



# TAX FRESH

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**FRESH NEWS  
IN FINANCIAL  
ADMINISTRATION  
FOR 2017**



Dear Business Friends,

It has become a tradition that in the beginning of every new year the financial administration introduces numerous amendments to regulations in tax and accounting fields and other financial administration areas. In this Tax Fresh issue, we would like to follow up on our successful seminar aimed at the 2017 news, which we organised for you, our Clients, in the first week of January.

Below, we present an overview of what we find as key changes for 2017, not only in tax and accounting matters.

Yours faithfully,

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## FRESH NEWS PREPARED BY THE CZECH REPUBLIC'S FINANCIAL ADMINISTRATION FOR 2017

Most of the presented tax news are embedded in the *tax package* which is being voted upon as the Chamber of Deputies print No. 873. At the moment, even though the law-making procedure has not come to an end yet, the changes can be expected to become effective in the current wording on 1 April 2017. In connection with this tax package, the financial administration issued *Information for payers of tax on employment* on 26 January 2017.

We will keep you updated on any changes to this bill.

### Increased tax credit for the second, third and subsequent dependent child

One of the forms of support to the family policy is a possibility for individuals to claim a tax credit for children. It can be claimed either in the form of a tax relief if the individual records a tax base, or in the form of tax bonus if the tax credit exceeds the individual's tax base.

In 2017, the tax credit for the second child will increase by CZK 200 a month (i.e. CZK 2400 a year) and for the third or any subsequent child by CZK 300 a month (i.e. CZK 3600 a year) compared to 2016.

### Pension insurance and life assurance caps up

Insurance product tax benefits scheduled for 2017 include increasing the caps on deductions of pension insurance and life assurance from the tax base from CZK 12,000 to CZK 24,000 a year.

At the same time, in terms of employee benefits, the caps on employer's contributions exempt from personal income tax for employees' additional pension insurance, supplementary pension savings scheme and life assurance have been raised from CZK 30,000 to CZK 50,000 a year.

### New tax return form for employed individuals

Individuals may file their personal income tax returns for 2016 using a new two-page form no. 25 5405/D MFin 5405/D or a standard form no. 25 5405 MFin5405.

This change has some drawbacks though. The new form may only be used by taxpayers who receive merely incomes from employment. It may not be used by individuals who generate incomes from business activities or lease, capital or other incomes.

### Payers to send their health insurance contributions to new bank accounts

Starting on 10 February 2017, health insurance companies will cancel their commercial bank accounts and will open new accounts at the Czech National Bank (CNB). Consequently, employers, self-employed persons and other payers will have to send their health insurance contributions to new bank account numbers.

The new account numbers will therefore have to be taken into account already for the January 2017 wage recording. For further information on the above changes, see individual insurance company websites:

Všeobecná zdravotní pojišťovna ČR:

<https://www.vzp.cz/o-nas/aktuality/vzp-prevadi-sve-ucty-do-cnb>

Zdravotní pojišťovna Ministerstva vnitra ČR:

<http://www.zpmvcr.cz/platci/ucty-pro-prijem-plateb/>

Česká průmyslová zdravotní pojišťovna:

<http://www.cpzp.cz/clanek/4754-0-Bankovni-ucty-pro-platce-pojistneho.html>

Oborová zdravotní pojišťovna zaměstnanců bank, pojišťoven a stavebnictví:

<http://www.ozp.cz/aktuality/aktualita-nove-ucty-2017>

Vojenská zdravotní pojišťovna ČR:

<https://www.vozp.cz/cs/platci/bankovni-spojeni/>

Revírní bratrská pokladna, zdravotní pojišťovna:

<http://www.rbp-zp.cz/od-roku-2017-musi-rbp-prevest-vsechny-sve-ucty-do-cnb--717cz/>

Zaměstnanecká pojišťovna Škoda:

<http://www.zpskoda.cz/aktualita/zmena-cisla-uctu>

### Withholding tax on low-value income from employment (up to CZK 2500)

Under proposed simplification of income tax administration for 2017, taxpayers would not have to file tax returns if, apart from incomes from their employers, they received another type of income from employment, which would be considered negligible. Incomes would be considered negligible up to CZK 2500. This amount, considering 2017 is an election year, is for example the salary of an election committee member.

### Tax depreciation of technical improvements

If you are in the lease business, you should not miss out on a very positive change regarding the possibility of a person other than the owner or the lessee of the leased asset to apply tax depreciation of technical improvements on leased assets.

That means that tax depreciations will be applicable not only to lessees but also to other persons entitled to use the leased asset.

This change will effectively impact particularly sub-lessees who, until recently, had not been allowed to use tax depreciation of technical improvements with certain exceptions to the Income Taxes Act.

Needless to say, the change will apply merely to new technical improvements made after the amendment comes into force.

### Setting minimum depreciation period for intangible assets

Current regulations do not allow entities to depreciate intangible assets (e.g. audio-visual works, software, know-how, etc.) for a longer period than as laid down in the Income Taxes Act.

The financial administration, however, heard the voices of the professional public, and now taxpayers will be allowed to set a longer depreciation period for intangible assets which will start to be depreciated after the amendment comes into effect.

