

# NEWSLETTER

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



Dear Ladies and Gentlemen,  
The end of the summer has arrived and brought a second LERIKA Newsletter this year. You receive it to your computers at a time when the economy has finally picked up. Nevertheless, even at a time of rapid growth we shouldn't neglect seemingly insignificant paperwork and seemingly boring risks. This is well shown by an interview with Jakub Kejval, director of the Czech branch of Bureau Veritas. In it, Mr Kejval points out a widespread bad habit of dealing with risks only after they materialise.

For example, take salary accounting. How many firms have decided to outsource it only after the their payroll clerk left a piece of paper on the printer longer than she should have or mentioned the amount of remuneration of some of the managers to her colleagues. How much inconvenience these firms could have spared had they opted

to outsource salary administration earlier. This risk is nowadays posed by transfer prices. I don't have purposeful reduction of the tax base in mind but rather situations in which firms that are connected with one another somehow in terms of ownership supply each other with components and services and, of course, account for them as well. As a lot of activities are transferred to subsidiary companies (and as revenue authorities get tougher in this area), there is an increase in the number of risk areas. And, by far, not everyone realises that a seemingly banal transaction may be contested by the revenue authorities in a few years' time. If it is not possible to justify the method of fixing the price sufficiently, such underestimation of a risk may cost hundreds of thousands or millions of crowns. It is also true here that covering a risk only after it has materialised is the most costly strategy. We deal with this in the following article.

We also get back to the 10th anniversary of the foundation of LERIKA. It's an opportunity for us to thank our customers. Thanks to their helpfulness and trust we were able

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to build the company. It's an opportunity to thank our colleagues thanks to the conscientiousness, perseverance and fairness of whom LERIKA is today an environment where work is a pleasure.

I wish you a great autumn.

Ivana Ottová

## DON'T UNDERESTIMATE TRANSFER PRICING

**Transfer pricing has been part of tax administration for 20 years. However, revenue authorities are now beginning to pay much more attention to it than before, and it's necessary for companies to be prepared for it.**

By way of introduction, we'll remind you in brief that the concept of transfer prices is based on the fear that a taxpayer could unjustly decrease the tax base by setting an incorrect price for a transaction between firms within one group. The example that's typically given is siphoning off profit abroad in such a way that the headquarters charge a local branch exorbitant prices for managerial services, training or, in short, for ordinary deliveries of goods and services that a subsidiary company buys within a concern. Hence the demand that transactions between property-related firms take place at the same prices that would be otherwise agreed under the same conditions by independent entities.

We addressed issues of transfer prices in the LERIKA Newsletter already in 2014. We made a reminder then that if a revenue authority found out that an agreed price

had been different to the market price and the taxpayer wasn't able to explain the difference in a satisfactory way, the tax base

*"But what's undergone a change is a more active approach of revenue authorities to these issues. As early as late November 2014, the Financial Administration of the Czech Republic announced increased inspection of transactions between related entities."*

of one or the other party to the transaction would be increased by the given difference and the tax, penalties and default interest would be assessed additionally. We



## WHAT ARE RELATED ENTITIES?

Under the Income Tax Act, connected entities shall mean such entities of whom some of the following conditions are true:

- One entity participates in the capital or voting rights of another entity (e.g. parent or subsidiary company).
- One entity directly participates in the capital or voting rights of more entities and, simultaneously, this participation represents at least 25% (e.g. capital-related companies).
- Some of the abovementioned conditions are fulfilled indirectly (e.g. firm A owns a share in firm B and firm B owns a share in firm C).

also stated that if a firm didn't possess the necessary documentation (see the table), its position was considerably uncertain, despite the fact that in accordance with the case-law of the Supreme Administrative Court the burden of proof rested with the tax administrator.

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*"For the time being, the checks concern mainly large companies but tax-administration representatives have already announced the intention to pay attention to smaller taxpayers as well."*

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### **It applies to every entity with more than 50 employees!**

All of it continues to apply. But what's undergone a change is a more active approach of revenue authorities to these issues. As early as late November 2014, the Financial Administration of the Czech Republic announced increased inspection of transactions between related entities. It sent taxpayers a questionnaire the completion of which was voluntary and this was followed by the introduction of a compulsory annex to tax returns. The completion of this annex applies to all entities that meet at least one of the following conditions:

- more than 50 employees (full-time equivalent);
- a net turnover above CZK 80 million;
- total assets in excess of CZK 40 million.

