



Ladies and Gentlemen,
A long cold winter is hopefully at an end as well as the season of tax returns, if we have not postponed them by several months to later

time. And we hope that a beautiful spring is about to come. We can also hope that – as the central bank promises – we are going to experience the year of stabilization as well as being faced with the minimum of additional austerity programs.

Our newsletter comes in this maybe a little bit optimistic time. Perhaps this issue fits into this time with respect to the fact that it is mainly focused on topics related to growth and entry into new markets. The main article is intended for foreign companies which supply goods and services on the Czech market, while

another information then to those who want to be active in the Slovak Republic.

Nevertheless, we as accountants and tax advisors must even in this optimistic tone draw your attention to the things that are complicated and involve risks. We think, however, that it is therefore important for you to be sure that you do not create skeletons in the cupboard and that all optimistic expectations can be met. So, besides the question of growth, we also add one warning. Your information system may not calculate the newly introduced tax changes correctly. Please, read our article and check your programmers.

This does not mean that there are only reasons for optimism. It seems that after the next election we will have to pay higher taxes and that will require more tax planning. For us, it may mean extra work, but no joy of it.

Please, do not have your temper spoiled. There is a spring to come, sunny days, fresh air, blossoming nature and

Obsah čísla

- Pitfalls of the VAT Act for foreign firms
- Attention! Your information system may not count correctly.
- LERIKA in the Slovak Republic
- Tax jokes
- Upcoming exhibition

perhaps some leisure time that we can spend with our loved ones.

I wish you a lot of nice, romantic spring days.

Monika Borkovcová

SUBSIDIARIES OF FOREIGN COMPANIES AND PITFALLS OF THE VAT ACT

Ability to master all the complexities of local legislation relating to value added tax belongs among the most underrated obstacles that must be overcome by foreign companies supplying goods or services to local customers. Many foreign executives mistakenly believe, for example, that they are liable to apply these rules having achieved a certain turnover. In addition, it is too difficult for them to understand specific terms of the Czech legislation. Since the beginning of this year, the latest amendment is even more difficult than that before.

More and more Czech companies are working for foreign customers, and more and more companies from other countries are looking for customers in the Czech Republic. It brings opportunities for both sides. But it also brings risks and some difficult tasks. These include the correct treatment of VAT according to Czech legislation. Some foreign managers or their local representatives even say that it is VAT that belongs to the most difficult issues. However, it also certainly belongs to the most underestimated ones. The complexity of the issue is due to the frequent changes. Indeed, several changes came into force as of 1 January of this year, and yet we cannot exactly say what

According to the Czech VAT Act, with the first transfer of goods into the warehouse a foreign entity simultaneously becomes the person identified for VAT in the Czech Republic...

they mean, and how the tax authorities will proceed.

Payer or the "identified person"?

For foreign entity it is difficult to understand the Czech VAT, among other



things because our legislation has a number of concepts, whose translation is not entirely easy, and consequently they can confuse foreign managers.

As long as a foreign company (whether from the EU or from other parts of the world) imports goods or services to one local entity, engaged in economic activities (i.e. it is a tax payer or taxable person), the situation is simple. According to the VAT Act, the person liable for the payment of taxes is that local body, which may be a partner firm, or a local agency. Tax liability, as well as keeping all the necessary administration, applies only to the local entity.

Just a little change, however, and everything can be quite different. Although the foreign firm does not create a separate local branch, but it sets up a warehouse in the Czech Republic, and begins to deliver the goods to several customers or resellers. According to the Czech VAT Act (235/2004 Coll., as amended) with the first transfer of goods into the warehouse a foreign entity simultaneously becomes the person identified for VAT in the Czech Republic. From that moment it is obliged to report all goods movements crossing the border of the Czech Republic and going into the warehouse in its tax return. Right up until a time when it becomes a VAT payer.

Besides the obligation to indicate the cross-border movements of goods in a tax return there is an obligation to submit within 15 days the application for VAT registration. In addition, an extract from the commercial or similar register of the country where the foreign entity is located, the local registration of VAT, local tax identification numbers and the bank account must be attached to this application.

Why one registration is not enough

However, the foreign entity does not become subject to VAT in the Czech Republic first at the date of registration, but by making the first delivery of goods from a local store (or by providing the first service). Thus it becomes liable to charge its operations in the Czech Republic

including the value added tax of 21 % (or 15 %) and to report all its transactions in its tax returns, i.e. both the transfers to the Czech Republic and deliveries to customers.

But that's not all. Czech branches of foreign entities (the subsidiary companies based in the Czech Republic or organisational branches of foreign companies registered as permanent establishments of respective companies for VAT purposes in the Czech Republic) be-

No wonder that, especially for companies from countries outside the EU, such arrangement is confusing and incomprehensible.

come the "identified persons" with all the obligations arising from their providing the services to another EU country. This, by the way, is a regulation that applies first from 1 January of this year, while before they became tax payers immediately.

