



Dear Ladies and Gentlemen,
Many things have happened since the last issue of our newsletter, some of them unexpected and some of them

unwanted – floods, unprecedented heat waves, fall of the government, dissolution of parliament, a couple of scandals and a lot of discussions with an uncertain outcome.

However, all these fast changes notwithstanding, some things will just remain the same, including an obligation to pay taxes and handle the relating administration. Maybe this is one of the reasons why there are so many reliable people among accountants. They just know that whatever happens, they have to do their job well and handle all the necessary filings on time.

Even though we do not know how the current political situation will unfold further, it is almost certain that the result will be even more complex tax and accounting regulations, new rules and obligati-

ons. Perhaps, as a tax advisor, I should be pleased about that, but it is not the case. I would be much happier to witness a tax reduction or simplification of the tax law.

Regardless, the current issue of our newsletter is mainly concerned with the VAT law amendment which was prepared by the Ministry of Finance under the leadership of Miroslav Kalousek. The amendment was enacted at the start of the year already though it is only now becoming clear how the tax administrators have interpreted it and what they are going to expect from the taxpayers. However, there are still some unclear points to be clarified. We also bring you an inspiring interview with Milada Šturová, Finance Director of KUPEG, a credit insurance company. We also report on the paintings exhibition by Karolína Rossí, Kateřina Zagdoun and Kryštof Rybák in LERIKA.

I wish you a pleasant time while reading our newspaper, undisturbed by what is being reported on by the TV or the newspapers. Based on the weather forecast, we are in for a sunny autumn, a new film by Hřebejk starring Aňa Geislerová is

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heading into cinemas, and we are likely to spend some quality time with those closest to us and could probably achieve something at work, too. As regards all the potential headaches with tax and accounting matters, you can leave them up to LERIKA to handle them for you.

Ivana Ottová

REQUIREMENTS ON CONTENTS OF TAX DOCUMENTS STARTING 2013: SIMPLIFICATION OR COMPLICATION?

Until the beginning of this year I was under the impression that to receive or issue an invoice is a routine thing. As routine a thing, in fact, as checking whether it contains all the required information. Well, a new VAT amendment has come into force the goal of which was to simplify our work and instead, we find ourselves dealing with issues such as how to dependably prove the document's origin, how to prove that the document was not interfered with during its existence or how to create the so-called audit trace. That being said, handling tax documents need not be that difficult in practice and the new rules may even spare us some administrative burden.

Until recently, it used to be the case that VAT was about evaluating when a certain entitlement arises on the basis of the relevant tax regulations and their interpretations. Correct issuance of invoices represented a matter that, while not entirely negligible, was routine nevertheless.

At the start of this year, the so-called technical VAT amendment came into force which changed rules on mandatory contents of tax documents. Those willing to

read the relevant regulations are referred to Articles 26-35a of Act no. 235/2004 Coll. The reason for the change is implementation of European Directive 2010/45/EU unifying rules within EU and stipulating equal treatment of documents in digital as well as hard copy form. The stated purpose of the Directive was to simplify administration, mainly for small businesses. Whether this effort succeeded or not is for the reader to decide.



How to nasty surprises

Mandatory contents of tax documents or deadlines by which they should be issued have not significantly changed. However, the law newly puts emphasis on three basic mandatory features of every tax document. Compliance with these rules is a necessary prerequisite for acceptance of the document for tax purposes and hence also for allowance of a VAT deduction. These features include i) dependable origin of the tax document, ii) non-interference in terms of its contents and iii) its legibility (see also further below).

This is already complicating the situation a little bit. However, when one further considers that a tax document can be in digital as well as hard copy form and that it is possible to convert it from one form to the other and vice versa (while keeping the necessary features in place), the result is plain confusion. And we have not even considered the so-called audit trace by which is meant "control mechanisms of processes creating a dependable link between a tax document and the relating supply".

