



Dear ladies and gentlemen,  
One of the movie hits of this fall is Quentin Tarantino's *Once Upon a Time In Hollywood*, in which the director goes about settling scores

with people who caused grievances to movie makers. This brings me to ponder what his movie will be about when the time comes to settle a score with the tax administration.

To us, the concept of settling a score with someone is unknown. LERIKA Newsletter needs to be a respectable medium. But being respectable, on its own, is not enough. We are striving for every issue to be just as long as it needs to be. Making sure that our clients get exactly the information they need, and that they get them in an easily digestible form.

Why do we put so much effort into preparation of LERIKA Newsletter and Tax News? One of the main reasons is that today's world of finance and tax is subject to constant change. Getting used to changes is part of our everyday life. It is considered when

planning trainings, when implementing IT systems, selecting vendors, defining services. If there were no tax changes for a year, we would feel that something is off.

In LERIKA firm, we focus on the changes at the time when they are being discussed and approved. This is why it has never happened to us so far that we would not be ready for any tax law amendment. However, we also feel that our readers should be fully informed too.

This time, we are focusing on the Electronic Records of Sales, the new phases of which will be rolled out in May of the upcoming year. We point your attention to an amendment of the Real Estate Transfer Tax. We remind you about the regular increase of the official average wages which impacts various other factors. However, we recommend that you pay your attention mainly to the article on VAT, where most legislative changes have occurred.

I wish you that Christmas is not just a period that just goes by quickly, but that it's also time well spent.

Monika Borkovcová

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## VAT AMENDMENT: 2019 TAX PACKAGE AND OTHER ISSUES UNDER CONSIDERATION

As of 1 April 2019, the VAT Act amendment known as 2019 Tax Package came into force, 5 days after the amendment covering the updated wording of the EU Directive. Although it has been more than half a year since implementation, there are still various areas that cause issues in practice.

### Rounding of vat

A new feature of the VAT Act amendment in force as of 1 April 2019 was the abolition of a possibility to round VAT to whole crowns. Newly, VAT has to be stated down to hellers. This means that tax is mathematically rounded to two decimals. Based on transitional provisions, it was possible to use the old regime for 6 months after entry into force of the tax amendment. However, as of 1 October 2019, new rules apply with no exceptions.

This change, although immaterial from the fiscal point of view, caused stormy discussions. What do the new provisions

entail? Whereas under the old regime applicable until 31 March 2019, the taxpayer could elect whether to round the VAT to the entire crown or leave it in hellers, the new provisions do not enable the rounding. The tax is stated down to hellers, as computed.

Let us consider the following example:

Price for supply excluding VAT amounts to CZK 250. The 21% tax is applied to the amount as follows:  $250 \times 0.21 = \text{CZK } 52.50$



## Rounding and payments in cash

Based on the old provisions, it was possible to round the tax to CZK 53 and issue a tax document for the entire amount of CZK 303 (CZK 250 + CZK 53). This possibility is no longer available under the amendment, and the tax has to be stated down to hellers. The total price for the supply thus amounts to CZK 302.5.

When paying in cash, it is of course necessary to round the calculated amount of CZK 302.5 to CZK 303. For this purpose, the amendment introduces a novelty – the rounding difference (in this case CZK 0.50) shall not be subject to VAT.

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*“A new feature of the VAT Act amendment in force as of 1 April 2019 was the abolition of a possibility to round VAT to whole crowns. Newly, VAT has to be stated down to hellers.”*

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## How to handle cashless payments?

In case of cashless payments, the amounts paid are also in some cases rounded to the crown. Although the Act on Consumer Protection does not allow this, the norm does not apply to transactions between businesses. If the customer is not a final consumer, nothing prevents the vendor from rounding the final amount to the crown in order to simplify the cashless payment.

Based on the last statement of the tax administration published on its webpage, the same principle can be used in case of cashless payments as when paying in cash i.e. the rounding difference from the final amount including tax can be considered as not being subject to VAT.

