



Dear readers,  
I wish you all the best in 2018 with this new LERIKA Newsletter. For some, the year will be a year of revolutions, as it ends in number 8.

For some, it will be the Chinese Year of the Dog. Some are in for a life anniversary, others may undertake important steps in the year ahead.

For all of us, it will be a year that we will spend working, taking care of business, keeping books of account, paying taxes and dealing with authorities. This is also why we have brought this Newsletter to you – to remind you about the changes and risks ahead, to signal opportunities as well as to offer assistance.

This issue is mainly dedicated to income tax and payroll issues. Other than a few technical changes relating to the increase of minimum and average wages, there are also a couple of amendments entering into force. Fathers will be able to enjoy a week of paternity leave and employers can issue not only meal vouchers but also book vouchers (we

already covered this in our previous issue). Last but not least, the new law also features an important, albeit not very joyful, provision enabling those caring for their significant others to take up to three months off for a long-term sick leave.

We would also like to remind you of the opportunity to file an amended real estate transfer tax return and claim back a part of the tax already paid. This requires proper attention as the term for filing an amended tax return can expire if action is not taken in due course.

There will surely be other changes coming up during the course of the year and we can only hope that they will not be too radical and that all the amendments to be proposed will be written in a clear manner and that the subsequent practice of the tax administration will be predictable and transparent.

However, should errors occur, there will always be LERIKA as your partner to deal with (not only) critical situations.

We wish you all the best in 2018 and pleasant reading!

Ivana Ottová

Contents	
●	Payroll-related changes in 2018
●	Personal income tax: new features as of 2018
●	Real estate transfer tax: VAT not part of tax base
●	Electronic records of sales generally applicable only in 2019?
●	Legal disputes over the VAT Control Statement come to an end
●	New members of LERIKA team
●	Of accountants and dogs
●	LERIKA is cooking



## PAYROLL-RELATED CHANGES IN 2018

Many legislative changes are being enacted this year that will have an impact on payroll agenda. Some changes are just technical, others are more important. Some of them take effect on 1 January, others in the following months. We provide you below with a comprehensive overview – to make you aware and make sure you are ready.

### Items deductible from taxable income and tax limits

Items deductible from taxable income are amended as follows:

- The annual tax bonus for the first child increases to CZK 15,204 (from CZK 13,404 in effect now).
- Gifts to European political parties and foundations will be deductible from taxable income, this applies on the 2017 tax return or payroll settlement already.
- Tax relief for donation of blood will increase to CZK 3,000 for per session and tax relief for donation of bone marrow will increase to CZK 20,000. The new

amounts can already be applied for 2017.

- The kindergarten relief and tax bonuses for children will increase in line with the increase of minimum wages from CZK 11,000 to CZK 12,200. However, this will only apply for 2018 i.e. it will be applicable in a tax return to be filed in the spring of 2019.

The increase in the minimum wages also causes an increase in the limits for appli-



cation of solidarity tax (newly CZK 119,916) and the limit for taxation of pensions (newly from CZK 36,600 a month).

On the other hand, the conditions for the claiming of the tax bonus have been tightened. Under the new law, only taxpayers with active income of at least six times the monthly minimum wages will be able to claim it. This means that e.g. income from lease will not qualify.

### **New social welfare benefits: long-term sick leave and paternity leave**

As of June 2018, a new social welfare benefit will be introduced, the so-called long-term sick leave. The benefit will be available to an individual taking care of a person stipulated in Act No. 187/2006 Coll., under various qualifying conditions (a common household is not always required), where the latter person requires home care upon release from a hospital (or from a similar facility). The preconditions

for the long-term sick leave include at least 7 days of a hospital stay and a decision of the doctor on the subsequent full-time home care for at least 30 days.

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*“The paternity leave is one week long and must be started within 6 weeks of the child’s birth or acceptance of custody.”*

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As of February, a new benefit, the so-called paternity leave, will also become available. The paternity leave will be available to an individual taking care of a child of which he is a father (based on a record of births) or who accepted custody of the child within the first 7 years of age. The paternity leave is one week long and must be started within 6 weeks of

the child’s birth or acceptance of custody. The precondition is that the father must have been economically active for at least three months prior to the paternity leave commencement. In case the father has more children, paternity leave is available for every child born. To claim the benefit, the employer must hand over to the locally competent social security office the relevant form immediately after the end of the paternity leave. If the child is in a special form of custody (foster care), a relevant decision of the court must also be provided.

