



# TAX FRESH

ISSUE NO.: 1 / JANUARY 2016

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**TAX LAW AND OTHER  
LEGISLATIVE CHANGES IN  
2016**



Dear Business Friends,

In this year's first issue of our newsletter we would like to wish you every success in 2016 and thank you for your cooperation. We will be more than happy if we can help you with your taxes, accounting and audits also this year! At the same time, we would like to inform you of the most important legislative changes that will occur in tax legislation and accountancy in 2016.

We believe that you will manage to prepare for the upcoming changes in time and we will be happy to assist you anytime.

Yours faithfully,

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## PERSONAL INCOME TAX

The **tax rate** applicable to personal income remains unchanged for 2016, i.e. equalling 15 %, and it is calculated on the basis of super-gross wage. In addition, for income exceeding the limit of CZK 108,024.00 (CZK 106,444.00 in 2015), a 7% solidarity tax increase will be applied.

If the **income limit for solidarity increase** is exceeded during the entire year of 2016, i.e. the annual income exceeds CZK 1,296,288.00 (CZK 1,277,328.00 in 2015), the taxpayer will be obliged to file a personal income tax return. For taxpayers with lower income, their employer will be allowed to do the tax clearance.

In 2016, there should be an increase in **child tax credits** as follows:

- For the first child the tax credit remains at CZK 13,404.00 (i.e. CZK 1,117.00 per month);
- For the second child it is increased by CZK 1,200 to CZK 17,004.00 (i.e. CZK 1,417.00 per month);
- For the third and following child(ren) it is increased by CZK 3,600.00 to CZK 20,604.00 (i.e. CZK 1,717.00 per month).

The amendment to the Income Tax Act that increases these tax credits has so far not been approved. Nevertheless, its draft implies that taxpayers will be able to apply the higher tax credits for the entire year of 2016 either in their tax returns or the annual tax clearance.

**Tax allowance for the placement of a child in a pre-school facility**, or pre-school fee, equalling the costs of placing a child in a pre-school facility can amount to CZK 9,900.00 for 2016 (CZK 9,200.00 for 2015). For the purpose of this tax allowance, a pre-school facility has been defined.

In connection with the increase of the minimum wage, there will be an increase of the lower limit of income (six times the annual minimum wage) for the entitlement to a **tax bonus** from CZK 55,200.00 to CZK 59,400.00 (i.e. CZK 4,950.00 per month).

Year 2015 is the first tax period for which natural persons must file a **declaration of exempt income** exceeding CZK 5 million by the deadline for the filing of tax returns, i.e. by 31<sup>st</sup> March 2016, or 30<sup>th</sup> June 2016 for taxpayers who have their tax returns prepared by a tax advisor?

With effect as of 1<sup>st</sup> January 2016, the **second pillar of pension savings** has been abolished. These savings will be withdrawn from taxpayers for December 2015 for the last time. The money saved will be paid to the taxpayers or transferred to supplementary pension insurance accounts.

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## SOCIAL AND HEALTH INSURANCE

For 2016, the **maximum assessment base** for social insurance premiums is CZK 1,296,288.00. For amounts above this limit, no social insurance is paid (as opposed to health insurance, which is paid even above this income limit).

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## VALUE ADDED TAX

The main news for 2016 is the obligation to file, together with the VAT return, also a **control statement**. This obligation will occur for the first time for January 2016, or 1<sup>st</sup> quarter of 2016. We gave you more detailed information on control statements in our last year's issue of Tax Fresh no. 3/2015.

As of 1<sup>st</sup> January 2016, the definition of **building land** has changed. The purpose of this change is to tax land intended to be built up and to align the Czech law with European legislation. For sales of building land, the basic VAT rate of 21 % continues to be applied. The General Financial Directorate has published on its websites an amendment to "Information on VAT application to immovable assets", containing more details.

A change in the assessment of immovable asset supplies that are exempt from tax is the **calculation of the period for exemption** (5 years, or 3 years for immovable assets acquired before the end of 2012). As of 1<sup>st</sup> January 2016, supplies of immovable assets will be exempt from tax after 5 years from the first approval or substantial change of the immovable asset.

More information can be found in the amendment to "Information on VAT application to immovable assets", published on the website of the Financial Administration of the Czech Republic.

As of 1<sup>st</sup> January 2016, taxpayers must apply the **local reverse-charge** regime also to immovable assets if they decide to tax supplies of immovable assets to payers for whom the five-year period for exemption has already lapsed (or three-year period for immovable assets acquired before the end of 2012).