## Top-down approach to tax calculation

The amendment has also updated the so-called top-down approach to calculating tax which applies in cases when the price of supply is determined as final including tax. This is demonstrated on the following example.

If there's a final price for a taxable supply including VAT of CZK 303, VAT shall newly be calculated using the following formula:

$$\text{Tax (21\%)} = 303 - 303/1.21 = 303 - 250.41 = 52.59$$

The tax is therefore no longer calculated using a four-digit coefficient as in the past. Based on the new rules, the same VAT with the same tax base are always obtained. In the past, there could be two different results depending on which method of calculation and rounding was adopted.



## Vouchers

The VAT law amendment applicable as of 27 March 2019 incorporates the wording of EU Directive No. 2016/1065, which regulates the treatment of vouchers from the VAT point of view, where the most important feature is whether the voucher is one-off or multi-purpose.

**One-off voucher** is such for which all facts relevant to the VAT determination are known upon issuance (mainly VAT rate, place of supply of goods or services). The sale of such a voucher in itself is already considered a supply of the relevant goods or services. The voucher provider is oblig-

ed to apply output VAT at the moment of its provision.

**Multi-purpose voucher** is such that enables the holder to buy goods or services under various VAT rates, or even among several EU member states. Under the new rules, the provision of a multi-purpose voucher continues not to represent a transaction subject to VAT. The VAT is only levied upon the voucher utilisation.

The tax administration issued information relating to vouchers that deals with many different situations. The following are worth considering:

**Unutilized vouchers:** If a taxpayer buys single-purpose vouchers and claims the relating input VAT deduction, they have to claw back the claimed input VAT for those vouchers that have not been utilized (e.g. for which the expiry period has elapsed).

**Loss of vouchers:** Similarly to the above, a taxpayer has to claw back the claimed input VAT in case of unsubstantiated or unconfirmed destruction, loss or theft of one-off vouchers. Non-utilization of the vouchers (with respect to goods or services) does not impact the tax obligation of the provider of the taxable supply (voucher issuer) who has to levy the applicable VAT at all times.

**Free-of-charge voucher:** this covers situations when a firm provides vouchers to its employees/clients/business partners entitling them to a one-off delivery of the firm's own goods or services. Issuance and subsequent free-of-charge provision of one-off vouchers **are not subject to VAT**. Tax shall be levied only upon the voucher utilization and the relating delivery of own goods or services.

**Cancellation of VAT registration:** input VAT from non-utilized vouchers shall be clawed back also when a VAT registration is cancelled. This shall apply to those vouchers that had not yet been utilized as of the date when the VAT registration was cancelled.

**Meal vouchers:** tax treatment of Sodexho and similar meal vouchers has already been subject to many discussions. In its information published on its webpage, the tax administration indirectly confirmed that meal vouchers are considered multi-purpose vouchers (e.g. due to the fact that a meal voucher can be used to buy groceries subject to the low 10% VAT rate). This means that VAT shall only be levied when the meal voucher is utilized to buy a meal or groceries.

## Place of supply when providing digital services

The VAT law amendment has introduced a simplification when providing digital services to final consumers (non-entrepreneurs). The digital services are generally subject to VAT in the member state where the final consumer is resident. Payment of VAT to other member states is facilitated by

*“The VAT law amendment has introduced a simplification when providing digital services to final consumers (non-entrepreneurs).”*

a special regime of the so-called Mini One Stop Shop (MOSS) which enables the taxpayer to pay tax for all the supplies made to final consumers in various EU member states to the respective domestic tax administrator.

The stated simplification, introduced by an amendment in effect as of 27 March 2019, and which could already be applied as of 1 January 2019 based on the EU Directive’s direct effect, concerns the fact that whereas in the past the digital services provider had to pay VAT under all circumstances in the member state where the final consumer was resident, this will newly be the case only upon reaching a specific turnover threshold. Until the turnover threshold is reached, the standard rule stated in Article 9 Section 2 of VAT Act applies i.e. VAT may be levied in the member state where the digital services provider is resident or active.