Is this mind-boggling? I had the same impression at the beginning but over the course of time I have found out that not much has really changed with respect to the previous practices. However, that is not to say that the tax administrator cannot really surprise us and that the surprise may even be a nasty one. This is why we suggest the well-tested approach – to issue documents that are entirely correct and be sure that no such surprise can affect us.

Who is responsible for the correctness of the document?

Since 1 January 2013, a tax document can

have both hard copy as well as digital form and both forms shall be treated equally.

Tax documents in hard copy form are well known to us as they used to be the only available form for a long time. However, which requirements should we comply with to make sure that a digital document is fully adequate? First of all, a digital tax document is such that was both issued and received digitally. The recipient of a supply to whom the document is to be issued must agree on the digital form. The consent is a necessary condition not only

The reason is that communication via e-mail cannot be considered as dependable and if the document does not contain e.g. digital signature, it will be necessary to ensure an adequate and transparent audit trace.

to issue the document, but also to hand it over, accesses it and archive it during the required period.

The manner of transmitting the consent is entirely at the discretion of the parties to a transaction whereas passive consent e.g. through accounting for the received document suffices as well. The tax administrator shall not dispute that the consent to issue a digital document was given unless it is disputed directly by the supply recipient. This brings me to a suggestion that a written consent should generally be requested from your client as you never know what can happen in the future and a passive consent is hard

to prove, if subsequently disputed by your customer.

Next, correctness of information stated on the tax document (whether kept in hard copy or digital form) and its issuance within the required deadline is always the responsibility of the supplier. This holds true even in cases where the supplier authorizes the supply recipient or a third party to issue the document on their behalf. Have you authorized your supply recipient to issue tax documents? If so, make sure that the tax documents are issued correctly because you are responsible for them. However, it's also in the supply recipient's best interest as it is them who apply the VAT deduction.

Dependable origin, non-interference and legibility

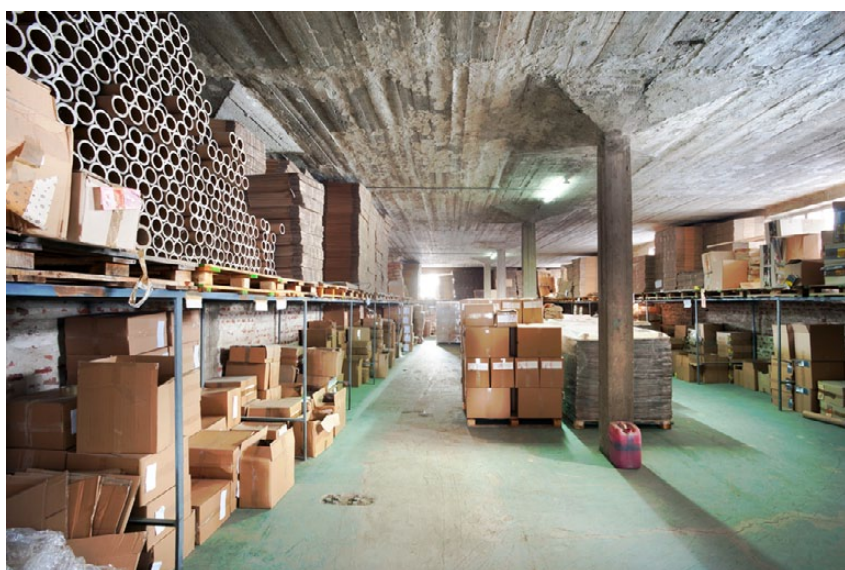
As I stated above, a tax document has to comply with the three following conditions:

Dependable origin refers to the requirement that, during the entire period that the tax document shall be archived, it must be possible to prove identity of the supplier or tax document issuer.

Non-interference with the contents refers to the requirement that a tax document must not be interfered with during the period that it shall be archived. This is why no additional information (e.g. date of hand-over, relevant double entries etc.) shall be stated directly on the document. This information should be kept separately. However, based on the standpoint of the General Financial Directorate, even a document containing the additional information shall be considered as being compliant if the original information was not interfered with.

