November 2015

TAX NEWS

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

Dear Clients and Business Partners,

The main theme of the November issue of Tax News is new procedures in the field of accounting, which are the result of amendment of the Accounting Act and changes to the implementary decree, effective from 1st January 2016. The other topics we present in this issue are currently being heard by the Chamber of Deputies. Whether this concerns amendment of the Act on Tax on Acquisition of Real Property, the bill for differentiation of insurance levy rates for families with children or the familiar electronic records of revenue, we bring you the current wording of these bills and will continue to inform you of their development.

With best regards

LERIKA Team

In this issue

AMENDMENT OF THE ACCOUNTING ACT AND CHANGES TO THE IMPLEMENTARY DECREE

On 10/09/2015 the amendment to the Accounting Act was enacted in the Legal Code. It will come into force on 01/01/2016. We give a summary of the important new points, which this amendment results in, below:

For example the amendment implements categorisation of accounting units in the following groups:

- micro accounting unit
  - total assets ≤ CZK 9 mil.
  - annual total net turnover ≤ CZK 18 mil.
  - average number of employees ≤ 10
- small accounting unit (not a micro accounting unit)
  - total assets ≤ CZK 100 mil.
  - annual total net turnover ≤ CZK 200 mil.
  - average number of employees ≤ 50

- medium accounting unit (not a micro a small accounting unit)
  - total assets ≤ CZK 500 mil.
  - annual total net turnover ≤ CZK 1,000 mil.
  - average number of employees: up to 250
- large accounting unit
  - total assets over CZK 500 mil.
  - annual total net turnover over CZK 1,000 mil.
  - average number of employees over 250

Tax I Accounting I Payroll

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

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

For classification in a category the accounting unit must meet at least 2 of the 3 criteria on balance day. Accounting units are categorised mainly with regard to the duties, arising to them from classification in the accounting unit category, being imposed. For example small and micro enterprises:

- ☒ are not required to execute cash-flow summaries and summaries of changes in value of equity,
- ☒ are not required to publish a statement of profits and losses (if they are not subject to an audit), however accounting units registered in public registers are required to publish the remainder of the financial statement, i.e. balance sheet and annexes to the financial statement,
- ☒ may execute a balance sheet and statement of profits and losses in abbreviated form (if they are not subject to an audit),
- ☒ may keep simplified accounts, if this concerns a society or housing and social cooperative without a required audit. This does not concern business corporations, which must continue to keep the accounts in the full scope,
- ☒ are not required to give non-financial information in the annual report, along with medium accounting units,
- ☒ micro accounting units do not use real value for valuation (Section 27 paragraph 7).

Another new item is the duty of companies, which are medium or large accounting units, to execute a cash-flow summary and summary of changes in value of equity, which was only executed voluntarily to date (with some exceptions).

The amendment also introduces simple account keeping, where income and expenses are monitored instead of costs and revenue. Simplified accounts may only be kept by accounting units, which simultaneously:

- are not VAT payers,
- have an income of up to CZK 3 mil. for the last accounting period,
- report an asset value of up to CZK 3 mil.

Individuals are still allowed to keep simplified tax records or simplified accounts, if they are not subject to an audit.

It must be mentioned that the amendment to the Accounting Act also results in changes to the Income Tax Act and the Act on Auditors. In relation to the Act on Auditors, we can mention that, from 01/01/2016, the auditor will be required to issue a statement concerning the annual report and the financial statement simultaneously. This duty also concerns financial statements executed in the calendar year of 2015. Accounting units will consequently submit both documents simultaneously for verification by the auditor and will no longer have the option of executing the annual report after a specific interval.

In relation to the amendment of the Accounting Act, effective from 01/01/2016 Decree No. 250/2015 Coll. amends the implementary decree to Accounting Act No. 500/2001 Coll. The most significant changes will be evident to accounting units particularly when executing financial statements for 2016. Let us view these changes:

- Account groups 58 and 68 for accounting extraordinary costs or revenue, are cancelled. These costs/revenue will be accounted, depending on their character, in groups 54/64 as Other operating costs / revenue or 56/66 Other financial costs/revenue.