**The relevant tax administrator** for persons liable to tax that do not have a registered address or fixed establishment in the Czech Republic will newly be the Tax Office for the Moravian-Silesian Region instead of the Tax Office for the Capital City of Prague.

This change will be made on the basis of the amendment to the VAT Act that is being discussed in connection with the new Customs Act. It is expected that it will take effect sometime during 2016.

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## ACCOUNTING

According to accounting regulations, there will be **micro, small, medium-size and large accounting units** as of 2016. For micro and small accounting units, the following simplifications will apply:

- they will be allowed to prepare abbreviated financial statements provided that they are not obliged to have audits performed,
- they will not have to publish their profit and loss statements if they do not have mandatory audits and if a special regulation does not impose this obligation to them,
- they will not have to prepare overviews of their financial flows and overviews of changes in their equity capital.

In addition, there is a change in two out of the three parameters (assets, turnover and number of employees) for the obligatory **verification of financial statements by an auditor**. The previous Accounting Act defined total assets as gross assets whereas it will newly be net assets. The turnover value will newly be reduced by the item "Activation and changes in inventory of own products", which will not be included in it any more (it will be reported in the new account group of costs "58 – Change in inventory of own products and activation").

Due to these changes, there will be a shift in the limits for mandatory audits. Accounting units should therefore assess the decisive parameters according to the new definitions of the relevant terms, to make sure if they still have the obligation to have their financial statements verified by an auditor. **The above-described may also have an impact on the deadline for the filing of tax returns.**

Another major change is the obligation to take into account, as at the date of balance of the current accounting period, **events that occurred before the end of the day of balance** even if information on such events became known to the accounting unit only between the date of balance and the moment of the preparation of the financial statements.

This change may thus have an impact on previous procedures for example relating to the accruals and deferrals of bonuses, discounts etc.

A "small group" of enterprises that do not exceed two of the three criteria - assets worth CZK 100 million, turnover of CZK 200 million and 50 employees – will newly be exempt from the **obligation to consolidate**. The condition is that this group will not include a public interest entity (e.g. a company listed on the stock exchange).

As of the beginning of 2016, also the way of **posting received gifts** is changing – they will not be posted on capital account 413 – Other capital funds – any more but as other operating revenues reported in item III.3. Other operating revenues.

A major impact on accounting units may also be caused by the **change in the way of valuation of inventories of own production**. For inventories created by own activities, costs will continue to be valued in their real amount, however, the valuation will newly include, besides direct costs (directly matchable with individual types of products), also a proportionate part of both variable and fixed indirect costs (overheads). Accounting units will thus have to reset their current calculations and consider what part of overheads should be reflected in inventories valuation.

## CORPORATE INCOME TAX

In connection with the categorization of accounting units introduced by the Accounting Act, also the Income Tax Act was amended in order to maintain the tax regime for the **sale of securities by micro accounting units** – legal entities. When selling securities, these taxpayers will continue to include in their income tax base the acquisition price of the security (with the exception defined in Section 24 (2) (w) and the Income Tax Act), although they will not revalue securities to their real value any more.

With effect as of 1<sup>st</sup> January 2016, tax and accounting law do not define **start-up costs** as intangible assets any more. Depreciation of start-up costs recorded before the end of 2015 will be completed according to the current rules.

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## RESERVE FOR THE DISPOSAL OF ELECTRO-WASTE FROM SOLAR PANELS

A separate reserve for tax purposes – **reserve for the disposal of electro-waste from solar panels** introduced to the market before 1<sup>st</sup> January 2013 – has been added to the Act on Reserves. This should eliminate discussions on how to make a correct tax assessment of disposal surcharges.

A transitional provision allows applying the reserve in question also for the tax period that commenced in 2015. When creating the reserve, also the amount for the months of the tax period that commenced in 2014, in which the conditions for its creation were met, can be taken into account.

Operators of solar power plants can create this reserve for the first time for the 2015 tax period, regardless of the accounting for surcharges for panel disposal. It is the first tax deductible reserve that is created independently of the taxpayer's accounting.

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## TAX ON THE ACQUISITION OF IMMOVABLE ASSETS

With effect as of 1<sup>st</sup> April 2016, the person of the taxpayer should be consolidated with the person of the acquirer of an immovable asset for taxes on the acquisition of immovable assets. As a result, **the payer of the acquisition tax** should always be the acquirer of the immovable asset (buyer). At the same time, the institute of tax guarantor that has existed for situations when the taxpayer was the seller, has been abolished.