This principle, an analogy to the straight-line method of tax depreciation of tangible assets, will thus be extended also to intangible assets.

### Introducing a concept of unreliable entity for VAT purposes

Entities liable to tax that already have an unreliable payer status and that have cancelled their registration will be designated as unreliable entities.

The aim of this concept is to prevent entities from cancelling their registration for VAT on purpose to stop being labelled *unreliable payers*.

### Extension of a reverse-charge mechanism for VAT purposes

The Czech tax administration's current strategy, pushed through also at the EU level, is to apply the reverse-charge mechanism to the broadest range of supplies (or, even to introduce a general reverse-charge mechanism).

The range of supplies subject to domestic reverse-charge mechanism, which was extended by e-communication services in 2016, is to be extended by the following supplied goods and services in 2017:

- the provision of intermediary services in the form of procured supply of investment gold,
- the provision of labour for construction and assembly work,
- the supply of goods provided as security in execution of that security,
- the supply of goods following the cession of a reservation of ownership to an assignee and the exercising of this right by the assignee,
- the supply of immovable property sold by a judgement debtor in a compulsory sale procedure.

### Payment of VAT on advances

The existing practice of levying tax on payments received prior to the date of the relevant taxable supply (advances) adopted by the financial administration, has now been transformed into specific stipulations of the VAT Act.

To ensure legal certainty of payers, the VAT Act will lay down that the duty to report VAT on received payments will arise namely, but not exclusively, where the supply relating to the payment (advance) is known with sufficient certainty. This situation will arise provided at least the following information is known:

- goods to be supplied or service to be provided,
- the tax rate in case of taxable supply, and
- the place of supply.

By analogy, this regulation will also affect voucher sellers, for example.



### **Constitutional Court comments on VAT ledger statement**

Many a comment has been written on VAT ledger statements. You surely have not missed out on the loosening of sanctions for the failure to file a VAT ledger statement adopted already in 2016.

Apart from the bills proposed for 2017, we would like to elaborate on the decision of the Constitutional Court that has, in part, satisfied a petition to cancel certain provisions of the VAT Act relating to the VAT ledger statement.

The court asserted that the VAT ledger statement concept as such is not in breach of the Czech legal system.

Nevertheless, the court cancelled provisions of Section 101d(1) and Section 101g(5) of the VAT Act.

The former provision lays down the duty to state *"prescribed information required for tax administration purposes"* in the VAT ledger statement. The act does not further specify *prescribed information* and leaves upon the Ministry of Finance to do so in the VAT ledger statement e-form.

Thus, the Ministry of Finance stipulates statutory duties by merely issuing a form without having the duties arise out of legal regulations. According to the Constitutional Court, this constitutes circumvention of the law-making procedure. Hence, the Constitutional Court orders the Parliament to set clear rules within a period of one year. This could, for example, be done through a decree on the contents of the VAT ledger statement issued by the Ministry of Finance.

The latter provision of Section 101g(5), which was also addressed in the above decision stipulates that *"a notice sent to an electronic address via public data network, is deemed delivered when it is sent by the tax administrator."*

Delivery thus fictitiously occurs when the notice is effectively sent from the tax administrator's email address. Sending emails, however, cannot be considered sufficiently reliable. Besides, payers may not even receive the notice and may as a result end up being required to do something and not being aware of it through no fault of their own.

As a result, because the provision governing the sending of notices via emails was in conflict with the Charter of Rights and Freedoms, the Constitutional Court reversed it.

Consequently, the VAT ledger statement form is expected to be adjusted soon.

### **Electronic reporting of sales**

We would like to note that starting on 1 March 2017, the electronic reporting of sales is entering the second stage. The duty to report sales will apply to entrepreneurs in the retail and wholesale business under NACE classification, namely NACE 45.1, 45.3, 45.4, regarding trade, 46 and 47 - section G.

In our experience, register system functionality testing is a lengthy process. With less than a month remaining to the launch of the second stage, we recommend carrying out all necessary authenticating steps as soon as possible to ensure timely recording of sales in the ERS system.

### **Consumer Credit Act**

Apart from tax-relating amendments, we would also like to cover e.g. the new Consumer Credit Act, which came into effect on 1 December 2016 and whose aim is to strengthen the position of consumers. The act does not only govern consumer credits but also credit cards, hire purchases or mortgages and other housing loans and micro-credits (up to CZK 5000).

The position of consumers is expected to be strengthened in particular by the following:

- Cap on sanctions for late credit repayment – up to 0.1% a day from the amount due and not exceeding half of the credit amount, the maximum limit being CZK 200,000
- Early repayment of a housing loan is possible without having to pay high costs
- Credit agreements where the consumer's ability to repay the credit has not been duly assessed when making the agreement will be void
- Greater requirements on non-banking entities that want to provide consumer credits
- The licensing and supervision of all credit providers and intermediaries is transferred to the Czech National Bank.

### **Gambling Act amended**

Yet another notable piece of news is the ban on new slot machine permits issued for restaurants and pubs starting from 2017. The financial administration plans to completely eradicate this type of business once all the existing licences have expired.





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