All the new legislative features require changes in the payroll agenda processes. If LERIKA keeps your payroll agenda, it is sufficient to inform your employees about the new opportunities. If you handle payroll agenda in-house and are not sure about some details, please do not hesitate to contact us. We will be happy to help.

*Vladimíra Brožíková*

## **PERSONAL INCOME TAX: NEW FEATURES AS OF 2018**

**On 1 January 2018, a number of smaller as well as more important changes relating to personal income tax comes into effect. We already informed you about some in the LERIKA Newsletter and Tax News. For completeness, we summarize them once again below.**

### **Withholding tax from employment income**

Personal taxation via withholding tax will newly also be used for specific types of income from dependent activities (e.g. one-off work contracts) in cases where the monthly income does not exceed CZK 2,500 and the employee does not sign the tax declaration with the employer. If CZK 2,500 is exceeded, the income will still be subject to the regular payroll tax.

A question begs itself how to apply the limit in cases where income from one-off work contracts co-exists with income from other dependent activities. Based on the communication of the tax administration, the limit of CZK 2,500 will not include income from limited work agreements. If the taxpayer has income with one employer from a one-off work contract not exceeding CZK 10,000 in one month and at the same time CZK 2,500 from a limited work agreement, then both types of income will

be assessed separately, resulting in two separate tax bases subject to withholding tax at a special tax rate.

Income from limited work agreements will be further subject to withholding tax in 2018 based on the current regulations.

### **New forms for dependent activities**

The declaration of the taxpayer and the request for annual income settlement will be filed using new forms. In practice, the current four-page form will be divided



into two separate forms. Contrary to the current regulations under which the forms are signed for a three-year period (form no. 24 and 25), in 2018 a completely new form will have to be completed (form no. 26). If a taxpayer already signed a declaration on the currently valid four-page form, which

*“In 2018, domestic per diems and car usage compensation rates are also subject to change.”*

is used for the following three years, they do not have to file a new form for 2018. Importantly, the declaration and the request for annual income settlement can newly be performed electronically.

### The point of claiming tax credit for the handicapped and disabled

The entitlement to claim tax credit for the disabled newly arises when the disability is acknowledged, not when the relating document is issued. The same principle will also apply to tax credits for the handicapped spouse under care and the tax credit for a handicapped child.

### Restrictions of tax bonuses

As of 2018, the conditions for the claiming of tax bonuses are restricted. The tax bonus can only be claimed by a taxpayer whose income in the given calendar year is at least six times the minimum wages. Whereas the prior regulation allowed inclusion of income from capital gain and from lease in the total sum of income, the new regulation applicable as of 2018 only allows inclusion of income from employment and business activities.

### Request for tax refund

If a taxpayer files a tax return together with a request for a tax refund, the request will be considered as having been filed as of the tax return filing deadline. This will reduce issues arising in those cases where a taxpayer filed the personal tax return early e.g. in January for the prior year, and then had to file the request for a tax refund in March, because the period between the filing of the tax refund request and the tax assessment (which cannot occur until the tax return filing deadline of 1 April) cannot be longer than 60 days.

### Lump sum expenses

The limit for the lump sum expense is newly reduced to CZK 800,000 (income from agricultural production, forest and water management and crafts), CZK 600,000 (income from trades), CZK 400,000 (income from other independent business activities) and CZK 300,000 (lease). However, it is possible to claim the tax credit for the spouse under care and tax credits for children.

### Minimum wages

As of 1 January 2018, the minimum wages are increased to CZK 12,200 (i.e. CZK 1,200 more than in 2017). The average wages are increased as well. This entails various tax consequences which are summarized in the table below.

