



# TAX FRESH

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Dear business friends,

In this Tax Fresh issue we would like to inform you of a totally new obligation of VAT payers to submit **VAT control statements**, which should take effect as of the beginning of 2016, i.e. for the first time for the January 2016 taxation period. From the tax administration perspective, its purpose is primarily to obtain a detailed overview of transactions executed between Czech and foreign entities in all Czech economic sectors.

VAT control statements contain different types of information and its system processing will require major modifications of the accounting programs and internal processes in your company.

This is why we have decided to inform you of the details of these statements well in advance, so that your company has time to deal with the necessary modifications by the end of 2015 and to prevent the risk of sanctions imposed by the tax authority.

Together with our colleagues, we will always be happy to help you with this.

With kind regards,

Šárka Adámková  
Tax partner

Ladislav Dědeček  
Tax partner

**HLB PROXY**  
Audit & Tax Services

# VALUE ADDED TAX

## VAT Control Statements

### Introduction

A VAT control statement, which as of 1<sup>st</sup> January 2016 VAT payers will be obliged to submit together with the January VAT return (or separately from the VAT return in the case of quarterly payers), is a special tax statement that does not replace any existing return.

Out of the existing forms, it replaces only the extract of the records submitted in the case of transaction execution within the Czech VAT reverse charge procedure (i.e. particularly construction work and supplies of selected goods).

VAT control statements will be submitted only electronically, in the XML format. A draft VAT Control Statement Form has already been published, including the data structure of the form. As already mentioned, it is only a draft, nevertheless, it can be expected that the form will not be changed in a major way.

**NOTE** The structure of the statement and the information therein are clearly defined. Payers have to adjust their accounting systems thereto. For instance the registration number of the tax document must be given exactly as in the received tax document including the order of the alphanumeric characters on the documents.

### Who should submit the VAT control statement and when?

VAT control statements must be submitted by all tax payers registered in the Czech Republic, regardless of the fact whether it is a Czech or foreign entity. In the case of a group of related entities, the VAT control statement must be submitted by the acting member of the group.

The obligation to submit a VAT control statement is related to the occurrence of one of the below-listed facts:

- performance of taxable supplies with the place of performance in the Czech Republic, or acceptance of payment prior to the date of the performance of such taxable supplies (i.e. lines 1, 2 or 25 of the VAT return filled in);
- acceptance of taxable supplies with the place of performance in the Czech Republic, or provision of payment prior to the date of the performance of such supplies (i.e. lines 40, 41 or 10 and 11 of the VAT return filled in) or acceptance of supplies to which the obligation of the recipient (payer) to account for tax applies pursuant to Section 108 (1b and c), from lines 3, 4, 5, 6, 9, 12 and 13 of the VAT return).

In other words, the obligation to submit a VAT control statement will apply to all suppliers/customers – VAT payers – who, within the given taxation period, perform a taxable supply in the Czech Republic, or acquire an input and exercise the relating right of deduction, or accept/provide an advance payment in relation to these transactions.

The obligation to submit a VAT control statement shall not apply to:

- non-payers,
- identified entity,
- payers who did not provide or accept any performance for which they would exercise the right of deduction in the given period,
- payers providing only performance exempt from tax without the right of tax deduction.

VAT control statements will be submitted for a reference period, which in the case of legal entities is a calendar month – regardless of the fact whether the particular legal entity is a monthly or quarterly payer. The deadline is 25 days after the end of the month.

In the case of natural persons, the reference period depends on their taxation period for the purpose of VAT return filing, i.e. monthly or quarterly. The deadline for the submitting of VAT control statements is also 25 days after the end of the taxation period.

### Revision of data in VAT control statements

A VAT control statement can be regular or corrective if it replaces the regular VAT control statement and is submitted by the deadline for the submitting of the regular VAT control statement. Another option is to submit a supplementary VAT control statement – this should serve for the correction of originally stated data after the deadline for the regular VAT control statement. A supplementary VAT control statement must be submitted within 5 working days of the ascertainment of inaccurate or incomplete data stated in the already submitted VAT control statement.



**Example 1:** A company submitted a regular VAT control statement for February 2016 on 20<sup>th</sup> March 2016 and on 22<sup>nd</sup> March 2016 it found out that it had forgotten to include several issued invoices in this regular VAT control statement. The VAT return for February 2016 was submitted on 23<sup>rd</sup> March 2016 and in this tax return, the issued invoices had been accounted for. How to correct the already submitted VAT control statement for February 2016?