If a company meets any of the abovementioned conditions, it shall fill in the appropriate annex provided that:

- it has carried out transactions with a related entity abroad;
- it has reported a tax loss and, simultaneously, the realisation of transactions with a related entity (also a domestic one);
- it has accepted an investment incentive in the form of a discount on tax and, at the same time, realised a transaction with a related entity.

For the time being, the checks concern mainly large companies but tax-administration representatives have already announced the intention to pay attention to smaller taxpayers as well. Perhaps it isn't necessary to emphasise too much how big losses taxpayers may incur. Such losses can basically be divided into two areas.

- Additional assessment of the tax and penalty where a taxpayer isn't able to

explain the difference between a set price and a price considered as usual.

- Carrying out a transaction at a price different to an optimum one because the taxpayer isn't certain whether the pricing may be challenged during an inspection by the revenue authority.

### **Call your tax advisor in time**

LERIKA has been dealing with the issues of transfer prices for several years. It has not only the necessary experience and a base of experts but also access to the European database Amadeus, which is currently utilised by the Financial Administration of the Czech Republic for the verification of transfer prices.

That's why it can offer, among other things:

- Preparing and producing documentation on transfer pricing in accordance with the requirements of Czech legislation, OECD transfer pricing guidelines and EU JTPF (Joint Transfer Pricing Forum) recommendation;
- Producing a comparative analysis to verify that the transfer prices used correspond to the market;

- Writing an application for a binding appraisal and its discussion with the tax administrator. The tax administrator states in this binding appraisal that it finds the set price to be correct so the taxpayer obtains a certainty that the price can't be challenged during any inspection in the future.

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It's also true in this case that it's important to contact a tax advisor as soon as possible.

We at LERIKA are available to our clients all the time. All you have to do is contact us.

*Ivana Ottová*



## **What documentation is required as standard when the correctness of a transfer price is being proven?**

- basic documentation (Masterfile) – data that is identical for all the enterprises in a group. It describes the structure of the group of enterprises, their functions and transactions among them.
- specific documentation ("national") – it includes data associated with national specificities. It contains, in particular:
  - a description of transactions carried out between the tested entity and the other related entities,
  - a functional analysis, i.e. a description of individual enterprises and their activities with regard to their functions,
  - a comparative analysis, i.e. a comparison with independent comparable entities, justification of differences, if any,
  - the method of calculating the transfer price, justification of the selection of the method,
  - further relevant facts that may affect the method of setting the transfer price

# WE'VE ALREADY GOT USED TO THE CZECH APPROACH TO RISKS

Interview with Ing. Jakub Kejval, Managing Director of the Czech branch of Bureau Veritas



## **Please can you introduce your company for those readers who don't know it yet?**

Bureau Veritas is a leader in the field of testing, inspection and certification. The firm was formed in 1828 in France and at the beginning it was engaged mainly in assessing ships. Many ships would go down then, insurance companies refused to insure them, and Bureau Veritas provided independent technicians that checked that a ship was built according to the plan and from satisfactory materials and, subsequently, granted a certificate to confirm it. The range of activities gradually expanded and the present-day Veritas is engaged in what is usually referred to with the letters QHSE, i.e. Quality, Health, Safety and Environment, as well as social responsibility.

## **What does the largest part of your activities focus on?**

We strive to bring comprehensive solutions and to focus the largest part of our activities on what the firm needs most right now. If occupational accidents occur there, we'll help with labour safety. We deal with documentation, measures directly in operation, we act as representatives in dealings with state-administration authorities, we train employees, being able to look at it in a systematic way, introducing an OHSAS 18 001 safety management system and helping with certification as well.

Some large companies currently struggle with the Energy Management Act. Until 05/12/2015 they have to prepare energy audits, or take the systematic route pursuant to ISO 50 001.

We respond to the legislation as well as the client's needs. For example, it happens that our client wins a new customer in a new market sector, opportunities come up that the client is at his wits' end with and we're at his disposal.

## **What's your typical customer?**

Our clients include mainly larger companies but some medium-sized as well. We work, for instance, for banks, food production plants, hotels, car factories...

## **Is it possible to define any limit as to what size a firm should be to be able to afford you?**

If a small organisation wants to save money, it'll choose some local certification and inspection company. But if it's enli-

ghtened, it doesn't want just a certificate to put up on the wall and really wants to improve and grow, then it'll set itself some long-term goals and certification can be one of the ways to get a competitive advantage, improve the quality of products and get into new markets. Then we can be of great help to a small firm, too.

