can save, for example, by paying the bonuses in 2012, distributing lump-sum bonuses in several months or providing remuneration that is not in the form of salaries.

We are prepared to discuss with you an effective way of taxing your income or income of your employees and to design the most optimal solution before the end of the year.

2. Value added tax rates

The proposal approved by the lower chamber of the Parliament provides for a basic rate of 21 per cent and a reduced rate of 15 per cent. It is expected that the proposal will go through the whole legislature process, including signing by the President, by the end of the year. However, if the act does not become effective by 31 December, the single rate of 17.5 per cent, which was approved last year, will apply.

Moreover, we would like to mention the formerly approved amendment to VAT which we informed you about in our previous newsletter, namely the new public register of bank accounts for payers, the concept of unreliable payers, or some new requirements for tax documents.

3. Financial Administration of the Czech Republic

The Tax Administration of the Czech Republic will be reorganised as of 1 January 2013. The Financial Administration will consist of the General Financial Directorate, the Appellate Financial Directorate, 14 Financial Offices according to the regions, and the Specialised Financial Office. The Financial Offices will establish their territorial departments in order to correspond with the current district Financial Offices. In other words, this reorganisation only involves renaming the individual levels of the Financial Administration. For example, if your relevant Financial Office is the Financial Office for Prague 1, it will now be the Financial Office for the capital city of Prague, Territorial Department Prague 1. In addition, the places for keeping some tax documentation will be changed within the scope of the Financial Offices.

The most important impact of the reorganisation of the Tax Administration on tax entities will be the change of bank accounts for all payments made after 1 January 2013.

The reorganisation will also affect the administration of real estate taxes. Currently, taxpayers who own real estate in more districts must file tax returns and pay taxes to the individual Financial Offices. As of next year, the administration of real estate taxes for all real estate in one region will be administered by a single Territorial Department.

4. Directive issued by the General Financial Directorate no. D – 10 on services with low added value provided between related entities/associated firms

On 8 November, the General Financial Directorate issued a directive which lowers the requirements on documentation of transfer prices for services with low added value provided between related entities. These are in-house services which have low added value and do not comprise the main activity of the entities have a routine function, and are not a significant expense or revenue of the firms involved. These are transactions within the firms, including services of an administrative, technical, financial, advisory or business nature (for example, accounting, rent of the registered office, etc.).

The full transfer documentation is not needed for these services, as required by the directives issued by the Ministry of Finance and the OECD Standards. If you are not sure whether your documentation for the transfer prices of in-house services fulfils the conditions for omitting the full scope of documentation, please do not hesitate to contact us.

5. The General Financial Directorate informs on the Czech tax administration's involvement in pension reform

The introduction of the so-called second pillar of the pension system also includes new liabilities for employers. They are obliged to calculate the employee's contribution to the second pillar, deduct it from the salary, and pay it to the Financial Office. In addition, the employer is obliged to send monthly reports and an annual settlement of the payments. All submissions done by the payer of the insurance must be made only in electronic form through the application Electronic Submission for the Tax Administration ("Elektronická podání pro daňovou správu"). Other participants in the pension scheme (for example self-employed persons) do not submit the monthly reports, and they report the contributions to the pension scheme in the insurance return after the end of the calendar year.

6. New rules for deferral of accessions of tax

The Tax Administration continues in its effort to restrict the ways in which the administrator can reduce the tax burden in individual cases if the tax entity applies for it. Together with the implementation of the Tax Code, the concept of individual remission of a tax or accessions of a tax was revoked. Currently, the obligatory conditions for deferral of a tax are stipulated. A tax deferral allows the payment of the due tax to be postponed to a later term, payment in instalments, or calculating lower interest than the standard interest rate for the tax deficiency.

In order to achieve the highest level of unified and objective decisions, the directive stipulates the facts that exclude the possibility of remission of charging interest on deferral or breaking down the payment in instalments. The space for the individual decision-making of the administrator in such cases has been reduced.

7. KempHoogstad cooperates with the University of Economics

In closing, we would like to inform you about the new cooperation of our firm with the University of Economics in Prague (UE), namely with the Department of Public Finances.

We provide master's students studying Taxation and Tax Policy at the UE with the opportunity to do a professional internship, during which they can learn how tax advisory services are provided in the real world, how theory is applied in specific cases, and how to use their knowledge.



Bohdana Pražská

tel.: +420 221 719 000

bohdana.prazska@kemphoogstad.com



Filip Dostál

tel.: +420 221 719 000

filip.dostal@kemphoogstad.com

Legal Disclaimer: The material contained in this alert is provided for general information purposes only and does not contain a comprehensive analysis of each item described. Before taking (or not taking) any action, readers should seek professional advice specific to their situation. No liability is accepted for acts or omissions taken in reliance upon the contents of this alert.