

Dear Clients and Business Partners,

in the May issue of Tax News, we will introduce first steps awaiting the first income tax payers in connection with the electronic records of sales. We inform you also about increase of a tax credit for 2nd and 3rd child, about current state of Amendment of Real Estate Transfer Law and about news related to competence of tax offices.

With best regards

LERIKA team

ELECTRONIC RECORDS OF SALES ENACTED

On 13 April 2016, the Law on Records of Sales was published in the Collection of Laws as No. 112/2016 Coll. The law no longer refers to the sales as 'electronic' in nature even though this does not cause any actual change. A period of seven months between the publication of the law in April and its legal effect means that the first group of entrepreneurs will start recording their sales as of 1 December of this year.

We already provided a basic overview of the law in the February issue of Tax News. Let us now consider the next steps awaiting the income tax payers in the first group in the next few months.

The sales to be recorded in December are those of hotels and restaurants. This will concern in particular owners of restaurants, stalls, hotels, camps, guest houses and entrepreneurs selling food and beverages for immediate use at farmers' markets. However, this list is not exhaustive. Electronic sales will not impact self-employed individuals accepting only direct payments via bank transfer and not accepting any payments in cash, through credit cards or vouchers. If a taxpayer is uncertain whether his or her sales are subject to electronic record-keeping, starting 1 September 2016 they can request a ruling. The ruling application shall include taxpayer identification details, payments that are subject to the assessment, their description and a proposal on the ruling outcome. The ruling fee is CZK 1,000. It is expected that rulings are going to be sought mostly by NGOs or clubs organizing events where it is uncertain whether they can be regarded as occasional sources of income being exempt from record-keeping (e.g. a fire brigade organizing a ball).

On 1 September 2016 a legislative period for authentication of taxpayers will start running. Authentication involves assignment of sign-in details enabling taxpayers to log onto the tax administration portal and administer information about their places of business and certificates. Whereas each place of business (fixed establishment, mobile site or even a website offering goods or services) will obtain a unique identification number, a single certificate or multiple ones can be obtained for all places of business and cash registers or their specific groups. A request to obtain authentication data can be filed by a taxpayer digitally through the tax portal. The taxpayer will then obtain them via a data box or in person at a local tax office.

In this issue

- Electronic Records of Sales Enacted
- Increase of a tax bonus for children
- Amendment of Real Estate Transfer Law
- State-wide competence of tax offices

Tax | Accounting | 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.

Let us not forget that together with the electronic records of sales, the Senate also approved and the President signed an accompanying law newly categorizing services of restaurants and provision of non-alcoholic beverages under the second reduced VAT rate and putting in place a one-off discount for individuals amounting to CZK 5,000 a year when the taxpayer first starts recording the sales. The VAT rate shall be reduced to 15% as of 1 December 2016.

Last but not least, let us consider the sequence of enacting electronic records of sales for other types of business activities:



- **1 March 2017:** wholesale and retail including sales via stalls and at markets
- **1 March 2018:** others excluding business activities in phase 4 such as taxi services, railway intercity passenger transport, road freight, self-employed manufacturers (bakers, confectioners, small-scale farmers), professionals (doctors, lawyers, accountants, auditors, tax advisors etc.).
- **1 June 2018:** manufacturing: textiles, garments, soaps, perfumes, rubber and plastics products, furniture, metal constructions, repairs and assemblies: machines and equipment, computers and household products. This also includes manufacturers of games and toys, sport equipment, specialized construction activities such as electricians, painters, roofers and providers of other personal services such as hairdressers, masseurs and others.

INCREASE OF A TAX BONUS FOR CHILDREN

An amendment of Income Taxes Act increasing tax bonus for the second or any additional child that we informed you about in our previous issue of Tax News came into force on 1 May 2016. May is therefore the first month when the tax bonus increase will be applied in the payroll tax settlement.

Comparison between years 2015 and 2016 is provided in the following table:

	2015			2016		
	Total per month	Total per year	Monthly increase	Annual increase	Total per month	Total per year
1st child	1 117	13 404	0	0	1 117	13 404
2nd child	1 317	15 804	100	1 200	1 417	17 004
from 3rd child	1 417	17 004	300	3 600	1 717	20 604

During the annual settlement or when filing the individual income tax return for 2016, the bonus will also be increased retroactively for the months of January through April 2016.

AMENDMENT OF REAL ESTATE TRANSFER LAW

Last year, we informed you in our November issue of Tax News about the proposal to amend the Legal Measure of the Senate No. 340/2013 Coll., on Real Estate Transfer Tax. On 19 April 2016, the second reading of the amendment took place in the Parliament as part of which a proposal to reduce the Real Estate Transfer Tax from 4% to 1% was submitted. The proposal originated from the MPs of Civic Democratic Party (ODS in Czech) but it was not recommended by the Budget Committee during its session of 27 April 2016 for the third reading.

The most important feature introduced by the amendment is the change of taxpayer from seller to buyer. This proposal remains unchanged so far. The planned legal effect of the law is three months since its publication in the Collection of Laws. We will keep you posted about any further developments.

STATE-WIDE COMPETENCE OF TAX OFFICES

An amendment of Act No. 456/2011 Coll., on tax administration, is currently subject to a third reading in the Parliament. It is now certain that the originally proposed legal effectiveness on 1 May 2016 will be postponed; however, the new date is not known yet. The change introduced by the amendment is extension of local competence of tax offices to the state-wide level for the purpose of search activities, investigations, tax audits or other procedures forming part of tax administration. The purpose of this amendment is to extend the restrictions on local competence that proved to be a limiting factor mainly during tax audits.



In practice, this will mean that if e.g. tax office for Brno suspects a locally competent taxpayer B of illegal tax activities involving VAT carousel fraud carried on together with taxpayer P who is locally competent to a tax office in Prague, the tax office in Brno will have direct authority to carry out an investigation of taxpayer P that is locally competent in Prague without having to request the tax office in Prague to perform the investigation on its behalf. Similarly, taxpayer P will be entitled to review its files being kept in Brno with respect to any state-wide investigations also in Prague, but only under the condition that the documents were submitted to the tax office in a digital form (official records, protocols, tax audit reports, decisions and others). If the taxpayer P filed a power of attorney with a tax office in Prague, the power of attorney will also be applicable with respect to a tax office carrying out a specific investigation (in this case tax office in Brno).

katerina.navratilova@lerika.eu

Contacts:

Corporate taxation

Ivana Ottová

+420 277 277 085

ivana.ottova@lerika.eu

Alena Kučerová

+420 277 277 084

alena.kuceroval@lerika.eu

VAT and customs

Eva Vrábelová

+420 277 277 086

eva.vrabelova@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

Even though due care is paid to the preparation of the tax news, please be aware that their contents are only meant to be informative. Therefore, we recommend that any action envisaged on the basis of the tax news be discussed with your counsel prior to implementation.