*“The minimum wages are increased to CZK 12,200. The average wages are increased as well. This entails various tax consequences...”*



### Foreign per diems

As of 1 January 2018, the rates of per diems applicable when on business outside the Czech Republic change. Per diems will increase for the 8 countries below as follows:

- Belgium – EUR 50
- UK – GBP 45
- New Zealand – USD 55
- Australia, Oceania and the islands – USD 55
- Bahamas – USD 55
- Morocco – EUR 40
- Bolivia – USD 50
- The Republic of Korea (South Korea) – EUR 50

2018 DATA	
General taxable base	CZK 28 250
Pension insurance calculation coefficient	1,0612
Average wages	CZK 29 979
Minimum wages	CZK 12 200
Solidarity tax surcharge threshold for the purpose of calculating monthly personal income tax advances	CZK 119 916
Cap for social security premiums	CZK 1 438 992
Annual solidarity tax surcharge threshold	CZK 1 438 992
Minimum social security advances for self-employed individuals	CZK 2 189
Minimum health insurance advances for self-employed individuals	CZK 2 024
Threshold of net income from self-employment triggering participation in mandatory pension insurance scheme	CZK 71 950
Reduction limits for sickness insurance	CZK 1 000 / CZK 1 499 / CZK 2 998
Minimum monthly health insurance premiums	CZK 1 647
Tax credit in the form of the so-called kindergarten relief. This tax credit equals the minimum wages	CZK 12 200
Tax credit for the first child	CZK 15,204 / year CZK 1,267 / month

## Domestic per diems

In 2018, domestic per diems are also subject to change. All the changes, including the increase in meal and car usage compensation rates and the increase in average price of fuel, are further summarized below.

*Petr Hájek*



TRAVEL COSTS COMPENSATION	
Average cost of fuel	
Petrol 95 octanes	CZK 30,50
Petrol 98 octanes	CZK 32,80
Diesel	CZK 29,80
The basic rate of compensation of car usage per 1km of business travel	
Motorbikes and tricycles	CZK 1,10
Personal cars	CZK 4,00
Meal compensation for every day of business travel based on its duration	
5 – 12 hours	CZK 78 – 93
12 – 18 hours	CZK 119 – 143
more than 18 hours	CZK 186 – 223

## REAL ESTATE TRANSFER TAX: VAT NOT PART OF TAX BASE

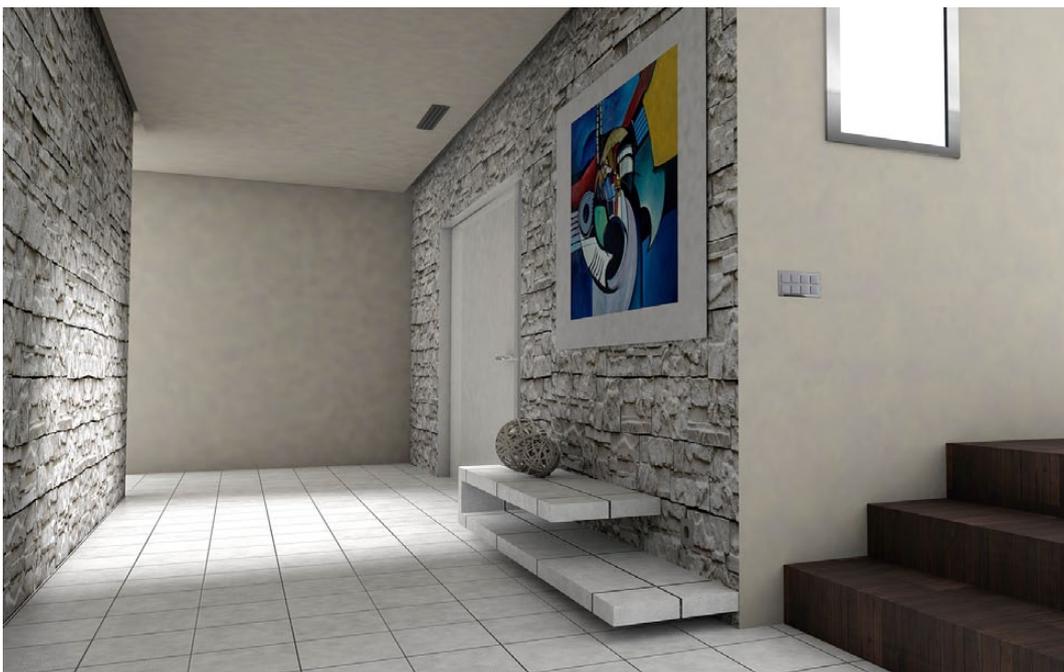
All those who purchased a property in 2014 and the following years, where the transaction was subject to VAT, and where the tax was paid by the buyer, can now file amended tax returns and claim a part of the tax already paid. This good news results from the new interpretation issued by the tax administration at the end of November.

