



Dear ladies and gentlemen,
You are just receiving the second issue of our Newsletter at the time when LERIKA is entering its 10th year of

existence. During the past nine years, we have managed to set up a firm with a friendly, relatively informal and sufficiently stable environment. You will find a short history of our firm in the Newsletter.

At this point, I would just like to add that all of us – myself, Monika Borkovcová as well as our colleagues – are well aware of the fact that our achievements are due not only to our own efforts and hard work, but mainly due to our clients. When reading about new services being introduced, it is thanks to our clients that they have entrusted us with new responsibilities. When reading about hiring of new employees, the underlying reality is that our clients decided to demand new services from us.

When we think back about furnishing our offices, we are well aware that this was our clients causing this.

Looking back at our history is an opportunity to say thanks and also to think back, because our clients are not just figures in a profit and loss account or in a list of companies, but they are real people with faces and names. They are people thanks to whose trust LERIKA came into existence, carries on and has a future. Future is also where a part of our Newsletter is heading. We would like to use the opportunity to inspire you and draw your attention to opportunities of doing business with less effort and lower tax costs. This is why you will find in this issue an article on tax aspects of hiring people with disabilities. You will also find in this issue a traditional commentary by a tax advisor, tax jokes and introduction of a new colleague.

I wish to you that you can live up to the classic theme of “autumn being the most beautiful part of the year”. *Ivana Ottová*

Obsah čísla

- Employment of people with disabilities
- LERIKA's 10th year of operations
- Petr Svach: accountant, manager or sales representative?
- Accounting jokes
- Tax advisor's commentary regarding the forthcoming tax changes and the repeal of limitation on default tax credit for working pensioners
- New website

TAX ASPECTS OF EMPLOYING PEOPLE WITH DISABILITIES

Companies with headcount of 25 and above are required to employ people with disabilities. However, this obligation can be easily turned into an advantage if the company uses all the tax credits and contributions that are available.

It looks as if the period when people with disabilities were supposed to be institutionalized or at least isolated in designated premises is finally coming to an end. Things are changing. Thanks to advanced medicine, smarter prostheses and also thanks to the improving mindset, people not capable of moving limbs or mimic muscles are no longer assumed to be poor workers. In a sense, we are returning to the natural state of history when a partly disabled veteran was a welcome hand on a farm, a sailor with a wooden leg a legitimate member of the crew.

Hiring a disabled employee also requires solving a number of accounting and tax issues. Some of them are mandatory requirements, others represent cost-sa-

ving opportunities. And if your

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headcount is 25 and above, they concern your company even if you do not employ any people with disabilities.



- Every employer with headcount of 25 and above is obliged to employ one disabled person per 25 employees on the basis of Article 81 of Act on Employment (435/2004 Coll.). A person with the most severe (third-degree) disablement counts for the factor of three. If your headcount is 80, you are required to employ at least one severely disabled person or three persons with first-degree disability. For avoidance of doubt, the decisive criterion is the number of hours worked, not the nominal headcount.
- An employer who does not fulfill the obligation is required by the said law to pay a special levy of 2.5 times average salary for every disabled person that he or she was supposed to employ. If a company has headcount of 80 at full-

-time equivalent and does not employ any disabled person, it is required to pay, until February of the following year, 7.5 times this year's average salary. This obligation can be avoided by buying goods or services from an entity whose headcount includes more than 50% of disabled employees.

- As regards an employment contract and relating obligations, a disabled person can be treated in the same manner as a regular employee including the obligation that an entry medical exam has to confirm his or her suitability for the given work.
- A disabled employee is entitled to receive a tax credit (in line with Article 35 of Income Taxes Act No. 586/1992 Coll.). This is taken care of through monthly payroll tax advances on the condition that the employee provides a confirmation on disability.
- Tax credit on the basis of the same article in the Income Taxes Act can also be claimed by the employer up to the amount of CZK 60,000 a year (the maximum is provided in case of employing

a person with a third-degree disability at full-time equivalent).