The condition for the use of the simplification is that the digital services provider **be resident in only one member state and the services be provided cross-border** and the value of the services shall not exceed EUR 10,000 or its local currency equivalent (CZK 256,530) in the current and previous calendar years. The sum of EUR 10,000 includes the total amount of services provided digitally to all member states.

The entity providing digital services can also elect to use the standard rule in Article 10i Section 1 of VAT Act to determine the place of supply, even in cases when EUR 10,000 worth of turnover has not been exceeded. Upon this election, the entity has to follow this treatment until the end of the

calendar year following the calendar year when such election was made.

## Input vat deduction upon repair of immovables

As of 1 April 2019, the VAT law amendment introduces an obligation for taxpayers to modify the input VAT deduction in case of significant repairs of immovables. This involves cases when a taxpayer performs a repair on an immovable that they claim a full or partial input VAT deduction from and subsequently sells the immovable within the period of 10 years as a VAT exempt supply without an input VAT deduction. The obligation only applies to **significant repairs** i.e. repairs for which the sum of all received supplies excluding tax exceeds **CZK 200,000**. Article 78d stipulates how to perform the input VAT modification. The input VAT modification has to be performed by the taxpayer once in the tax period in which the VAT exempt provision of the immovable was made. The obligation to modify the input VAT deduction also applies to cases when the sale is made within the same year when the repairs were completed.

## Input vat deduction upon registration

The amendment in effect as of 1 April 2019 significantly increases the amount of situations when a taxpayer has a right to deduct VAT upon VAT registration.

*“This provision likely aims at dissuading taxpayers from artificially buying small assets such as mobile phones, tablets etc.”*

Newly, a person liable to tax can deduct VAT related to **purchases of business assets** under the following conditions:

- Supplies were made in 60 months prior to the date of the taxpayer registration;
- Supplies have to become part of the assets being purchased prior to its first putting into use;
- Assets being purchased have to be capable of being put into use at least 12 consecutive months prior to the date when the person liable to tax becomes a taxpayer. If the assets are put into

*A psychoanalyst asks a finance director: “How would you like to die?”*

*“Peacefully, while asleep, just like my granddad. I surely don’t want to end up screaming in horror as the fellow passengers in the car that my granddad was driving.”*

**An accountant is complaining:** *“My wife is always negative. The other day I was setting out on a journey. I did not forget the car, nor the trolley, or even diapers. My wife did not appreciate it all and would just be nagging me about the fact that I just left the baby behind.”*

**An accountant is telling colleagues:** *“I hope that, this Christmas, my son will finally give me a present I’ve been wishing for the last two years.” “Which is?” “Returning the keys to my car.”*

use after VAT registration, it is possible to apply input VAT deduction only in respect of supplies received 12 months prior to the registration;

- At the moment when the person liable to tax becomes a taxpayer, the assets have to be part of the taxpayer’s business assets.

A person liable to tax can also claim an input VAT deduction for those received taxable supplies, which are not part of business assets, if the supplies were made within 6 consecutive months prior to the date of the registration, and they were used to export goods, which are exempt from VAT.

## Input vat deduction upon registration cancellations (Articles 79A, 79D)

The VAT law amendment also modifies conditions for cases when a taxpayer cancels their VAT registration. The new provisions have become more stringent.

When cancelling VAT registration, the taxpayer is required **to reduce the input VAT deduction applied** also in respect of **small assets** (which were expensed) if the input VAT deduction amounted to **at least CZK 2,100** and **if the assets were acquired in a period of 11 calendar months preceding the registration cancellation as well as in the month in which the registration was cancelled.**

The amount of input VAT being reduced shall be calculated as the product

of 1/12 of the input VAT deduction claimed and the number of months for which the assets were not part of the taxpayer's business assets. The taxpayer retains the input VAT deduction in respect of the period in which the assets were part of their business assets and were used to carry out business activities. The taxpayer is obliged to make the input VAT deduction modification in the last tax period of their VAT registration.

