

JANUARY 2016 NO.1

**VAT CONTROL
STATEMENTS LAUNCHED
ON 1 JANUARY**

**CHANGES IN APPLYING
VAT TO REAL PROPERTY**

**VAT RETURNS NOW
ONLINE ONLY**

TAX DISCOUNTS

CHILD TAX BENEFIT

**NEW ACCOUNTING
ENTITY CATEGORIES**

**SINGLE-ENTRY
ACCOUNTING RE-
INTRODUCED**

**HANDLING ELECTRONIC
RULES**

Summary of Major Changes to the 2016 Tax Regulations

VAT control statements launched on 1 January

In the new year, VAT payers are required to file control statements, which are a new type of tax statement that must be filed in addition to VAT returns and summary statements. Control statements are designed to provide tax authorities with information on issued and received tax documents and, by allowing for a quick comparison, with information on potential tax evasion.

Penalties for failing to file a control statement are fairly severe. If a payer fails to file the statement but remedies its fault before the tax authority delivers a notice to that effect, the fine amounts to CZK 1,000. If the payer does so after having been notified, the fine amounts to CZK 10,000. If the payer fails to file the statement despite receiving a notice, it is subject to a CZK 50,000 fine. The tax authority may even impose other penalties.

The first period for which payers are required to file a control statement is January or the first quarter of 2016. While legal entities will file control statements on a monthly basis (by the 25th day of the following month), individuals who are required to file quarterly VAT returns will file the statements by the same deadlines as for the VAT returns. Control statements must be, as with any other VAT statement, filed online (electronically) only.

Changes in applying VAT to real property

The transferred tax duty has been expanded to include sales of real property for which the taxpayer voluntarily claims VAT. If real property is sold, the purchaser will be obliged to return tax as of 1 January 2016 if it is a taxpayer.

Another major real property related change concerns the term "construction land tract", which has been better defined. Until recently, land tracts without utility networks, such as water mains or sewerage, were tax exempt as long as the networks terminated in front of the land tract. Now, VAT is to be paid on such land since even a land tract which is not considered a construction land tract by its owner can be

considered one if construction work (such as utility network construction) is underway in the vicinity.

VAT returns now online only

Any VAT return filed after 1 January 2016 (including December 2015 or 4th quarter 2015) must be filed online (electronically). In addition, the exemption for individuals whose turnover for 12 consecutive months did not exceed CZK 6,000,000 has expired. This change will affect around 100,000 tax entities.

Tax discounts

As a result of increasing the minimum wage to CZK 9,900, the maximum available tax discount for placing a child in a pre-school establishment (the so-called "kindergarten allowance") has been increased. Moreover, the definition of a pre-school establishment has been more clearly defined, which now means that any kindergarten, child group care facility (in Czech: *zařízení služby péče o dítě v dětské skupině*) or private establishment of a similar type is deemed to be a pre-school establishment.

No definition of a pre-school establishment existed before the end of 2015, which is why the discount can be applied if the child was placed in an establishment providing care for pre-school children.

The limit for the old age pension exemption increased to CZK 356,400, i.e. CZK 29,700 per month.

Child Tax Benefit

The Tax Authorities have proposed to increase the tax benefit attributable to a second, third and each additional child. For the second child, the tax benefit is to be increased from CZK 15,804 to CZK 17,004 per year and for the third and each additional child from CZK 17,004 to CZK 20,604 per year. The discount is not to change for families with just one child.

The debate over the bill is pending in the Lower House. If the bill passes (in the proposed form), the discount is to be granted to employees retroactively in the 2016 settlement even for the months in 2016 in which the tax benefit increase did not yet apply. Individuals other than employees will apply for the discount in their tax returns.



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New Accounting Entity Categories

As of 1 January 2016, an amendment to the Accounting Act re-categorizes accounting entities as follows: micro, small, medium and large. The criteria include net asset value, net turnover and average number of employees on the balance sheet date. All business companies save for micro and small accounting entities are required to include cash flow and equity change summaries in their financial statements.

Large companies and public-interest entities in selected industries are now required to disclose reports on payments made to governments. Medium and large accounting entities are required to include non-financial information in their financial statements.

Whether a party is obliged to have its financial statements audited or not is assessed individually under the existing rules, with the net asset value being the only criterion which is taken into account. Accounting entities which are not subject to an audit may draft an abbreviated version of their accounts.

Single-Entry Accounting Re-Introduced

The possibility to keep single-entry accounting applies to a limited number of accounting entities, such as associations, churches, and religious organizations, provided they are not VAT payers, their income in the last accounting period does not exceed CZK 3 million, and the value of their assets does not exceed CZK 3 million.

Handling Electronic Waste

The Reserves Act now includes new rules on creating reserves for handling electronic waste from solar panels launched on the market before 1 January 2013.

The transitory provisions allow the reserve to be claimed in 2015 and, at the same time, allow using an account attributable to the months in the tax period commenced in 2014 in which the requirements for creating the reserve are complied with. The reserve is created on a monthly basis as of the first month in the taxation period in which the operator becomes bound by the duty to pay

partial contributions for disposing of equipment.

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If you need more details or would like to know more about specific issues, please contact a KSB tax advisor. We would be pleased to provide you with more information on any of the issues above.

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