No wonder that, especially for companies from countries outside the EU, such arrangement is confusing and incomprehensible. Just to understand the institute of "identified person" and potential necessity to undergo gradually more registrations of the same tax can be very difficult. And I am not talking about all obligations related to the

Obligations of foreign bodies in the delivery of goods or provision of services in the Czech Republic are different from case to case. It is therefore not possible in a brief text, to list all possible variants of duties. However, the basic ones can be summarized as follows:

- The application for registration of the person identified for VAT or the VAT payer within the time given by law, including any documents required as attachments;
- The right issuing of tax documents with all their relevant appurtenances;
- Proper inclusion of tax documents to the relevant tax periods;
- Keeping records for VAT purposes (i.e. record-keeping obligation) to allow filling in tax returns;
- Compliance with the statutory time limits or deadlines for submission of tax returns and payments of VAT.

issuance of tax documents or about all requirements related to tax documents and their introduction into the tax return in the relevant taxation period.

Act sooner than the tax office will do!

How can a foreign entity to pass it all correctly? The best you can do is to contact a tax advisor before trading begins. In this way the foreign entity will be allowed to set transactions correctly in relation to VAT. Our experience has repeatedly confirmed that the time and costs dedicated to the proper settings are much lower than the time spent due to the tax audit and penalties arising from a seemingly petty failure to comply with the law. And if the company is in such trouble, it will usually need more time to remedy the situation by engaging a tax consultant.

That is why do not hesitate to contact us, please, even if you are not just sure, whether the current arrangement or any of your upcoming steps will not affect the obligations with regard to VAT. Even a short consultation can move matters in right direction, or at least prevent the error or to provide assurance that everything is really okay.

Martin Pecka



Identified person in its VAT return is obliged to specify all movements of goods and services across borders. It also has an obligation to file the application to register for VAT within the statutory deadline.

VAT payer is obliged to charge all its services (except those exempt from tax or those that are not subject to tax), including value added tax, file tax returns within the statutory deadlines, and of course pay the tax.

DOES YOUR INFORMATION SYSTEM CALCULATE CORRECTLY? YOU BETTER CHECK IT!

Earlier this year, several changes related to income taxes and other payments of natural persons came into force – as set out in the tax package (500/2012 Coll.). The ceiling for payment of health insurance was cancelled. The ceiling for payment of social insurance was on the contrary maintained. Although manufacturers of economic information systems (ERP) argue that the new rules were implemented, practical experience shows that some systems calculate incorrectly. We therefore recommend that the accountants should not too trust to programmers and they should check the correctness of the calculation. The thing is that the possible sanctions and other problems will not impact on programmers, but on tax payers.



Just a brief reminder of what's going on. Since January the new rule says that all natural persons who in the annual sum earn more than forty-eight times the average monthly salary are liable to

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pay the so-called solidarity tax. The new tax amounting to seven percent of the amount in excess of the aforementioned limit of forty-eight times the average salary affects all those whose annual income from employment and business exceeds CZK 1,242,432 (or CZK 103,536 a month, because the advance tax on the income from employment is calculated on the monthly basis). The exact limit is based on the government provision for

this year and it may be changed in the future.

Besides, of course, there is the standard income tax (i.e. 15 % of the so-called super-gross salary that includes the social and health insurance paid by the employer).

This implies that, in principle, there are two new administrative duties:

- Customize the payroll every month when the tax base exceeds four times the average monthly salary. Two new items must appear on each payslip:
- The basis of "solidarity tax", i.e. the difference between the gross pay and an amount equal to four times the average salary,
- "Solidarity tax", i.e. seven percent of that basis,
- At the end of the year to file a tax return. This tax return must be submitted by the employee who exceeded the mentioned amount of CZK 103,536 at least in one single month.

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Another change is the abolition of the ceiling for health insurance. This means that employees are liable to pay 4.5 % of the total taxable income (or income entering into the tax base), then the employer pays another 9 % calculated from the same sum.

The ceiling of the assessment base for the calculating of social insurance remains on the contrary in force (though the amount was for this year increased to CZK 1,242,432). It is therefore advisable to check whether the supplier of the information system has mistakenly not

cancelled the ceiling here too, and whether an unnecessarily large amount is not deducted. If the amount of the tax base in each month varies, the error may not be initially obvious, but appears first only after reaching the ceiling.