This provision likely aims at dissuading taxpayers from artificially buy-

ing small assets such as mobile phones, tablets etc. in the period just before the VAT registration cancellation, which are used for private purposes after the VAT de-registration.

The above is just an overview of the main changes, not their entire list, and some of the other changes are quite complex. This is why we recommend that in case of uncertainties, you contact a tax adviser as soon as possible. A brief consultation may prevent more

significant issues down the road. This also applies to situations when a company has already put in practice certain procedures but wants to be sure that the procedures are in line with the law. It is always better to correct the course in time than to let an issue crystallize only during a tax audit.

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## NEW EET PHASES AS OF MAY 2020

You may have noticed in the news that, after many months of opposition successfully managing to block deliberations over Electronic Records of Sales (abbreviated as „EET“ in Czech), the governmental EET law amendment finally passed through the Parliament and was published in the Collection of Laws in October 2019. As the relevant provisions of the EET law enter into force on the first day of the 7th month after the law publication, the last two EET phases shall go live on 1 May 2020. For completeness – the original proposal planned entry into force as of 1 July 2019.

The EET law amendment mainly deals with the go live of phase 3 and 4 and the possibility for micro-entrepreneurs to keep electronic records of sales in the so-called offline mode. The obligation to keep electronic records of sales made in cash will therefore apply to craftsmen, lawyers, doctors and to other professions, who have not had to keep records of sales so far. On the same date when the EET law amendment comes into force, some relating supplies shall move to the 10% VAT rate. The 2nd low VAT rate will newly cover e.g. household cleaning services, home care services, bicycle repairs, barbers, tailors, sales of barrelled beer (on tap), provision of meals as well as water utility services. The



Parliament also approved the unification of VAT rates applicable to books, e-books and audiobooks at 10%.

### Special offline regime

Special offline regime enables entrepreneurs to issue receipts from a designated roll of receipts which can be collected free of charge from a tax office. Once every quarter, a special form including information on sales and the number of issued and/or cancelled receipts needs to be submitted to a tax office. This regime will only be made available to micro-entrepreneurs with annual sales of up to CZK 600,000, who at the same time are not VAT payers and have up to 2 employees. Such entrepreneurs can decide on their own whether to register sales online or whether to use the offline regime.

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*“Special offline regime enables entrepreneurs to issue receipts from a designated roll of receipts which can be collected from a tax office.”*

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### Christmas carp

The EET law amendment did not leave out the much discussed issue of sales of Christmas carp and duly exempts sales of fresh water fish made in the period 18 – 24 December from the scope of EET.

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# AVERAGE WAGES

As every year, at the end of September, a governmental directive was published in the Collection of Laws stipulating most figures deriving from **average wages** applicable in 2020, which amount to **CZK 34,835** as of 1 January 2020.

In reality, the amount represents expected (or estimated) average wages for 2019 determined using various statistical data for 2018 and the first half of 2019. The amount is the product of:

- Universal assessment base for 2018 of CZK 32,510 and
- Calculation coefficient of 1.0715.

Average wages = CZK 32,510 \* 1.0715 = CZK 34,835

Average wages affect the following:

- Threshold for solidarity tax increase;
- Cap for social security payments;
- Minimum advances for health and social security insurance for self-employed individuals;
- Threshold for mandatory participation in social security scheme for individuals with self-employment as a secondary activity;
- Minimum monthly income triggering mandatory participation in sickness insurance;
- Amounts of reduction rates for sickness benefits;
- Basic pension amounts (in case of retirement, disability, for widows and orphans);
- Pension amounts granted as of 1 January 2020.

*“Minimum wages remain the same for the time being, at CZK 13 350.”*

## An overview of the main figures applicable for 2020

Reduction rates for sickness insurance are used to determine the amount of benefits (compensation) received in case of illness. Due to the increase in average wages, employees will receive a higher compensation as of 1 January 2020. Average wages also impact the amount of newly granted pensions.