- If the disabled employee was on a list of available workers kept by the Labor Office prior to being hired, it is possi-

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ble to claim a special subsidy of CZK 10,000 a month. However, fulfillment of further conditions (mainly zero tax debt status) and relating paperwork is required. If you are considering this option, it is important to talk to your tax advisor well in advance, ideally before starting negotiations with the given candidate.

PROTECTED WORK PLACE

Through an agreement with Labor Office, an employer can set up a so-called protected work place. The agreement is concluded for the period of three years and results in an obligation for the employer to keep the position occupied throughout this period. The agreement can even cover a disabled person who is self-employed.

The contribution from the Labor Office amounts to up to CZK 48,000 a year. In addition to that, the employer can claim reimbursement of qualifying costs.

Detailed conditions are provided for in Article 75 of the Act on Employment, as further amended.

- In addition, it is also possible to claim other benefits stipulated in Article 78 of Act 435/2004 Coll. These include e.g. contribution when setting up a socially beneficial work position, contribution for work-related training of a disabled person or contribution for the support of employing a disabled person.
- If disabled employees represent more than 50% of total workforce, the above law provides for further additional benefits. Thanks to the above mentioned formula according to which a third-degree disability counts for the factor of three, one sixth of workforce may be all that is needed. Under certain conditions, carve-out of certain activities into a separate legal entity can be considered. However, this is a significantly more complex area that needs to be carefully analyzed and planned.
- Last but not least, the so-called protected work places should be considered.

In short, if you do not employ disabled people, it is likely to cost you money. And if you do employ them, you cannot exclude that you are missing out on opportunities to get much more from the state. On the other hand, it is true that taking advantage of some of the options is administratively demanding and that some of the laws are very complex. However, this is why you have a tax advisor – they are supposed to investigate these issues for you.

Vladimíra Brožová



LERIKA'S 10TH YEAR OF OPERATIONS

Since its foundation ten years ago, LERIKA has gone through a period of rapid pre-crisis growth on the one hand and the period of cost cutting on the other. It has developed into a mature, stable firm with many other ambitions that still await their realization.

The history of the firm spans back to 2005 when Ivana Ottová, tax advisor with Ernst&Young on a maternity leave, decided that she had just had enough of work for a big corporation. "I was no longer keen on working for a big organization and at the same time I wanted to strike the right balance between work and family life. And that was enabled by having my own firm. At this point, I usually work until 3pm, then I spend time with my family and continue with working late at night. Clients have become used to getting e-mails from me after midnight."

Getting new business from satisfied clients

A logical outcome was to set up an own firm in which she joined forces with another partner and named it Tax Dimen-

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sion, s.r.o. Ivana Ottová was a tax partner from the very beginning.

"It was a dynamic time filled with euphoria", she recalls. Business was going well and the number of clients was quickly increasing. As a result, it was necessary to set up quickly the necessary processes and organization structure as well as expand the scope of services. Some of the clients were also requesting bookkeeping and payroll services. That's why Monika Borkovcová, who headed the accounting department of the Central European subsidiary of Logika (CGI today) prior to her maternity leave, joined the firm. She wasn't keen on continuing her corporate career either. "We started with a small office in Hloubětín. Nobody was telling me how to do things and I had to take care of everything myself i.e. setting up the office, hiring people, getting computers, replacing printer cartridges, even putting together furniture with some help from my husband. I felt I had a new life", she

recalls with a smile. However, a couple of months later, a big enterprise requested complete reconstruction of its accounting books, suddenly turning a small accounting department into a big one, which also triggered its move to the tax advisors' office at Na Příkopě street.

The new firm was doing well. In the course of three years, its personnel had grown to 25 people and a subsidiary in Slovakia had been set up. Business development was initially taken care of by one of the partners, who was actively approaching potential clients. However, quickly, it was the reputation on the market that became the firm's main sales channel. And it has remained that way ever since. Satisfied clients recommend LERIKA to their friends. And when a financial director who knows LERIKA from the past changes jobs, he or she usually migrates to LERIKA in the new company as well.

Where to hire sociable accountants?

To sustain LERIKA's growth, it was necessary to do a lot of work within the firm. This included setting up rules, processes, IT system, knowledge database within an environment enabling knowledge and information management gained throughout the years of operations. This all sounds quite straightforward on paper but an experienced reader would know that every that every item on the list takes literally hundreds of hours of effort to put in place.