- Account group 68 is completely cancelled, account group 58 will be used to account an increase or reduction in manufactured goods inventory, which will consequently not be accounted to revenue. However, activation of manufactured goods and fixed assets will also be accounted to account group 58 as a reduction in costs.

- Accepted gifts in the operating or financial area will be accounted to account groups 64 Other operating revenue and 66 Other financial revenue. These gifts will no longer be accounted as an increase in capital.

- Some account groups will be renamed. Account group 21 will no longer be “cash” but “Petty cash” and account group 22 will be renamed from “Bank accounts” to Cash in bank accounts”. The term “obligations towards credit institutions” will be used instead of “Bank loans“.

katerina.navratilova@lerika.eu

AMENDMENT OF THE ACT ON TAX ON ACQUISITION OF REAL PROPERTY

On 21/10/2015 the Ministry of Finance presented a modified proposal of the amendment to this act to the Chamber of Deputies, which should modify statutory measures by the Senate No. 340/2013 Coll., on Tax on Acquisition of Real Property. This amendment contains some important changes compared to the current legal regulations, which we will now briefly present.

- One of the most important changes is the delay in the date this amendment will come into force, originally 1st January 2016, now 1st April 2016.

- A fundamental introduction is changes to the person of the payer. The currently valid legal regulations determined that the seller is the payer of tax on acquisition of real property, whereas the buyer is the guarantor, unless specified otherwise. According to reasoning by the Ministry of Finance, this regulation is illogical, because this does not concern a property tax and consequently acquirer of the real property will be the new taxpayer.

- For the purpose of tax on acquisition of real property, acquisition of proprietary rights to construction rights will also be considered to mean extension of the period for which construction rights are established.

- The item subject to taxation during transfer of utility networks will also undergo changes. In this case only acquisition of proprietary rights to a building for a fee according to the cadastral law will be subject to taxation, whereas the utility network itself will not be subject to taxation.

- Exemption of new structures and units will now be linked to the terms “completed or used structure”. This real property will only be exempt in the event that it has been completed or used. However, in practice it may be difficult to demonstrate these circumstances, because the duty to demonstrate prior use of a structure is borne by the acquirer.

- We must also point out the method of determining the tax base in the case of barter. In most cases, when real property is bartered for tangible items, the tax base will be considered to be the price established according to an expert opinion or the barter value.

This proposed bill is currently awaiting a hearing by the Chamber of Deputies. However, we will have to wait some time to see whether this amendment is approved. We will inform you of any news in this area.

petr.hajek@lerika.eu

DIFFERENTIATION OF INSURANCE LEVY RATES FOR FAMILIES WITH CHILDREN

In May this year the pension committee discussed and subsequently presented to the government a proposal for modification of the pension system, which consists of modification of insurance levy rates for families with children.

The purpose of this plan was to increase credit by acknowledging the rearing of a future generation of tax and insurance payers by parents and also, at least partial, reconciliation of the transfer between the family and society from the aspect of the standing of households with similar incomes. The purpose of this measure is to reduce the overall financial burden on families with children during the period they are taking care of them and bringing them up. The instrument for this entire provision is modification of the basic rate for insurance premiums for pension insurance paid by employees, depending on the number of dependant children in the household, as demonstrated by the following table.

Number of children in the joint household	0	1	2	3	4 and more
Rate for pension insurance paid by the employee	**7.5%**	**6.5%**	**5%**	**2.5%**	**0%**

As we can see, the pension insurance rate paid by the employee should fall as the number of children in the joint household rises. The rate for childless employees increases by one per cent as a result of this proposal. The situation of employees with one dependant child remains unchanged. These payers will be subject to the same insurance rate as stipulated in the currently valid regulations, i.e. 6.5%. The pension insurance rate for employers (21.5%) remains the same for any number of children. For the purpose of this modification "dependant child" is defined the same as in the Income Tax Act, this consequently concerns a dependant individual living in the parents' household, up to the maximum age of 26 years.

