

KempHoogstad Tax News

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1. Application of VAT for real estate

At the beginning of July, the Ministry of Finance published on their web pages updated information on the application of VAT for real estate which reflects the changes to the VAT Act effective from 1 January 2015. The General Directorate provides in this information an interpretation of many terms, and the application of provisions mainly related to determination of a rate or the possibility of tax exemption for the delivery and rent of real estate; it also gives specific examples for applying the explained topic. The new information is important for a large number of tax entities, such as developers, suppliers of building and assembly services, lessors and tenants of real estate, and other entities which plan to sell or acquire real estate.

The information covers in detail, e.g. definitions of the terms construction, construction of residential premises, construction of a family house, apartment, buildings for social housing, floor space of a living area and of a family house for social housing, unit, plot of land, construction site, etc. One new term is "a plot of land forming a functional whole with a building firmly connected to the ground", which means a plot of land that is used for maintenance of the building firmly connected with the ground or that fulfils its function or is used together with such a building. The correct definition of the functional whole is decisive for the appropriate application of the tax rate or possible exemption for the sale of real estate.

The published information replaces the previous interpretation valid for the provision of the act since 1 January 2014. Please note that the information is valid for 2015 and does not contain an interpretation of changes approved by the amendment that will be effective from 2016. This relates in particular to future changes to an exemption for the delivery of real estate.

2. Outline of changes to income tax

The Ministry of Finance submitted to the professional public an outline of the changes to income tax to be implemented in the future for comments and discussion. Besides the new tax regime concept for public service organisations, the implementation of which will occur over the long term, the outline contains changes, which should primarily come into effect on 1 January 2017.

The outline of changes indicates that no fundamental reforms are planned in the area of income tax but only certain discrepancies or ambiguities in the current Income Tax Act are to be solved. We describe briefly below some of the topics relating to the planned changes:

- || a new tax regime concept for public service organisations
- || a new comprehensive solution to regulating the taxation of gratuitous income
- || regulations relating to the tax aspects of joint shares, in particular, their increase
- || extending financial leasing to intangible assets

- || limiting the possibility of not taxing revenues related to tax non-deductible expenses in such a way that it will concern only revenues from expenses transferred from other accounting records
- || the tax regime for advance payments on profit sharing
- || the possibility of taxing income from small scale dependent activity with a withholding rate
- || restricting the possibility of deductions from the tax base of dependent activity claimed for research and development
- || regulations concerning the possibility of collecting taxes and the taxation of some income of non-residents

In addition, the outline summarises the suggested changes that are in the phase of approval, and which should come into effect on 1 January 2016. Examples include:

- || adjustment of taxation for profit sharing paid to a person other than members of a company
- || creation of tax reserves related to contributions for the liquidation of solar panels
- || adjustment of the criteria defining the basic investment fund that applies the concessionary 5 per cent tax rate (proposed effectiveness in 2015)
- || increase in tax relief for children
- || exemptions for pension income paid for at least 10 years (the current exemption relates to pensions with an unlimited payment period)

With respect to the fact that the outline will be discussed and commented on, it is expected that the affected areas will be extended by additional articles or the expected adjustments can be changed. We will inform you about developments in this area.

3. Changes to excise tax

We would like to inform you about an amendment to the Excise Tax Act that includes changes related to managing a bonded warehouse for mineral oils and manipulating special mineral oils and introducing a new tax for raw tobacco and an adjustment to manipulating raw tobacco. Further, a part of the approved amendment is the adjustment to Act no. 311/2006 Coll. on fuel, which introduced in 2016 the concept of security deposits for distributors of fuel. According to the amendment, the distributors can apply for a reduction in the security deposit if they fulfil the defined conditions. The amendment is effective on 1 July.

The parliament is debating another amendment that aims to enable continuous tax support for bio-fuel and high percentage mixtures used for the propulsion of engines. Currently, the tax support provision is based on a platform that ended on 30 June.

At the same time, the amendment includes changes to the calculation of securing taxes from mineral oils during transport or storage in the regime of conditional tax exemption.

4. Reminder relating to the inspection report duty

As we have informed you before, effective from 1 January 2016, a new duty relating to VAT will be introduced – submission of an inspection report. The inspection report will affect all VAT payers who made or received a taxable supply with the place of supply in the Czech Republic. The Ministry of Finance published on their web pages detailed information on the inspection report, including the respective form and preliminary instructions for completing it, and a preliminary XML structure of the report, because tax payers will be obliged to submit the report in electronic form only.

We recommend beginning with preparations for the future processing of the inspection report, i.e. preparations for organisation of the processing and the preparation and testing of required accounting software.

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