A new name for the firm also had to be addressed. In the end, it was decided that all the activities would be united under the brand name of LERIKA which has been accompanied by its signature green color ever since.

It was also necessary to hire employees. As Ivana Ottová recalls, this proved to be the most difficult task in the initial phase. LERIKA needed people with the required knowledge, English-speaking and also



In this building in Na Příkopě street there used to be the first company offices.

independent, socially mature and capable of communicating with clients as well as colleagues. Since the very beginning, the firm has used a set of logical tests that show which issues the candidate is capable of tackling and how he or she approaches them. In contrast, for employees

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of the accounting department, it is more critical to know the current legislation than to solve complicated abstract problems. "The main challenge is that accountants in companies often tend to be introverted and demand uncompromisingly that their colleagues provide input information on time and in the required format. If that is not the case, it can happen that the accountant subsequently refuses to issue a confirmation to a colleague. Such an approach is unacceptable for us. We are looking for people who know accounting but are at the same time sociable, client-oriented and know that they cannot act

as the ultimate authority. That is not easy at all", adds Monika Borkovcová.

Crisis and stabilization

The progress of a successful firm was stopped only by the crisis. However, the first change was positive. "Suddenly, it was much easier to hire a good employee. That is, it was still quite difficult but not as much as before. However, half a year later, work was becoming scarce, too", says Ivana Ottová. Some of the clients downsized operations, cutting down on the number of invoices and staff, others started to in-source some of the activities and a number of companies went out of business completely. Demand for services relating to mergers and acquisitions dried up completely. LERIKA duly reacted by introducing a range of services involving cost management and winding-up of businesses; however, this could not compensate the overall reduction in demand for its services.

Suddenly, it became necessary to deal with completely different issues than be-

fore. In these extraordinary times, both women partners also parted with the third partner. "It was an emotionally demanding period. However, it has also made the firm more integrated and stable", they recall.

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The required processes have been set up."

Today, LERIKA has 17 full-time employees and many plans. "It would be great to increase our staff to the total of 20-25 people, ramp up operations in Slovakia and maybe in another country", says Monika. The firm has solid foundations consisting in strong setup of the main processes which is why the ever-day running of the firm

requires only limited management. "We are good at delegating work. Mainly because we have colleagues that we can rely on", says Ivana. The women partners can thus dedicate an important part of their effort to further development while handing over the new projects to colleagues.

In the end, LERIKA's goals have largely been fulfilled. Clients are getting services in quality comparable to international firms that would charge significantly more for them. The firm is running well. The required processes have been set up. However, this is still a beginning and represents initial steps on the way to an even wider portfolio of services, higher quality, even more satisfied clients and a more successful enterprise. (ham)

ACCOUNTANT, MANAGER OR SALES REPRESENTATIVE?



Petr Svach joined LERIKA in 2010 in order to return to the accounting and tax work after 8 years. He appreciates that it is

an industry where one can make a difference by hard work, not by being aggressive and also that it does not allow one to stagnate. "There are industries where you learn something and you are done for 10 years. That's not the way things work here. Changes just keep coming", he says and likes the setting in the LERIKA firm where he can always ask colleagues in case his own studies or regular trainings have not provided the answer.

As he explains, he likes the variety of clients – from a small Czech company to a subsidiary of a multinational corporation with extensive requirements in terms of reporting. "It is simply the case that a good accountant must be accurate and finish everything on time - regardless of whether one manages to do the work within the span of eight hours or not."

From accounts to yoghurts and back

During his career, Petr Svach used to work at various management positions involving manufacturing and sales of fast-moving consumer goods. He used to deal with issues of finance, logistics and sales. He was also responsible for conducting sales meetings as well as negotiating and planning customer service on as-needed basis. He uses experience from these past positions in the area of accounting.

"It is useful to be aware of the fact that every client needs an individual style of communication and that you can expect different things from different people as regards things such as quality of input data"

Among other things, he has learnt to listen to the needs of each individual client. "It is useful to be aware of the fact that every client needs an individual style of communication and that you can expect different things from different people as

Do you know why accountants do not read novels?

