KempHoogstad Tax News

May 2012

Content:

1. Approval of Act no. 458/2011 Coll. on changes to acts relating to the establishment of a single collection point

2. Approval of the amendment to the Value Added Tax Act

3. More rigorous collection of taxes and arrears by tax authorities

4. New agreements between the Czech Republic and tax havens

KempHoogstad
Tax Advice & Solutions

A Na Příkopě 31, 110 00 Prague 1, Czech Republic T + 420 221 719 000 F + 420 221 719 001 E prague@kemphoogstad.com W www.kemphoogstad.com

KempHoogstad, s.r.o. IČ 27568385 DIČ CZ27568385, registered in the Commercial Register in Prague, Section C, File # 114473

We have prepared an overview of the most interesting news that has taken place or is planned for spring 2012 in Czech tax law and related legal legislation.

1. Approval of Act no. 458/2011 Coll. on changes to acts relating to the establishment of a single collection point – future changes with a fundamental impact on tax rates

Act no. 458/2011 Coll. on changes to acts relating to the establishment of a single collection point and other amendments to the tax and insurance acts was passed at the end of last year. These important changes will become effective on 1 January 2015 (provided that the effective date does not change) and relate to the following areas:

- Income generated from the sale of securities will be exempt from income tax if the period between the purchase and the sale of the security exceeds three years.
- Payment of shares in profit and dividends will be exempt from income tax under certain conditions, and it will not be subject to withholding tax.
- Interest on household loans will be deductible only up to the amount of CZK 80,000 per year. The current amount is CZK 300,000.
- Corporate income tax for some companies, as defined by law (for example, the funds of qualified investors) will be 0%.
- Instead of social security and health insurance payments, an amount will be deducted from the total amount of remuneration, and this will be tax deductible only when paid in full.
- Conditions for the creation of tax adjustments will be changed.
- Conditions for deductions related to research and development will be specified in more detail.
- A tax payer whose total tax does not exceed CZK 200,000 per year will not be obliged to pay income tax deposits.
- The inheritance tax rate will be 9.5%; the gift tax rate will be generally 19%, with the exception of voluntary, free-of-charge acquisition rights, which will be 32%.
- The amount of turnover for taxable supply for the registration of value added tax will be reduced from the current CZK 1,000,000 to CZK 750,000 per year.

A Na Příkopě 31, 110 00 Prague 1, Czech Republic **T** + 420 221 719 000 **F** + 420 221 719 001 **E** prague@kemphoogstad.com **W** www.kemphoogstad.com
KempHoogstad, s.r.o. IČ 27568385 DIČ CZ27568385, registered in the Commercial Register in Prague, Section C, File # 114473

2. Approval of the amendment to the Value Added Tax Act, effective from 1 April 2012

Act no. 375/2011 Coll. has amended in particular the provisions of Sections 51 and 58 of Act no. 235/2004 Coll. on value added tax. This amendment introduces the new term “health service”. According to the interpretation of the mentioned provisions provided by the General Financial Directorate on 29 March 2012, the scope of health services subject to VAT exemption under Section 58 has been reduced. The interpretation also explains in detail the VAT aspects relating to day-care centres, spa care and services closely related to health service, including the delivery of medical supplies.

3. More rigorous collection of taxes and arrears by tax authorities – inspections relating to the “svarc-system”

Since the beginning of the year, the State Labour Inspection Office (the SLIO) has increased the number of inspections relating to the engagement of employees. Among others, it has focused on checking the so-called svarc-system, in which independent contractors are treated as employees without having the official status of an employee.

According to an SLIO press release dated 15 February 2012, the District Inspection Office can impose a fine of up to CZK 10,000,000 on an employer if the employer has not concluded in writing a labour contract, a contract on providing particular work, or a contract on work activity.

In addition, the SLIO has issued a directive on providing a unified procedure of inspections for illegal employment. Section 136 of the Act on Employment states that an individual person or legal entity is obliged to keep copies of documents proving the existence of employment in the workplace. They must also keep records of documents required by Section 102(3). Should the relevant documents not be submitted during an inspection, the inspectors and other examiners are obliged to consider such circumstances as illegal work. Late submission of the documents will have no impact on the outcome. The directive is effective from 1 April 2012 and is mandatory for all inspectors and persons involved in the inspections.

4. New agreements between the Czech Republic and tax havens on the exchange of tax related information

The Ministry of Finance (the MF) has been concluding agreements on the exchange of tax information between the Czech Republic and tax havens.

The press release published by the MF on 14 March 2012 states that the representatives of the General Financial Directorate and the MF agreed on the wording of the Tax Information Exchange Agreement with the Commonwealth of the Bahamas on 29 February 2012.

“It is the eighth international agreement with the so-called tax havens, all of them having been signed under the current government. We have been very clear that we are really serious about tax evasion,” exclaimed the Minister of Finance,

A Na Příkopě 31, 110 00 Prague 1, Czech Republic **T** + 420 221 719 000 **F** + 420 221 719 001 **E** prague@kemphoogstad.com **W** www.kemphoogstad.com
KempHoogstad, s.r.o. IČ 27568385 DIČ CZ27568385, registered in the Commercial Register in Prague, Section C, File # 114473

Miroslav Kalousek. In the past year, agreements have been concluded with the Cayman Isles, Bermuda, the Isle of Man, Guernsey, Jersey, the British Virgin Islands, and San Marino. The agreement will become effective after Parliament approves it and the President signs it.

“The goal of this information exchange is not only the back-assessment of taxes but, above all, the prevention of tax evasion and related financial crimes. The concluded agreements will prevent tax evasion amounting to tens of millions of crowns every year,” says Jan Knížek, the tax authority’s general director.

This agreement is a very important legal tool that enables the financial authorities of contracting parties to obtain information necessary for tax administration, including information held by banks and similar institutions.

We trust that you will find the legislative and interpretation changes favourable to a larger degree. We will be pleased to discuss any impacts of the above changes on to your company or how they may work in practice.

Bohdana Pražská
phone: +420 221 719 000
bohdana.prazska@kemphoogstad.com

Filip Dostál
phone: +420 221 719 000
filip.dostal@kemphoogstad.com