In the case of acquisition of **underground utilities**, only the acquisition of buildings, or their parts, that are part of underground utilities, will newly be liable to tax. This will eliminate problems that occurred in connection with transfers of underground utilities due to the difficult defining of immovable assets in such cases.

It has been proposed to simplify the definition of agreed price for **exchanges of immovable assets** so that the value of the immovable asset is not taken into account any more.

Exemption from tax on the acquisition of immovable assets will apply only to the **first acquisition of newly completed or used buildings and units against payment** (buildings and units completed according to building regulations or used prior to their completion) whichever may occur first. The exemption may not be applied to buildings and units still under construction.



## TAX CODE

As of 2016, the scope of services and their operation will be changed for 23 local offices of tax offices. **Files with records on taxpayers' tax matters will not be located there any more.**

This is why a new guideline of the General Financial Directorate GFD-D-23 (with effect as of 21<sup>st</sup> May 2016) will be issued on the location of files or their relevant parts at tax offices and local offices of tax offices, which will supersede the existing guideline GFD-D-12.

The principal rule is that all files remain at "their" local offices except the below listed:

Local office in which the files will be located until 20 <sup>th</sup> May 2016	Local office in which the files will newly be located as of 21 <sup>st</sup> May 2016
Local office in Dobříš	Local office in Příbram
Local office in Votice	Local office in Benešov
Local office in Blatná	Local office in Strakonice
Local office in Vodňany	Local office in Strakonice
Local office in Horažďovice	Local office in Sušice
Local office in Horšovský Týn	Local office in Domažlice
Local office in Nepomuk	Local office in Blovice
Local office in Aš	Local office in Cheb
Local office in Kraslice	Local office in Sokolov
Local office in Bílina	Local office in Teplice
Local office in Podbořany	Local office in Žatec
Local office in Železný Brod	Local office in Jablonec nad Nisou
Local office in Nová Paka	Local office in Jičín
Local office in Přebouč	Local office in Pardubice
Local office in Náměšť nad Oslavou	Local office in Třebíč
Local office in Pacov	Local office in Pelhřimov
Local office in Telč	Local office in Jihlava
Local office in Konice	Local office in Prostějov
Local office in Bohumín	Local office in Karviná
Local office in Český Těšín	Local office in Karviná
Local office in Fulnek	Local office in Nový Jičín
Local office in Orlová	Local office in Karviná
Local office in Bystřice pod Hostýnem	Local office in Holešov

## DOUBLE TAXATION AVOIDANCE AGREEMENTS

Double taxation avoidance agreements with **the Republic of Colombia and Islamic Republic of Pakistan** took effect in 2015. Both of these new agreements will start to be applied as of 2016.

As of the same date, the Protocol between the Czech Republic and **the Kingdom of Belgium** on the previously signed double taxation avoidance agreement will also take effect.

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## INTERNATIONAL EXCHANGE OF INFORMATION ON FINANCIAL ACCOUNTS

**Automatic exchange of information on financial accounts** according to the FATCA agreement concluded between the Czech Republic and the United States took place for the first time in 2015. Exchange of information on the financial accounts of Czech citizens (tax residents) will be extended to several dozens of other countries in 2016. The Czech Financial Administration will, every year, have access to detailed information on the balances on accounts of Czech tax residents abroad without having to go through the process of information acquisition on the basis of individual requests.

It can be expected that there will be an increase in the number of requests of tax offices for the filing of tax returns for taxpayers who have bank accounts abroad.

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## PROVING OF THE ORIGIN OF PROPERTY – DRAFT BILL

In 2016, the **act on the proving of the origin of property** should be adopted. Its aim is to enable the tax administrator to request from taxpayers to prove the origin of their income if there is a major difference (at least CZK 7 million) between the increase of the taxpayer's property, his/her consumption or other expenses and income reported in their tax returns. Taxpayers are obliged to prove that the property was financed from income that had been taxed duly or is exempt from tax.

At the same time, the tax administrator will impose a fine amounting to 50 % or 100 % of the prescribed tax. In defined cases, the tax administrator may also request the presentation of a property declaration if, according to a preliminary conclusion, the value of the property of a taxpayer exceeds CZK 10 million (except for property that is recorded in registers and records). This act should take effect sometime in 2016.

If a taxpayer does not present sufficient evidence, their tax base, or tax, will be set for them with the help of so called aids.





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