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*"Regarding cloud computing, we advise our customers to monitor the fulfilment of the seven points that arise out of ISO 27 001 and if a data-centre operator fulfils just six of them, we advise them against it."*

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## **How many employees do have in the Czech Republic?**

Around 100 permanent employees and 350 external staff. These are mostly consultants, inspectors and auditors.

## **That may be difficult in terms of financial management. You pay salaries every month and projects tend to be uneven in terms of time. How do you manage to handle it?**

We have the advantage of being a branch of a strong foreign group so in the event of a negative fluctuation in cash flow, the mother would help us. The bosses may not praise us but it's still an advantage compared to firms that would need a financial loan in such a situation. Nevertheless, we've had a surplus in cash flow over a long period.

## **And how do you manage to communicate with the Sales Dept.? It typically tends to happen that traders don't predict precisely, conclusion of contracts is put off...**

I've taken over sales directly under my control and the communication has thereby improved a lot. Nowadays, it's important to set oneself long-term goals correctly and respond to current situations very quickly at the same time. It's important that each customer receives an offer within 48 hours of meeting the trader. A client is interested now and won't wait for a week or month.

## **And what about situations where a trader promises an order and you take**

## **it into account in resource planning only to learn at the last moment that it's been postponed by several months?**

It's part and parcel of business. That's why we need more traders. Today we have eight of them, thus reducing the risk a lot. Something will be postponed until later but, on the contrary, something else will come earlier than we expected.

Of course, this is very difficult for firms that depend on two or three projects but we've got two thousand clients.

## **Based on what criteria have you decided which accounting activities you'll be doing yourselves and which ones you will entrust to an external firm?**

I joined the company in 2001 and one of my first tasks was to internalise the finance. At that time, we handled everything externally but it was obvious that the Finance Dept. must be inside because the Finance Manager co-pilots the development of the firm. We do need an Internal Finance Dept.

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*"...it pays off to have an internal payroll clerk in a company with up to one hundred people. However, we also have to realise the risk when she leaves. Or the risk that she lets the cat out of the bag at a company party."*

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even though, from the point of view of short-term costs, an external service may be more advantageous.

Nonetheless, it was also evident that we needed to outsource wages, especially in order to maintain confidentiality. There were around 25 of us then and in such a small firm everyone speaks to everyone, the people know each other, they go out for a drink together every now and then so there's always a danger of information leaking.

We did a selection procedure and selected LERIKA as the supplier, and set the process in such a way that it is smooth, fast and discreet. And that's the way it's been working in our company till now.

### Why did you choose LERIKA in the selection procedure?

In general, it's true we act on recommendations a lot. And it had happened earlier that the then auditor recommended the tax advisor, Mrs Ivana Ottová, to us. We were very satisfied with her, therefore we invited her firm to the selection procedure and they convinced us with their professionalism there. It was also important to us that they had a good information system, which they managed to adapt to us easily. It was possible, relatively easily, to set centres and all the other things we needed it in. It mattered to us that the system created outputs in an automated manner that our accountant could post without seeing who makes how much.

So confidentiality, speed, flexibility and a reasonable price. Price is always important but it doesn't tend to be first and foremost

### Does your current cooperation match the expectations you had at the end of the selection procedure?

Yes, definitely. In addition, the ability to respond to changes is there as well. We've bought three companies, which we merged into one, in the last ten years. You'll find out in such situations if the external firm is flexible. All the operations have been handled smoothly and with no loss of data. In addition, mergers also attract inspections by health insurance companies and social security authorities, and these went well too.

We've introduced one more specialty recently. We need to eliminate paper so that people don't receive payslips in paper form. Everything was resolved in the course of an hour! The payslips will be sent by e-mail in an attachment as a password-protected PDF file.

### Have you got any general rule of thumb for which activities to outsource and which ones to perform with one's own capacities?

It's relatively easy to do a calculation but every time I recommend not relying on figures only. It's important to realise how the work will really be taking place.

For example, take the already mentioned outsourcing of wages. It's mostly true that it pays off to have an internal payroll clerk in a company with up to one hundred people. However, we also have to realise the risk when she leaves. Or the risk that she lets the cat out of the bag at a company party. On top of that, I have to



take account of the time I devote to process control as well.

### What's your view on cloud computing?

As a corporation we have very strict rules in place. In general, we're sceptical about cloud computing. In order that we can entrust our data to a firm, we would have to do an internal audit at it, it would have to meet very strict requirements, it would have to be certified pursuant to ISO 27 001. I'm not saying that it isn't possible at all but definitely not in the current state.