It is necessary to proceed as follows: You need to submit a corrective VAT control statement by the 25<sup>th</sup> day of the relevant month (i.e. by 25<sup>th</sup> March 2016) where you will state all the data from the regular VAT control statement that was submitted on 20<sup>th</sup> March 2016 and the neglected invoices.

**Example 2:** On 15<sup>th</sup> June 2016, a company found out that in January 2016 it applied the wrong tax rate for several performances. Is it necessary to submit a supplementary tax return and supplementary VAT control statement for January 2016? And if it is, what is the deadline?

If you find out that you have applied the wrong tax rate, it is necessary to correct the originally incorrectly issued tax documents. In relation to these corrections, it is also necessary to submit a supplementary VAT control statement for January 2016 by 22<sup>nd</sup> June 2016 (within 5 working days of the ascertainment of the mistakes), in which you will state all the data from the January VAT control statement and include the corrections. Additionally, you are obliged to submit a supplementary VAT return for January 2016 by the end of the following month (i.e. it is necessary to submit a supplementary tax return for January 2016 by 31<sup>st</sup> July 2016).

**NOTE** Late reporting of executed performances will be much more evident, however, it should still apply that it is not necessary to submit supplementary VAT returns, e.g. when the tax is reported in a later taxation period. According to unofficial information, this fact will automatically result in the tax authority's issue of a demand note for the payment of interest on overdue payment. Up to now, the tax authority usually did this only on the basis of a tax inspection or local audit.



## Sanctions for failure to submit a VAT control statement

Should a payer fail to submit a VAT control statement by the given deadline, he shall be obliged by law to pay a fine of:

- CZK 1,000 if he submits the VAT control statement later (after the given deadline) without any request by the tax administrator,
- CZK 10,000 if he submits it by the given deadline after having been requested to do so by the tax administrator,
- CZK 30,000 if he does not submit a supplementary VAT control statement as requested by the tax administrator, or
- CZK 50,000 if he does not submit a regular VAT control statement or does not submit it even by the additional deadline set by the tax administrator.

According to the law, tax authorities will be obliged to impose a fine of up to CZK 50,000 to those who, upon a tax administrator's request to eliminate doubts, will not revise incorrect or complete incomplete information in the form of a supplementary VAT control statement.

If in addition, by his failure to submit a VAT control statement, a payer seriously obstructs tax administration, the tax authority will have to impose a fine of up to CZK 500,000.

**NOTE** If a payer is required by the tax authority to submit a VAT control statement because he had not submitted it by the given deadline, he will be obliged to submit it within 5 days of the announcement of the requirement. If, however, the payer is convinced that he has no obligation to submit the statement for the given period, he will send a so called zero VAT control statement and complete only data in the heading of the VAT control statement and identification of the payer, using the drop-down menu option "Quick response to request".

## What steps need to be taken in relation to the implementation of the new obligation

1. Identification of the transactions that will have to be specified in the VAT control statement.
2. Identification of the data that will have to be generated by the accounting system for the VAT control statements for the given transactions.
3. Identification of the necessary adjustments of the accounting system and charging an IT expert / contractor with the adjustment of the system so that the system is able to generate the input data for the VAT control statements.
4. Appointment of the person who will be responsible for the preparation and checking of the VAT control statement. His/her training if applicable.
5. Identification of risks related to VAT control statements and their elimination or minimisation.
6. Verification of the functionality of the system and accuracy of the exported data.



**PROXY, a.s. / PROXY – AUDIT, s.r.o.**

**PRAHA**

Plzeňská 3217/16, CZ-150 00 Praha 5

tel.: 00420/296 332 411  
fax: 00420/296 332 490  
e-mail: office@proxy.cz



**PROXY, a.s. / PROXY – AUDIT, s.r.o.**

**ČESKÉ BUDĚJOVICE**

nám. Přemysla Otakara II. / 36, CZ-370 01  
České Budějovice

tel.: 00420/386 100 011  
fax: 00420/386 100 022  
e-mail: office@proxycb.cz

[www.proxy.cz](http://www.proxy.cz) [www.hlbi.com](http://www.hlbi.com)

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