Legibility of a tax document must be ensured during the entire period that it shall be archived. For tax documents in hard copy, this means that some types of paper or print (e.g. thermoprint) are not going to be suitable. For digital documents, it is necessary to ensure that software enabling the viewing of the tax document should always be available.

The three above features of the tax documents must be ensured during the mandatory archiving period (usually ten years after the end of the accounting period) both by the goods or service provider as well as their recipient. Both should also maintain the so-called **audit trace**. The audit trace means an interrupted flow of evidence demonstrating the supplies



concerned. In other words, a whole chain of evidence ranging from supply orders, statements, hand-over protocols and other records to payment and, finally, recognition in financial statements.

As regards digital documents, dependable origin and non-interference with contents can be simplified by using a certified digital signature, digital mark, Electronic Data Interchange (EDI) or data box.

Sending invoices through an e-mail? Yes, but...

What about digital tax documents sent through an e-mail? Even though digital signatures are more and more commonplace, it is certainly not the case that the majority of people have one. Which brings us to the question – can we consider as a digital tax document one that we send

Newly, it is possible to convert a document from hard copy to digital form if all three features listed above are ensured.

to a customer in a different digital format (e.g. PDF) through an e-mail?

I would like to say yes, but...it's not entirely clear. The reason is that communication via e-mail cannot be considered as dependable and if the document does not contain e.g. digital signature, it will be necessary to ensure an adequate and transparent audit trace. But, to be honest, who does that? On the other hand though, the slightly mystical concept of the "audit trace" pretty much overlaps with documents that should be kept on record to prove input VAT deduction anyway, so assuming you have such information already, even tax documents sent digitally through e-mail should not cause issues.

Regardless of the form in which you issue or accept a tax document, you should remember that they should be archived over the period of 10 years following the end of the accounting period. Newly, it is possible to convert a document from hard copy to digital form if all three features listed above are ensured. In practice, this means that if you want to convert a digital document into a hard copy one, you should visit a Czech POINT office. For conversion from hard copy to digital form (scan), you need a certified digital signature.



What about a concluding word? Issuing an invoice can be routine even under the new rules. However, it is necessary to ensure the three necessary features for every tax document and to keep the audit trace. Apart from that, the tax document should contain all the necessary information such as date of taxable supply, description of supply, TAX ID No. of both parties to the

transaction etc. – same as what the law required prior to its amendment. Just as I stated in the introduction, maybe things will not be that complex and the practice will teach us to issue the documents correctly. In the end, all the new changes may even simplify our work, after all. What do you think?

Martin Pecka

UNRELIABLE PAYER HALF A YEAR AFTER ENACTMENT

The concept of the so-called "unreliable payer" no longer causes as much attention of the media as it did a few months ago. However, this should not lull taxpayers into inaction. Even though the register of the unreliable payers does not yet represent a practically useful source of information, the relating risk can be avoided quite easily – if you decide to do business with someone that you suspect might belong to the said category, just pay the tax directly to the competent tax office. This is a prudent decision that is cost-free and will not cause harm to anyone.

Just like the new requirements on information to be disclosed on tax documents, the concept of the unreliable payer was

It is almost impossible to find out which taxpayers currently fall in that category.

enacted through a VAT law amendment effective as of 1 January 2013. If a business partner that you purchase goods or services from qualifies as a so-called unreliable payer i.e. he or she is in serious breach of the tax regulations such as by not paying applicable VAT to the tax office, the tax administrator can claim such VAT directly from you.

However, there is no definition of what exactly represents "serious breach" of the tax regulations. This should be decided by the tax administrator and ever since the concept's enactment; everyone has expected that the application of the concept will be borne out by the subsequent practice of the tax administration. This came to pass when the General financial directorate published a standpoint defining the unreliable payer as one who has owed VAT of at least CZK 10 million for the period of three months or more, has been involved in suspicious business, was issued with an advance tax notice that remains outstanding or was subject to a VAT assessment of at least CZK 500 thousand.

