

Dear Clients and Business Partners,

Starting 1 January 2014, a number of important changes in the area of taxes and accounting related to the recodification of private law will come into effect. Therefore, we will regularly include information in the Tax News that we consider to be important insofar that they could affect your business activities. In the November issue, we report on four areas i.e. interest-free loans, increase of VAT when selling land, mandatory digital filings for employers and also the new obligations relating to the so-called solidarity tax.

We trust that the information will be interesting to you. In case of any questions, please do not hesitate to contact us at any time.

Best regards,

Your LERIKA team of professionals

## INTEREST-FREE LOANS

Starting 1 January 2014, **interest-free loans** (newly referred to as “zápůjčka” in Czech), will be subject to a number of important tax changes worth mentioning.

As of that date, the non-monetary benefit of the borrower from the loan (newly “vydlužitel”) shall not be subject to tax. Henceforth, provision of interest-free loans will thus have no income tax consequences.

However, this does not apply to related parties. Amended wording of Article 23, Section 7 of Income Taxes Act, which governs situations when related parties agree prices in transactions differing from fair market conditions, newly stipulates that taxable income shall be adjusted also in situations when the agreed price between the taxpayers is zero. In other words, in case of interest-free loans provided between related parties, the creditor will newly be obliged to increase taxable income by the value of the deemed fair market interest.



### In this issue

- Interest – free loans
- Solidarity tax
- VAT aspects of transfers of land
- Mandatory digital filings

### Tax | Accounting | Payroll

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For further information please contact the respective LERIKA's specialist.

The wording of this provision shall not apply to cases when interest from loans agreed between related parties is zero or lower than fair market level but the creditor is a Czech tax non-resident.

A typical situation when taxable income will not be affected by any adjustments is an interest-free loan provided by a foreign shareholder to its Czech subsidiary.

However, in a reverse situation when a Czech subsidiary provides an interest-free loan to a foreign shareholder, taxable income will have to be increased by the value of deemed interest that would have been agreed by independent parties at fair market level.

If the above issue is relevant to you, please do not hesitate to contact us.

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## SOLIDARITY TAX

In 2013, we witnessed for the first time the so-called solidarity increase of personal income tax amounting to 7%. This increase applies to income exceeding the maximum assessment base (cap) for social security insurance.

Solidarity tax increase causes taxpayer to file a **personal income tax return** after year end. The obligation to file a stand-alone tax return for 2013 applies to every employee whose income throughout the year was (at least once) subject to the 7% tax increase for the purposes of calculating the monthly payroll tax. In other words, the rule applies if gross income of an employee exceeds 1/12 of the social security insurance cap i.e. 103 536 CZK in (at least) one month. This applies even in situations when the solidarity tax increase does not apply to the aggregate income on an annualized basis.

LERIKA is happy to provide you with full support with the preparation and filing of annual tax return.

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## VAT ASPECTS OF TRANSFERS OF LAND

The legal measure containing a complex VAT law amendment is also relevant for Article 56 of the VAT Act that deals with transfers and lease of real estate.

Until now, sale of land with building on it was fully VAT exempt. Newly, the VAT exemption shall only apply to the transfers of the following types of land:

- i) Land with no buildings firmly connected to the underlying land or with no sanitation plumbing;
- ii) Land which cannot be built over on the basis of a valid building permit or an authorization to initiate the notified act of building



This change will mainly affect developers and their clients due to the fact that, in vast majority of cases, the developer transfers to the client an apartment (or a family house) together with the related (built-over) plot of land. Whereas such transfers were VAT exempt until now, they will newly represent taxable supplies for VAT purposes.

If the above issue is relevant to you, please do not hesitate to contact us.

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# MANDATORY DIGITAL FILINGS

Starting 1 January 2014, changes in **communication** with social security authorities are upcoming. As of that date, some of the regular filings will newly be accepted only in **digital form**.

From 1 January 2014 onwards, the following filings of employers (accounting units) will be accepted in digital form only:

- Pension insurance records
- Confirmation on studies (i.e. theoretical or practical formation) for the purpose of pension insurance
- Statement of insurance amounts
- Notification on commencement of employment (or its termination)
- Employer register application (as well as cancellation of the registration)
- Appendix to application on sickness insurance benefit
- Confirmation for the purpose of payment of compensatory maternity benefit

In case you wish to file the above digitally, you first need to have available the relevant payroll or personal software supporting the so-called e – Podání service (or alternative free-of-charge Software 602 Form Filler). Second, you need to have a data box or a qualifying certificate in the form of an authorized electronic signature.

The digital filing itself can be carried out through one of the following communication channels. Each subsidiary of OSSZ/PSSZ/MSSZ has a designated filing point (**e-mail address**) to which the relevant filing can be sent. However, this can only be carried out using an authorized electronic signature.

The second option is to communicate using a **data box**. The data box provides an alternative to the electronic signature. Its main benefit is that any filings sent through it have the same validity as if they were physically signed and made in written.

The third option is to communicate via the **publicly available "e – Podání" service** (abbreviated **VREP** in Czech). The main advantage of this form of communication is the possibility of a direct link to the software used for the purpose of payroll or personal agenda. Such software can thus send the relevant records and forms in XML format directly to the VREP.

In case of any questions to the above, we would be happy to provide you with our services and full assistance.

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Even though due care is paid to the preparation of the tax news, please be aware that their contents are only meant to be informative. Therefore, we recommend that any action envisaged on the basis of the tax news be discussed with your counsel prior to implementation.

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