We dealt with the issue in more detail in the last issue of LERIKA Newsletter. As we already stated there, the Supreme Administrative Court ruled that VAT cannot be included in the tax base for real estate transfer tax purposes in cases where the tax is paid by the seller (which was allowed by the law in the period 1 January 2014 – 31 October 2016). This brought up the issue what to do in cases when the taxpayer is the buyer.

Until the last Newsletter's issue date, nobody knew the answer and it was not

*“We would like to remind you that the statute of limitations expires within 3 years of the regular tax return's filing deadline.”*

inconceivable that we would have to wait until a decision of the Supreme Administrative Court. However, we are happy to inform you that the situation has changed to the better. On 24 November 2017, the tax administration published on its website that it will observe the practice of not including VAT in the real estate transfer tax base for situations both before 31 October 2016 and after i.e. regardless of the fact whether the tax was paid by the seller or buyer.



The taxpayer who paid the real estate transfer tax from a tax base that included VAT will be allowed to file an amended tax return for a lower tax, under the assumption that the statute of limitations has not yet expired. In this connection, we would like to remind you that the statute of limitations expires within 3 years of the regular tax return's filing deadline.

*Ivana Ottová*

# ELECTRONIC RECORDS OF SALES GENERALLY APPLICABLE ONLY IN 2019?

Everybody who regularly follows the current development in the area of electronic records of sales (abbreviated as "EET" in Czech) knows that it has been an exciting show. What applies today may not apply tomorrow and entrepreneurs can save a lot of money by knowing what happens next. 2018 was supposed to be a year when EET was to go live for all entrepreneurs (with small exceptions). However, the Constitutional Court struck down EET's 3<sup>rd</sup> and 4<sup>th</sup> phase scheduled for 2018.

EET went live on **1 December 2016** for catering and accommodation facilities. Since **March 2017**, retail and wholesale followed. In the following phases throughout 2018, independent trades, transport, as well as various crafts and other services were supposed to be covered as well.

However, based on the decision of the Constitutional Court from mid-December 2017, the law will have to be completely reworked and small-scale craftsmen, doctors, transport businesses and stalls selling refreshments without seating or restroom facilities will not be the only ones affected by these changes. After **28 February 2018**, cashless transfers of money will not be subject to record keeping whereby the exemption will apply to both payment gateways in e-shops as well as cashless payments via payment terminals in physical shops. As of the same date, it will not

longer be necessary to state on the receipt the tax identification numbers of the seller or of the party required to keep records of sales. However, the required contents of a tax document from the VAT point of view (in terms of tax identification numbers) will not be affected.

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*"...there is plenty of evidence that the deliberations of the Constitutional Court were tumultuous and opinions varied widely."*

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Unfortunately, the Constitutional Court did not uphold the proposal of the 41 Members of the Parliament to repeal EET completely. However, there is plenty of evidence that the deliberations of the Constitutional Court were tumultuous and opinions varied widely. This is corroborated by the dissenting opinion of 5 judges of the Constitutional Court (out of 15), a few excerpts from which are quoted below.

We would like to dedicate a few words to those business segments to which EET will apply in the future, but which also carry

out activities that are already subject to EET now. The frequent example is the sale of complementary goods at a hairdresser (coffee, hair products i.e. catering and retail), sale of replacement parts in a car garage (retail) or sale of packaged food in stalls otherwise selling take-away food and beverages (retail). The decision as of which date such entrepreneurs will have to start keeping records of sales is made based on the ratio of sales from the main activity to sales from the secondary (auxiliary) business activity. Auxiliary business activities are such that are not carried out in a separate facility and the sales of which are up to 49% of the total sales of the business establishment and at the same time do not exceed, in one establishment, CZK 175,000

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*"Records of sales from such activities should be kept as of 1 January 2018 i.e. notwithstanding the fact that the sales from the main activity will not be subject to record-keeping..."*

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per year. The criteria are always assessed based on sales from the prior calendar year and both have to be fulfilled. In cases above, if, in 2016, a hairdresser, car garage or a stall did not have sales from catering or retail above the stated threshold, they were not required to start keeping records of sales as of 1 December 2016 and 1 March 2017 respectively. Such establishments should pay attention in case that their sales from auxiliary activities exceeded the threshold in 2017 for the first time. Based on the methodical decree of the General Financial Directorate, records of sales from such activities should be kept as of **1 January 2018** i.e. notwithstanding the fact that the sales from the main activity will not be subject to record-keeping in 2018 at all. In cases where the threshold for sales from auxiliary activities was not exceeded in 2017, these entrepreneurs will be required to keep records of sales only in the future, together with sales from the main activity (if ever at all).