As of the foregoing, it is therefore advisable to check

- whether the system creates the right payrolls in the months when the employee exceeds four times the average monthly salary
- whether the system takes into account that the annual settlement of taxes (tax reconciliation after the end of the year) is not possible to be prepared for the employees who have paid the deposit for solidarity tax in some months of the respective year;
- whether the ceilings were cancelled for health insurance;
- whether the caps on social insurance remained and whether in the right amount (for the year 2013 the amount totals CZK 1,242,432).

It would have naturally been better if we were able to rely fully on information systems. But, if there is a potential problem (arising, for example, from "detail", which does not seem important to programmers), the consequences will be borne by the taxpayer, not by the software vendor. A time spent for checking is worth restful sleep.

*We have processed
for you:*

For legal entities:

- 37 income tax returns
- 34 deferred by 30th June

*For natural persons doing business
as sole proprietors, freelancers etc.:*

- 22 income tax returns
- 35 deferred by 30th June

For employees:

- approx. 300 annual settlements of taxes (tax reconciliations) from dependent activity (employment)

Inexcusable mistake

An employee to the accountant:

"In the pay envelope I had 200 crowns less!"

Accountant: "Last time I gave you by 200 crowns more. Why were you silent then and now you complain?"

Employee: "One mistake can be excusable, but this is already the second!"

LERIKA IN SLOVAKIA

If we state in another article that the tax structure in the Czech Republic for foreign entities is often complex and difficult to understand, what about in the Slovak Republic! And the experience of Czech entrepreneurs indicates that even communication with the local tax authorities may be very complicated. However, there is a good and simple solution – use the services of the local branch of LERIKA.

LERIKA has been operating in Bratislava for several years and is rapidly growing. Anyway, from trade & marketing point of view, it is interesting that while trying to ensure its growth by the activities of traders, they were not too successful. However, having cancelled the jobs of trade agents, customers began to increase. Mainly because the company has been operating in the market long enough and existing customers have gained relevant experience in co-operation with LERIKA and they were ready to talk about it. Just recommending and subsequent expansion of services in the area of activities, where LERIKA has already worked, proved to be the best way to follow.

"Since the time I have joined the company we have lost only one customer who opted for another solution in order to resolve its internal affairs. It has not happened so far that a customer left because they were dissatisfied with our services" the Chief Accountant of LERIKA Slovakia Mario Volek says. He expects the company to continue to grow and in the autumn perhaps recruit other employees.

Branch office or limited liability company (s.r.o.)

Mario Volek joined the LERIKA Company in 2010 after returning from the UK where he lived and did business for several years. At that time he already knew that



"It has not happened so far to us that somebody left because they were not satisfied with our services."

he would like to focus his interest fully on the accounting, which he always rated as very interesting (he acted as a chief accountant already in his company in Cardiff) and with another people from LERIKA he quickly hit it off. "After three years of collaboration, I can confirm that it was an excellent choice. Professional approach and friendly relations," he says. Mario Volek is not only the accountant, but also a professional photographer. He prefers to focus his interest on the reportage photography but in recent years he has not had enough time for his love and thus the exhibition of his photos unfortunately cannot be expected to take place soon.

On the other hand, he dedicated more and more time to the accounting services and tax consultancy. Slovak customers are often provided with payroll services, administration of double entry accounting, the aforementioned tax advice and for a limited period of time (for example during illness or maternity leave), if customer's need be, LERIKA Slovakia is also able to carry out all functions of corporate finance office. Again, the sooner the customer contacts the company, the more they can gain from cooperation.

After they cancelled the jobs of trade representatives, a number of customers began to grow.

"For example, the decision whether to set up in Slovakia a branch office of the company or the company itself with limited liability. Some customers do not understand the legal distinction between these two forms accurately and they are completely unaware of the tax consequences. This is exactly the sort of thing when it is good to consult a tax advisor before the first transaction is to take place," Mario Volek says.

Fraudulent accounting – Call it as other people do

The businessman tells his wife: "I have already signed up for the course of double-version accounting"
"Well," replies his wife, "but next call it better as everyone – the course of double-entry accounting".

Honest accountant

Mickey Mouse, Donald Duck and the honest accountant sit locked in the office with a bag full of money: \$ 1,000,000 in small bills. What will happen?
Nothing, they all are fictional characters.

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BEFORE THE INVITATION TO THE PREVIEW COMES...

Although at the closing date of this newsletter we have not been aware of all the details, it is now certain that by mid-year additional paintings are going to appear on the premises of the LERIKA Company. The Company will continue with the tradition of supporting young artists, to whom the Company offers a free opportunity to present and offer their works.



Now we can only tell you that after Anne Plešmířová and Margaret Hlinovská (to whose preview we return in the illustration photo) the trio of artists will follow whose works are rather abstract. As regards their works, we will notify you in the next issue in more detailed way.

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