- Some of the figures that are relevant for tax and payroll purposes are derived



## FIGURES FOR 2020

Universal assessment base	32 510 Kč
Pension insurance calculation coefficient	1,0715
Average wages	34 835 Kč
Threshold for personal income tax solidarity increase	139 340 Kč
Social security insurance cap (48 times average wages)	1 672 080 Kč
Annual threshold for solidarity tax increase (48 times average wages)	1 672 080 Kč
Minimum social security advances for individuals with self-employment as a <b>primary</b> business activity (¼ of average wages)	2 544 Kč
Minimum health insurance advances for self-employed individuals (½ of average wages)	2 352 Kč
Net income triggering mandatory participation in social security scheme for individuals with self-employment as a <b>secondary business activity</b> <sup>1</sup>	83 604 Kč
Minimum social security advances for individuals with self-employment as a <b>secondary</b> business activity	1 018 Kč
Reduction rates for sickness benefits	1 162 Kč / 1 742 Kč / 3 484 Kč
Monthly employment income triggering mandatory participation in sickness (and pension) insurance (1/10 of average wages rounded down to the nearest CZK 500)	3 000 Kč

<sup>1</sup> The figure amounts to 2.4 times an amount which is determined as the product of a universal assessment base for a calendar year preceding by 2 years the calendar year for which the participation in the pension insurance is being determined and of the calculation coefficient adjusting the universal assessment base.

not from average, but from minimum wages. Minimum wages remain the same for the time being, at CZK 13,350. Minimum wages are determined by the government and are stipulated by a directive. It is possible that, as of 1 January 2020, they will be increased. Minimum wages affect the following figures:

- tax credit for placing a child in a kindergarten (so-called **kindergarten credit**);

- Entitlement to an annual **tax bonus** per child (6 times minimum wages);
- Entitlement to a **monthly tax bonus** (50% of minimum wages);
- Taxation of **regularly paid pensions**, which are exempt up to the amount of 36 times of minimum wages.

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## EXTENSION OF EXEMPTION OF APARTMENTS IN FAMILY HOUSES FROM REAL ESTATE TRANSFER TAX

As of 1 November 2019, application of exemption stipulated in Article 7 of the Senate's Legislative Measure No. 340/2013 Coll., on real estate transfer tax, **on apartment units in family houses**, is extended. Newly, the first transfer of a unit in a family house will be out of scope of real estate transfer tax in the same way that transfers of units in residential buildings already are.

The purpose of the amendment is to eliminate the disproportion arising as a result of the abolition of the so-called Three Tax Act. The historical Act exempted transfers of units in family houses (upon fulfilment of other conditions) whereas the Legislative Measure on real estate transfer tax applicable as of 1 January 2014 passed units in family houses over in silence and granted exemption only in respect of units in residential buildings. This caused many disputes with tax administrators, many of which ended in courts and have not yet been settled. If the aim of the real estate transfer tax exemption is to promote access to, and availability of, residential real estate, then there should be no difference in treatment with respect to the apartment units being part of family houses or of residential buildings.

This asymmetry has been corrected by the amendment entering into force on 1 November 2019. However, if anybody hoped for a retroactive effect of the provision, they would be sorely disappointed. The provision only covers transfers of real estate occurring **on 1 November 2019 and later** by means of a real estate cadaster entry or where the legal title was transferred otherwise (e.g. in an auction). In cases where the legal title was transferred until 31 October 2019, the exemption would not apply.

### What are the exact conditions for the exemption?

The real estate transfer tax exemption newly applies to the first monetary transfer of legal title to a finished or utilized unit in a family house which

- does not include non-residential premises other than a garage, cellar or a chamber used together with the apartment unit, which arose as a result of construction, additional (horizontal or vertical) construction or through a modification of a house, unless it only arose as a result of division or joining of existing units;

- does not include non-residential premises other than a garage, cellar or a chamber used together with the apartment unit, which arose as a result of modification of non-residential premises.