*Excerpt from the opinion of Vojtěch Šimiček, Jaromír Jirsa, Tomáš Lichovník, Kateřina Šimáčková and Davida Uhlíř against the decision No. Pl. ÚS 26/16:*

*"To be an entrepreneur is not easy. It requires significant personal courage and a lot of patience, as the number of obligations relating to one's own business across the entire legal framework is vast: in terms of work safety, social security, human capital, hygiene, and, of course, taxes. The state, which, based on the case law of the Constitutional Court, is created on the basis of the Social Contract, should therefore carefully weigh each new obligation, which creates an additional burden to the entrepreneurs, before instituting it."*

*"We are of the view that the tax discipline is not always the highest value (a legitimate goal). Sometimes, too much focus on it should be secondary to the primary goal of creating conditions for the existence of a strong class of active, creative, confident and courageous individuals who risk their very existence when carrying on their own business, instead of being employed."*

*"Before enacting EET, the state should have carefully examined whether all possible measures to ensure proper and just tax collection, less invasive and burdensome than EET, had already been exhausted."*

*"We consider the enactment of EET under the auspices of the political and publicly presented message (albeit empirically not proven) that nobody pays tax, hence the need to take stricter measures in collecting it, to be as unreasonable as grounding the whole class after school just because one pupil was raising a ruckus."*

In connection with the fulfillment of tax obligations for the 2017 year, we would also like to remind you of the possibility to reduce income tax for individuals in the first year when EET applies to them. This one-off tax credit amounts to CZK 5,000.

Last, but not least, we would like to summarize a few EET exemptions (current or future potential ones). Some of the business segments that are exempt are stated as such directly in the law. These include sales of the state, banks, not-for-profit organizations, insurance companies, pension funds, sales from postal services, sales from mass transit, sales of goods or services

via a vending machine and others. As of **1 February 2018**, this list should be complemented with sales of facilities providing social and medical emergency services.

Further exemptions were granted by the government via a specific measure. Thanks to this measure, sales of carp in facilities specializing exclusively in sales of sweet water fish were exempted from EET in both 2017 and 2018. The same measure applicable as of **14 November 2017** also exempts from EET individuals who are partly or fully

blind or deaf and blind. However, the Constitutional Court limited applicability of these measures until **31 December 2018**. In the future, these exemptions will have to become a mandatory part of the EET law as the Constitutional Court found their enactment via a governmental measure to be incompatible with the constitutional order. However, the specific wording of the new law in effect as of 1 January 2019 yet remains to be drafted.

*Kateřina Navrtilov*



## LEGAL DISPUTES OVER THE VAT CONTROL STATEMENT COME TO AN END

The VAT Control Statement and its legislative implementation has been subject to many disputes, court proceedings and amendments in the last couple of years. As regards the taxpayer's obligations, not much has changed though.

The VAT Act amendment, which introduced the VAT Control Statement, was published in the Collection of Laws on 31 December 2014, taking effect on 1 January 2016. A year later, in December 2015, a group of 21 senators filed a motion for repeal of specific provisions of the new law with the Constitutional Court. Some aspects of the motion have been granted by the government even before the Constitutional Court's decision, through an amendment of the VAT Act. However, the provision of Article 101d Section 1 of the VAT Act stipulating that "in the Control Statement, the taxpayer shall provide all the relevant details necessary for the tax administration", remained subject to further

controversy. The group of senators challenged this provision in a way that the extent of information required must be stipulated directly in the law and that it is not possible for such information to be stipulated only in a form issued by the tax administration

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*"The information required in the VAT Control Statement is newly stipulated directly in the law."*

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which can be modified at will, based on the current position of the government. The group of senators further argued that the Charter of Basic Rights and Liberties stipulates that taxes and levies can only be imposed based on law. This obliges the lawgiver to lay down all important tax obligations directly in the law, including the obligations relating to tax administration and tax controls.