Why take the unnecessary risk?

The first unreliable payer was published in the VAT payer register on 16 May 2013. However, since then we have had no further information about the current status of unreliable payers. It is almost impossible to find out which taxpayers currently fall in that category. To do that, one would have to go through all the existing companies in the VAT payer register one by one based on their TAX ID or general ID and on that basis compile a customized list of those

marked as unreliable (this assumes that there are others apart from the one mentioned above).

However, this does not mean that you should not check in the VAT payer register whether your suppliers are unreliable payers or not. And if you decide to take your chance and do business with an unreliable payer, then you should certainly make use of provision of Article 109a of the VAT Act and pay tax directly to the tax office. You can't go wrong by doing this.

Martin Pecka



FINANCIAL MANAGEMENT IS MUCH MORE THAN JUST REPORTING

Interview with Milada Štúrcová, CFO of KUPEG credit insurance about risk management in times of economic downturn, work of CFO and selection of consulting services.

Can you say a few words about KUPEG credit insurance company?

M.Š.: KUPEG credit insurance, a.s. is a highly specialized insurer – it only insures businesses against bad debt risk. This is the main, though not the only, service we offer to our clients. KUPEG also assists clients with selection of creditworthy buyers, bad debt collection and also provides guarantees (which are fully equivalent to bank guarantees). Overall, it can be said that KUPEG provides complex protection to its clients against financial loss.

Another popular service is to use insurance as a form of security for banks providing operating financing to clients in exchange for their receivables. Just to give an example – in 2012, KUPEG insured the total amount of CZK 197 billion to its clients.

You are lucky to work in an industry where the help to your clients is often well visible. You save businesses that would otherwise go bankrupt due to lack of liquidity. Can you give one such recent example?

M.Š.: Due to reasons of confidentiality, I cannot name specific situations. However, just to give an example, let me just say that in the worst period of the crisis i.e. 2008-2010 years, we paid more than CZK 1.2 billion to our clients. Even though we ended up paying the most to our clients, we have managed to keep the leading market position in the credit insurance sector.

Your insurance rates are below 1% of the billed i.e. insured amount. How



The common feature of a successful Director is often their financial background and their ability to connect finance and business together.

do you handle risk management in such circumstances? I assume that you mainly provide services to businesses with customer base prone to bad debt.

M.Š.: Insurance rates reflect the current situation on the insurance market; however, it is true that right now the clients are highly fee and cost sensitive. We insure risks to businesses which is why the biggest part of the price of insurance consists in evaluation of, and protection against, risks. This is handled by our underwriting department. Experts in this departments evaluate each counterparty that our clients transact with and analyze them in terms of their finan-

cial situation, payment history etc. This is how we manage to eliminate obvious risks. Thanks to their experience, we are able to assess risks that will crystallize in the future e.g. analysis of the buyer's business allows us to consider whether an imminent default is probable or not. In this respect, risk management represents a key area.

As regards your other question, a big chunk of our clients are businesses with creditworthy customers – credit insurance represents a part of their credit and receivables management so that the buyer profile is of a lesser importance than the complexity of service offered by KUPEG.

You have worked in quite a few industry sectors so you can compare them. What differentiates great Finance Directors from mediocre ones?

M.Š.: What sets them apart is a real interest in what they are doing. It's not just about preparing dry accounting reports and cost analyses, it's about the person being genuinely interested in a broader context and interactions driving the given business. It's about looking for symptoms and analyzing financial impact of various options, about being a business partner for the others in the company, the one that is able to solve problems, come up with new solutions and find a link between a business decision and its financial impact. It's no coincidence that General Directors and CEOs are often recruited from the ranks of Finance Directors and Managers. The common feature of a successful Director is often their financial background and their ability to connect finance and business together.