### Is this also a recommendation you give to your customers?

We advise them to be cautious. To monitor the fulfilment of the seven points that arise out of ISO 27 001 and if a data-centre operator fulfils just six of them, we advise them against it. Only after all the requirements have been met, there's a reasonable degree of certainty that the data is sufficiently safe. We also do penetration tests so we know it relatively in detail.

### Does it also concern big global operators of cloud services such as Microsoft, Google or Amazon?

I don't see any difference there. Big companies have their data better protected, but then again they attract hackers more. It often isn't so much money that this is all about but the fact that those hackers prove to themselves that they can successfully attack a global corporation.

### Do you think that data centres will reach such a level of security one day so that it is possible to entrust data to them without fear?

I think they'll have to. In fact, it's them who are to blame for the present state

because they don't want to have certifications done as they're afraid of letting an independent auditing firm in. What if it found something? Somebody may lose their job because managers today tell their big bosses that they have everything in great order and under control, and all of a sudden a report would appear that there's a significant incompliance with a standard somewhere. But if they don't let inde-

### What's the most popular book with accountants?

*Fifty Shades of Grey.*

### Have you heard the joke about an interesting accountant?

No.  
*I haven't either.*

### What do you call an accountant who has his own opinion about things?

*An auditor.*

### It's grey on the inside and red on the outside; what is it?

*An accountant turned inside out.*

### There are only two rules thanks to which it is possible to do business in accountancy successfully:

*Don't tell clients everything you know.*

### What does an accountant do to liven up a work party?

*He doesn't show up.*

### How do you know that an accountant's having a mid-life crisis?

*He gets a faster calculator.*

pendent auditors in, it's very hard for them to improve. So it's a vicious circle.

This will have to change sooner or later but I don't see the will for the time being.

### Disclosure of data is nothing compared to risks that will be brought about by the Internet of Things where it will be possible for a hacker to remotely change your settings of a production line, block entrances and the like. Are your customers interested in it?

It's true of an absolute majority of firms that cybernetic risks won't be dealt with until they get into a mess. In fact, only international companies where some incident has already occurred in some of their branches and where the experience is applied to the entire network have a different approach.

At the same time, there are experts and managers in some firms that are aware of this risk. But when they come to the owner of the firm with a request for investments, he'll tell them to watch sci-fi at home and that the firm needs money for a new shop floor.

### And can you imagine that there'll actually be such a mess in a few years' time?

It'll definitely happen, the only question is when. But people look at it in a similar way as when you tell them that oxygen will be used up on planet Earth one day. They feel that it's not their business. Sadly, such is the Czech approach to risks and we've already got used to it.

*Thank you for the interview.*

## FINANCE MINISTERS AT LOGGERHEADS



A few weeks may have already passed since it happened but I can't omit from my contribution a squabble of our current Finance Minister with his predecessor, i.e. to a war of words between two men that held or hold the position of man No. 2 (in order of

*"Quite a few people could say that there isn't much fun in the Chamber of Deputies. From a citizen's point of view, however, it's different, especially if proceedings of the Chamber of Deputies are properly publicised in the media."*

importance) in the government cabinet. Although, who knows... it may seem to you, as well as to me, from the demeanour of both gentlemen that the Prime Minister is number two in their eyes as they themselves don't know any other than the first position.

Whether one way or another, the show that was being presented to us for a certain time through the media would surely be appreciated by such authors as Shakespeare, Molière or Goldoni. It was a first-class comedy thanks to which more people may have got acquainted with issues concerning the electronic registration of receipts (although it may have not been the intention of both gentlemen, or may have been), which isn't worthy of either of the gentlemen, or rather the positions they hold, though.

Regardless of the abovementioned I'm a big fan of the comedy genre and considering the fact that it was a show associated with tax issues, in fact I killed two birds with one stone. And just as one recognises a good book or a theatrical performance by the fact that it has lots of repeats and that one will return to it after some time to recall it, I'd also like to use this opportunity to return briefly to the performance of both gentlemen because there's never enough humour.

Quite a few people could say that there isn't much fun in the Chamber of Deputies. It may be true, at least of the Deputies who sit there and discuss bills that need to be passed in some form. From a citizen's point of view, however, it's different, especially if proceedings of the Chamber of Deputies

are properly publicised in the media. And exactly that happened in early July this year, when a bill on the electronic registration of receipts began to be discussed in the Chamber of Deputies. The former and current Finance Ministers, i.e. Mr K and Mr B (I hope they'll excuse me if I don't call them by their full names; I found some inspiration from James Bond, where the MI6 was headed by M, i.e. our B, who was in command of everything, and then there was Q, whose inventions wouldn't figuratively be any worse than the "crafty tricks and demeanour" of Mr K), cast themselves in the leading roles of an excellent performance.