The transfer of the legal title to the apartment unit has to occur within 5 years of termination of construction or first use of the apartment unit, or of a unit arising as result of modification through construction, whichever of the two dates occurs earlier.

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# KATEŘINA NAVRÁTILOVÁ, OFFICIALLY A TAX ADVISER

Kateřina Navrátilová has become a tax adviser no. 5476. After a long preparation, two five-hour exams and the final oral exam. We already covered Kateřina's story



in 2014, when she was starting out with LERIKA. Since then, she has become an experienced and independent tax adviser. She has learnt a great many things, which was instrumental in her achievement. As she says, the ability to see individual issues in a broader context helped her a lot. And that is one thing that you can only get through practice. It is no wonder that LERIKA is proud of Kateřina. For clients, it is a vestige of the quality of the staff that is handling their tax affairs. Kateřina hopes it was the last exam in her life and that she will finally have more time for her dog and her hobbies. Who knows.

## LERIKA STAFF REINFORCEMENTS



### Tax generalist Nikoleta Koprudová

Nikoleta Koprudová joint LERIKA coming from a multinational.

She joined the firm because she wanted to improve in several tax areas and to understand them in a broader context. As she explains, in a multinational, everything is carved out into various micro-specializations, which is why the work quickly becomes monotonous.

When a recruitment agency contacted her, she gave it a try. And she knew instantly that she would want to work for LERIKA. "The job interview was friendly, both directors are really nice", she says. And after a work with the firm, she still thinks her first impression was right. "We have a great team and I can work in all tax areas." In the meantime, she has started preparing for the tax advisor exam.

According to her manager, she is responsible and is not afraid of taking on complicated tasks. She also handles client relationships very well. Maybe I am lucky, but my clients are all reasonable, she says.

And what does she do in her free time? She travels! Nikoleta is all into exotic countries.



### Alexandr Tóth: Keeping accounting all in the family

It is inspiring when children follow the same profession as

their parents. Alexandr Tóth learnt the basics of accounting and tax from his mother. When he was 15, he was already helping her, and already took it for granted that he would continue down the same path.

Today, he works at LERIKA firm and also studies taxes at University of Economics. He appreciates that the firm's management accommodated him on his need for flexible working hours, his desire to tackle various areas of accounting and tax work, and also learn from experienced colleagues.

"Alex is a quick learner, because he is very smart. You can see when we assign him a new task, from the way he tackles it. And he is also friendly, and a team-player". This is how Ivana Ottová praises him. It sure looks like the accountant's son is going to be an outstanding accountant, auditor or a finance director.



### Karolína Cachová: Accountant by day, mechanic by night

The story of Karolína Cachová could serve as a model. She attended a business school and worked for an accounting firm during her studies. After graduating, she joined the General Financial Directorate but soon found out that it wasn't the right choice. She wanted something less rigid and less bureaucratic where she could learn new things.

So LERIKA it was. After the first interview with a director, she knew that this would be it, and she had to look no further. And it turned out to be a good judgment call. She quickly grew into her role, people have been friendly and she has enjoyed the work. She handles several clients and helps her colleagues who are happy with her and appreciate that Karolína does what is needed without making mistakes.

And when she is not doing accounting, she has time for her hobby – servicing cars. Especially her old BMW. This could well be where her sense for thoroughness and completeness, so important in accounting, comes from.

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A farmer is walking with a prospective buyer when they see a beautiful pig in the yard, except it has a wooden leg. The buyer asks, „Why the wooden leg?“ The farmer replies, „That pig is so smart, I let it drive the kids to school.“

„Great, but why the wooden leg?“

„The pig is so smart it has a degree in horticulture and philosophy.“

„Amazing! But why the bloody wooden leg?“

„Well when you have a pig that smart you don't eat it all at once!“