If we examine this regulation from the long-term, after their children are no longer dependant, the insurance premium rate for employees with children will be compensated by the duty to pay the basic insurance premium rate, which is 1 per cent higher than the rate today (i.e. 7.5%). This practically concerns a shift in the duty of paying the increased seven and a half per cent insurance premium rate to the period when the payers will no longer have dependant children. At the same time it motivates childless individuals to have at least one child. Otherwise they will pay the unreduced insurance premium rate of 7.5% throughout their productive lives. However, the positive news is that, on the contrary to child-based tax relief, this reduced tax rate could be applied by both parents if they meet the condition of living in a joint household. This proposal was approved by the expert committee and is now awaiting discussion by the government.

We will be happy to provide you with the relevant support if you have any questions concerning the aforementioned issue.

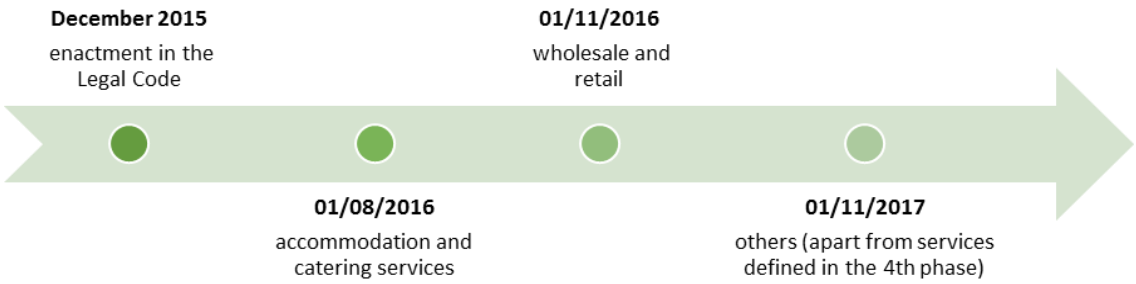
petr.hajek@lerika.eu

E-REVENUES

In relation to the debated electronic records of revenue, the planned date this act will come into force and definition of the phases over which implementation will take place are the major differences since we last mentioned this subject. Let us see the effect these changes will have.

The bill of the Act on Electronic Records of Revenue is currently awaiting its 3rd reading and has been put aside for nearly a month due to the workload of the Chamber of Deputies. According to the amendatory proposals it should come into force seven months after enactment in the Legal Code, compared to the former proposal of three months. If the legislative process and enactment in the Legal Code takes place by the end of December this year, this act will come into force for the first group of payers (1st phase) from 01/08/2016. This group includes the revenue of payers providing accommodation and catering services.

Further phases should (again if the act is enacted in the Legal Code by the end of this year) follow according to the diagram below:



Revenue defined in the 4th phase, i.e. which should not be subject to keeping records of revenue according to the bill of the act, should include revenue from production of fabrics and clothing, production of soaps and detergents, cleaning products, perfumes and toiletries, production of rubber and plastic products, production of metal structures, production of furniture and other processing industry, revenue from repairs and installation of machines and equipment, from specialised construction activities or repairs to computers and products for personal and household use.

We will continue to inform you of progress in this matter.

katerina.navratilova@lerika.eu

Contacts:

Corporate taxation
Ivana Ottová
+420 277 277 085
ivana.ottova@lerika.eu

VAT and customs
Alena Kučerová
+420 277 277 084
alena.kucerova@lerika.eu

Personal taxation
Martin Pecka
+420 277 277 087
martin.pecka@lerika.eu

Accounting
Monika Borkovcová
+420 222 363 073
monika.borkovcova@lerika.eu