Mr B brought a huge dummy of a receipt to the Chamber of Deputies for the discussion of the bill, on which he decided to demonstrate the simplicity, clarity, purposefulness, brilliance or even genius of the bill and everything connected with it. But Mr K, who is a confirmed opponent of the bill, decided to devalue Mr B's receipt and he wrote a statement on it that it's not sole traders against whom the bill is aimed in particular, but Mr B, who is the biggest tax dodger in our country. Mr B started to defend his receipt, snatched the felt-tip pen away from Mr K's grip and took the receipt to safety. However, this didn't stop Mr K and he prepared his own creation. This time it wasn't a receipt but a sign with text that was to demonstrate, in an exaggerated way, the pointlessness of the bill in Mr K's eyes. Everything mentioned above

took place with a great hubbub produced by the other members of the Chamber of Deputies and it was then talked about in the media.

Those who saw the abovementioned situation with their own eyes must have been splitting their sides laughing. And as the mutual animosity between Mr K and Mr B won't easily disappear, I can't wait to see another show either. I just wonder if such proceedings of the Chamber of Deputies shouldn't take place in a theatre and if an admission fee shouldn't be collected for them. I'd surely go there and I'd even pay the admission fee with pleasure. The proceeds could be used to decrease the

*"Those who saw the abovementioned situation with their own eyes must have been splitting their sides laughing. And as the mutual animosity between Mr K and Mr B won't easily disappear, I can't wait to see another show either."*

national debt or to partially cover a loss due to (un)collected taxes.

However, the question is what royalties would Mr B and Mr K charge us. What do you think?



*Caption for the wedding photography:*

*Senior accountant **Lucie Janešová** has become senior accountant **Lucie Papežová**. She said "yes" to her beloved Tomáš on 15 August in Kostelec nad Černými lesy.*



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# LERIKA Tax&Accounting 2015

## ACCOUNTING

Description of activities	Description of activities	Description of activities	Description of activities	Description of activities
Partner Accounting & Payroll	Senior Accountant	Senior Payroll and Financial Accountant	Senior Accountant	Senior Payroll Accountant
<b>Monika Borkovcová</b>	<b>Petr Švach</b>	<b>Dagmar Procházková</b>	<b>Michaela Schutová</b>	<b>Vladimíra Brožiková</b>
I check financial statements and tax returns.	I deal with reporting, prepare tax returns and keep the books.	I process and check salary and personnel administration and I keep accounts on a double-entry basis.	I perform accounting administration and prepare monthly financial reports.	I process and check salary and personnel administration.

Description of activities	Description of activities	Description of activities	Description of activities	Description of activities	Description of activities
Senior Accountant	Senior Accountant	Financial and Payroll Accountant	Accountant	Senior Accountant SK	Accountant SK
<b>Hana Šimšová</b>	<b>Lucie Papežová</b>	<b>Jana Hradilová</b>	<b>Michaela Ryšavá</b>	<b>Máριο Volek</b>	<b>Andrea Tomečková</b>
I keep accounts on a double-entry basis for some of the clients and I send invoices for LERIKA to all the clients.	I keep accounts on a double-entry basis, and I process tax returns and prepare reports.	I process salary and personnel administration, I issue invoices under contracts and I post documents.	I help with posting and archiving of documents.	I keep accounts on a double-entry basis, I issue financial statements and process tax returns.	I attend to salary administration and I keep accounts on a double-entry basis.

## TAX ADVISORY

Description of activities	Description of activities	Description of activities	Description of activities	Description of activities
Partner Tax	Senior Tax Advisor	Senior Tax Advisor	Junior Tax Advisor	Junior Tax Advisor
<b>Ivana Ottová</b>	<b>Alena Kučerová</b>	<b>Martin Pecka</b>	<b>Petr Hájek</b>	<b>Kateřina Navrátilová</b>
I provide clients with tax advice, and check and process tax returns of legal persons.	I prepare tax returns and provide consultancy especially to legal persons.	I take care of the tax matters of my clients in order that they can take care of their business.	I process Intra-stat and I prepare basic documents for tax returns.	I prepare basic documents for tax returns.