Because the only figures they contain are page numbers.

What do the accountants do for fun?

They count the numbers in the telephone directory!

What does the accountant's wife say when she cannot fall asleep?

"Darling, can you tell me something about your work..."

What is the definition of a good tax advisor?

A loophole in the tax law is usually named after one.

Why did God create economists?

So that accountants had someone to laugh at.

regards things such as quality of input data. In a sense, our situation is similar to sales-related activities. The client can always terminate business with us in case he or she is unhappy."

Petr Svach is happy that he went back to do accounting within the LERIKA firm. "The firm has a nice atmosphere, there are good relations among staff and one gets enough independence when sticking to rules. I like the type of work here. What else could I want?" However, life is not just work so you can also encounter Petr Svach doing some biking or at a football tournament where he accompanies one of his sons.

HOW THE SENATORS, WITH SOME HELP FROM THE CONSTITUTIONAL COURT JUDGES, CAUGHT UP WITH, OR EVEN OVERTOOK, THE MINISTRY OF FINANCE...

Those of you who regularly read our monthly Tax News, have surely taken note of i) tax changes that are being planned by the Ministry of Finance under the direction of Mr Babiš as of 1 January 2015 (the author notes here that one of the planned changes was the reintroduction of the default tax credit for working pensioners) and ii) repeal of limitation on default tax credit for working pensioners by the decision of the Constitutional Court. I would like to avoid burdening you with the same information twice but I consider it worthwhile nonetheless to point out some impacts of the given decision.

Whereas the Ministry of Finance was expecting to reinstate the default tax credit for working pensioners only as of 2015 (the reason being that the non-systematic measure was discriminatory which the author fully identifies with), the Constitutional Court decided that the tax credit should be reinstated one year earlier i.e. as of 2014. One could speculate that the senators who filed the lawsuit with the Constitutional Court not just caught up with Mr Babiš (perhaps hoping to score votes during future elections), they actually overtook him by a year. What is so important about the above? Few would think so but the effect on the state budget amounts to around CZK 1.7 billion (considering that the default tax credit amounts to CZK 24,840 a year, this trans-

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lates into 68,400 Czech working pensioners), which is not a small figure. Needless to say that the revenues that have been lost in this manner have to be covered from other sources.

Where will the revenues come from? We can go into great lengths speculating about it but that's about all we can really do. It's almost certain that we are in for some kind of surprise from the politicians. I read somewhere recently that the tax

administration is well aware that tax credit for dependent child is often abused in the way that it is claimed by both parents at the same time (e.g. one claiming it as an employee through payroll, the other through a tax return). The tax administration is supposedly not capable of countering this behavior. It was even said that it may be better to abolish this tax credit completely and replace it with something else. Could it be that another non-systematic measure is on the horizon?

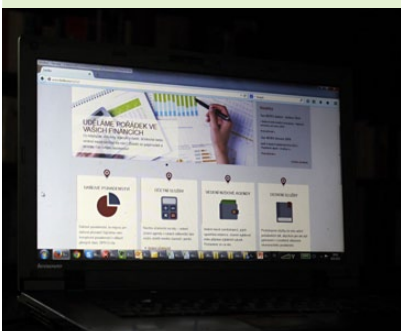
Let us see what comes out of all this. In any case, I wish that the measure is meaningful and does not cause the same le-



vel of controversy that the limitation of default tax credit for working pensioners did. On the other hand...at least we had something to discuss and investigate, bringing us, tax advisors, many issues to deal with (which is why I should not complain in the first place).

Martin Pecka

NEW WEBSITE



You will find Czech as well as English version under www.lerika.eu.

Starting this summer, LERIKA has a new website. It has improved graphics, is faster and provides you with much more information with fewer clicks. It is divided into four comprehensive sections depending on the type of service (tax advisory, accounting services, payroll keeping and other services). Tax News, news and a lot useful information is available for download. The new website is a joint effort of LERIKA staff and of professionals from the Aira GROUP.

Issued by LERIKA Tax s.r.o.
and LERIKA Accounting s.r.o., Domažlická
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