In its decision of 6 December 2016 (No. 40/2017 Coll.), the Constitutional Court ruled in favor of the group of senators and decided that "the law must further specify the extent of information that should

be provided by the taxpayer". The Ministry of Finance's right to specify the individual details of the information to be provided is not excluded, but it must be carried out via a proper regulation, not just through a form.

The Budget Committee of the Chamber of Parliament reacted to this decision of the Constitutional Court as late as 17 May 2017, by incorporating the necessary legislative changes in the Parliamentary Print No. 1060/1 as an annex to the government amendment of some laws following the adoption of the Act on Money Transfers.

The new wording of Article 101d Section 1 of the VAT Act stipulates that the information required comprises:

- Identification and contact details of the taxpayer,
- Information relating to supplies and payments,
- Information relating to input VAT deduction entitlement and
- Identification details of vendors and customers.

The amendment incorporating the above changes has been published in the Collection of Laws on 13 November 2017 under No. 371/2017 Coll., Insert 129 and will take effect on 1 January 2018, which is in conformity with the time limit afforded by the Constitutional Court for legislative remedy.

The information required in the VAT Control Statement is newly stipulated directly in the law. However, this is only a formal change, in terms of substance and contents, nothing changes for the VAT payers.

*Ivana Ottov*



## NEW MEMBERS OF LERIKA TEAM



### Valentina Klemperová

As she was deciding about a job after her maternity leave, Valentina was looking for a firm where the people were

not just cogs in the wheel but where everybody could be a personality. And she found the right firm. "There is a great environment here enabling me to learn new things", she says about LERIKA, where she works nowadays under supervision of senior accountants until she perhaps becomes one too, one day.

### Karin Tesarczyková

Karin was inspired to take up accounting by her father, who has dedicated his life to it. Actually, she has known since her childhood that she wanted to be one. As she says, she likes working with numbers,



observe how everything falls in place and get to know what makes a firm tick.

In LERIKA, she handles accounting and payroll agenda for several clients. And when she has free time, she does oriental dance, studies history or goes to theater.



### Michal Hofman

Michal has always been one for work with numbers and establishing connections among them. This is why

he enrolled at the Faculty of Operational Economics of the University of Agriculture, where he focused on accounting and tax in his Master's Program. LERIKA is his first employer after finishing his studies. He currently provides support to colleagues, takes care of various regular reports and handles accounting for a few smaller clients. One day, he would like to become an independent accountant. He dedicates his free time to sports – doing skiing and hiking, but also watching football and ice hockey.



*This year, LERIKA Christmas party's main theme was cooking. Just to let you know that the ladies and gentlemen working at LERIKA do not just add up numbers all day long. And perhaps if you were in for a treat...*

*A dog comes in a personnel agency, looking for a job.*

*"Excellent! A talking dog. With an ability like that, we can easily find you a job in a circus."*

*"In a circus? Why not. If that is where they are looking for an accountant..."*

...

*A Canadian accountant's house is being broken into by a burglar. The burglar acts carelessly as he knows that the owner of the house is just at a conference. He draws up curtains, turns on the lights and starts looking for valuables. When he hears, all of a sudden: "Jesus sees you!". The burglar looks around, but as no one is coming, he proceeds with the house search. When the voice says again: "Jesus sees you!". The burglar looks around more carefully, spotting a parrot.*

*"Who are you?" he asks.*

*"I am Moses!"*

*The burglar bursts out laughing: "Who names his parrot after Moses?"*

*"Perhaps somebody who names his Rottweiler dog after Jesus".*

...

*A client of an accounting firm is about to enter their office when he notices a big announcement on the door: "Beware! Dangerous dog!"*

*He carefully enters the door and notices an aggressive-looking dog on the floor. "Is this the dog you are warning about?" he asks the lady at the reception, befuddled. "Exactly. Until we put up the announcement, almost everybody stepped on him."*

...

*In addition to its investment consultancy solutions, one Canadian firm also offers a video, that will allow you to test the intelligence of your dog.*

*The principle as to how it works is simple. If you spend at least 15 dollars for the video, it means that your dog is smarter than you are.*

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