Is it possible to draw a line in terms of which accounting and tax matters to outsource as opposed to those that should better be handled in-house?

M.Š.: This mainly depends on the complex-

ity of the given sector or industry in which the business operates. However, in my view, the important criterion is not the turnover or the type of transactions but rather the overall business model, how well internal processes are structured and followed and to what extent the business is based on exceptions rather than rules. The more simple and structured the business is, the more outsourcing opportunities there will be.

You know the market well from both sides – you used to provide accounting and tax services yourself, now you are their user. What do you think are the standards that a professional services firm should have to bring real value to its clients?

M.Š.: In my view, the biggest value added is when the professional services firm really wants to understand the business and issues

I have met many so-called “advisors” that you spend two hours with and once it’s over you have a feeling that the meeting was a total waste of time and that you had better deal with the issue yourself.

of the client and seeks to provide a real solution to a problem. It’s not just about sending over a fancy memorandum in a colorful presentation full of disclaimers and caveats and references to tens of regulations inside, but totally beside the point. The critical thing is to identify a problem, suggest solutions and help the client implement them. I have met many so-called “advisors” that you spend

two hours with and once it’s over you have a feeling that the meeting was a total waste of time and that you had better deal with the issue yourself.

**Why did you choose LERIKA?
How do you rate their services?**

M.Š.: The reason I work with LERIKA is precisely because of their unique and individual approach. Not only are they always up-to-date on the latest accounting and tax issues, they have great experience from various industries and are interested in the issues their clients are dealing with. They are always looking for the latest information and law interpretations, suggesting several solutions to a problem and happy to assist with practical implementation.

And, finally, they are always well prepared, unusually fast, matter-of-fact and professional.

PAINTINGS BY KAROLÍNA ROSSÍ, KATEŘINA ZAGDOUN AND KRYŠTOF RYBÁK

LERIKA is currently running an exhibition of paintings by Karolína Rossí, Kateřina Zagdoun and Kryštof Rybák in its premises. LERIKA uses this opportunity to support young aspiring artists – it helps them present their works of art and offer them for sale to those who would otherwise not go to an art gallery.

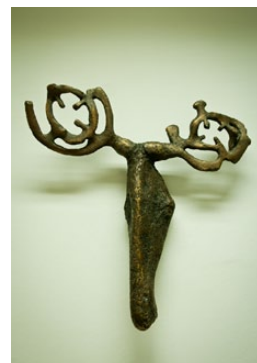
Karolína Rossí is a recent graduate of the Academy of Fine Arts in Prague. She gained artistic experience during her studies at École des Beaux Arts in Paris. Her works of arts exhibited in LERIKA premises are mainly interesting for their abstract

quality, making one wonder what they represent art at all. However, after closer scrutiny, it comes to light that these are truly thought-out works of art where every brushstroke (that may at first seem to be random) has its own purpose.

Kateřina Zagdoun also graduated from the Academy of Fine Arts in Prague. Apart from her interest in paintings and sculpture, she is also a professional dancer. She participated in a number of public dance projects performing contemporary as well as classic dance. Her works of art are inspired by nature and clear lines.

Kryštof Rybák also graduated from the Academy of Fine Arts in Prague. As a young artist, he is mainly known abroad for his works of art combining glass with classic materials, mainly bronze and gold. His works of arts are shot through with animal motives which make them easily noticeable.

It looks like the third exhibition in LERIKA premises (after Adéle Karger and joint exhibition by Anny Plešmířová and Markéta Hlinovská) is a resounding success. The participants of the exhibition opening did not spare their praise. You be the judge of whether it was justified or not, just by walking in.



Issued by LERIKA Tax s.r.o.
and LERIKA Accounting s.r.o., Domažlická
1256/1, 130 00 Prague 3, info@lerika.eu,
Editorial processing Petr Hampel,
design Olga Hrdinová

www.lerika.eu