November - December 2014

TAX NEWS

LERIKA, Domažlická 1, 130 00, Praha 3, www.lerika.eu

Dear Clients and Business Partners,

We have prepared the November - December 2014 issue of our Tax News for you. We believe that the reported pieces of information will be interesting and valuable for you.

Should you have any questions, please, do not hesitate to contact us whenever you like.

With best regards

LERIKA Team

In this issue

ACT ON CHILD GROUPS – „KINDERGARTEN SUBSIDY"

A novelty with a tax impact is the enactment of the Act on Child Groups. This Act was first rejected by the Senate and subsequently even vetoed by the president Miloš Zeman on 8 October 2014. He was in particular against the provision jeopardizing the existence of tree nurseries that cannot, as a matter of principle, fulfill some of the strict (e.g. hygienic) norms. However, on 4 November 2014, the Parliament overruled the presidential veto and approved the final version of the Act, indicating that the contentious issue of the tree nurseries will be subsequently dealt with by a special amendment.

The Act on Child Groups determines conditions for setting up child groups e.g. within companies, universities or NGOs. The Act also impacts the Income Taxes Act insofar that it covers the so-called kindergarten subsidy. The purpose of the subsidy is to enable the use of tax credit amounting to the costs that the parents demonstrably incurred in order to place their child in a kindergarten or a similar institution that takes care of pre-school age children. However, such costs only include expenditures incurred directly in relation with placing a child in a kindergarten. Costs of e.g. meals or transport do not qualify nor do fees incurred in connection with placing a child in a grammar school. In order to claim the tax credit, the parents will be required to substantiate an official confirmation from a kindergarten or another provider of pre-school education.

The tax credit can already be claimed for 2014 and its maximum limit amounts to the minimum statutory salary valid as of the beginning of the given year. For 2014, the tax credit is thus capped at CZK 8,500 per child. However, given that the Parliament approved an increase of minimum salary to CZK 9,200 for 2015, the maximum tax credit for that year increases by CZK 700 up to CZK 9,200 as well.

The use of tax credit is conditional upon fulfilling the following:

- the parent cannot claim the costs as deductible under Article 24 of Income Taxes Act (expenses incurred to generate, assure and maintain taxable income),
- the child under care must live in the same household as the taxpayer,
- if the child is being take care of by several taxpayers forming one household, the tax credit can only be claimed in the given tax period by just one of the taxpayers,

Tax I Accounting I Payroll

Should you not wish to receive our Tax News,
please contact Kateřina Navrátilová
via e-mail:
katerina.navratilova@lerika.eu
or phone: +420 222 362 678.

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

- in order to use the tax credit, the child cannot be a grandchild of either of the taxpayers in the given household. The only exception is where the care for the grandchild effectively replaces care of the original parents.

The main difference compared to tax credit for child under care is the fact that the kindergarten care-related tax credit cannot be claimed as tax refund (the so-called tax bonus). Therefore, taxpayers can only claim the tax credit up to the amount of tax payable and only after the end of the calendar year, not on a monthly basis. Tax credit amounting to the kindergarten subsidy can also be claimed by self-employed individuals including those who use lump sum deductions for expenses.

PAYMENT OF TAX WITH CREDIT CARD

As part of simplification of process of tax collection, the tax administration plans to roll out on 1 January 2015 a trial run for payment terminals allowing taxpayers to pay tax directly at the tax office with the use of credit cards. This novelty will, for the time being, be tested only at several selected tax offices – the tax officials indicated that not more than five tax offices will be involved. In July 2015, evaluation of the results of the trial run will be done and decision on further implementation will be made.

Apart from the possibility to pay with a credit card directly at the tax office, another improvement will be rolled out at the beginning of 2015. After filing a tax return, taxpayers will be allowed to pay their tax liability on-line using a secure web-based payment platform in a similar way as e.g. when purchasing good on-line. As far as the payment mechanism is concerned, financial institutions will not be compensated with commissions from every payment due to the fact that the underlying tax has to be paid in full, but will be compensated directly by the Ministry of Finance. These steps of the tax administration will surely be appreciated by the credit card issuers as it will provide them with a new stable source of revenues for their services.

Implementation of non-cash payments is a priority for the Ministry of Finance. This step has several positive effects. There is a clear positive motive for tax payers as it will simplify for them the process of tax payments. The tax administration also hopes that the implementation of non-cash payments will reduce the extent of the shadow economy and tax avoidance. Existence of cash desks at tax offices is also connected with a risk of receiving counterfeits. Costs of running cash desks and ensuring their security are not negligible either.

In case of any questions, we will be pleased to provide you with our full support.

petr.hajek@lerika.eu

IMPACT OF INCOME TAXES ACT AMENDMENT ON LIFE INSURANCE

The law amendment that was signed by the President on 6 November whose main points were covered in our last issue of tax news also affects life insurance. A change concerns conditions of existing as well as new contracts to which a new condition shall be added that disallows extraordinary withdrawal of finances from a contract already concluded. This change was necessitated by the fact that the current regime enables taxpayers to combine the use of tax allowance amounting to the paid insurance premiums with an option to make an extraordinary withdrawal of finances which has caused a significant social security as well as income tax leakage. If an employer contributed any amounts for an employee, the contributions represented a tax-deductible expense, the first CZK 30,000 contributed were not subject to social security and the employee was allowed to subsequently withdraw the contributions at any time without paying any income tax from them.

A new life insurance scheme client thus has to make a choice. Either extraordinary withdrawals of insurance premiums will be allowed or it will be possible to use the tax allowance i.e. deduct up to CZK 12,000 of paid insurance from taxable income and receive tax effective contributions from the employer. Combining both options at the same time will no longer be possible. If the client decides not to include the new condition in a contract, the employer can still contribute for the employee; however, the amount will be treated as regular salary for tax purposes. If the conditions are breached and the client makes an extraordinary withdrawal after 1 January 2015, he or she will be required to treat as taxable income all the previously applied tax allowances for (up to) 10 years. As an example, if a withdrawal is made in July 2016, the taxation will be done for the previous 19 months. Another option is to keep the current contract enabling extraordinary withdrawals and concluding a new contract fulfilling the new condition whereby the employer will start contributing to the employee in connection with the latter contract. There also a relating requirement for the employee to substantiate

to the contributing employer until 31 March 2015 that his or her contract complies with the new insurance conditions as of 1 January 2015.

The Czech insurance association points out in its press release that the implementation of the new regime in no way requires anyone to terminate the current and conclude a new contract. Most of the insurance houses are currently sending out instructions to their clients how to proceed with implementation of the new conditions. Some of the insurance houses will handle the implementation automatically and unless the client specifically refuses such course of action. As a concluding remark, it is worth pointing out that the change does not only concern clients to whom the employer contributes amounts but all those who have a contract for life insurance fulfilling the conditions for the tax allowance.

NEW FORMS

Another area that will be affected by the enactment of the Personal Income Taxes Act and VAT Act amendments are the relating tax forms. The Personal Income Tax Return form will newly include Section 3, Row 52a, that will allow use of tax allowance for further education. Section 5 Row 69a will allow use of kindergarten subsidy and Section 7 Row 87b will allow adjustment of tax withheld under Article 36 Section 8 of Income Taxes Act. Appendices to tax returns have been similarly updated. The tax form should be used for filing a tax return for 2014 tax year.

The VAT return form has also been formally updated in connection with the implementation of the second reduced VAT rate. Supplies subject to the new second reduced rate of 10% as well as the original reduced rate of 15% will be shown on the same row. Instructions will be included in the relevant section of the form. The form no. 19 will be published shortly on the tax administration's web site and shall be used for the first time for the 1st quarter 2015.

katerina.navratilova@lerika.eu

Contacts:

Corporate taxation	VAT and customs	Personal taxation	Accounting
Ivana Ottová	Alena Kučerová	Martin Pecka	Monika Borkovcová
+420 277 277 085	+420 277 277 084	+420 277 277 087	+420 222 363 073
ivana.ottova@lerika.eu	alena.kucerova@lerika.eu	martin.pecka@lerika.eu	monika.borkovcova@lerika.eu