TAX NEWS
KSB Tax Services

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Erroneous VAT Summary Statements (*kontrolní hlášení*) – Tax Authorities To Be Forthcoming

The General Financial Directorate has issued an internal instruction to subordinate tax authorities on how to proceed if they find errors in VAT summary statements. The rules advise tax authorities to distinguish two categories of erroneous statements, namely errors in the amount of tax and excessive deductions in a VAT return.

The first category includes taxpayers who are required to pay tax (regardless of the amount) as well as those who have an excessive deduction up to CZK 50,000. The tax authority will first contact these taxpayers informally (via telephone or e-mail) to ask them to explain, to document facts and/or to remedy the error. The steps that will follow will depend on how the taxpayer cooperates. If the matter is sufficiently explained, the tax authority will only draft an official report. If it is not, the tax authority will take standard formal steps.

The tax authority will strictly adhere to the formal process in the case of excessive deductions greater than CZK 250,000 in the VAT return. If the tax authority has any doubts regarding the data in the VAT summary statement, it will initiate a formal inquiry.

If the excessive VAT deduction ranges from CZK 50,000 to 250,000, the General Financial Directorate will leave it up to the local tax authorities on how to proceed based on their time, availability etc.

It is questionable, however, whether this approach is in compliance with applicable law, since neither the Tax Procedure Code nor the VAT Act supports it, and – given the circumstances – it is not clear whether it can be considered to be within the tax authorities' discretionary powers.

The Electronic Sales Register Act

On 13 April 2016, Act No. 112/2016 Coll., the Electronic Sales Register Act, and auxiliary Act No. 113/2016 Coll. were published in the Collection of Acts. The first stage of the electronic sales register, in which businesses are required to register sales from catering and accommodation services, will commence on 1 December 2016 and parties can start to apply for authentication data on 1 September 2016.

The auxiliary act introduces:

- a one-off income tax discount in the amount of CZK 5,000 for taxpayers who will register sales for the first time in the particular period under the Electronic Sales Register Act (provided that their sole proprietorship tax base will reach the particular threshold as per Section 7 of the Income Tax Act)
- a reduced VAT rate, from the current 21% to 15%, for catering services as of 1 December 2016.

Digital QR Code Processing of Hardcopy Invoices

The Czech Chamber of Tax Advisors has launched a "QR Invoices" project aimed at creating a QR code standard which would become a normal part of business invoices and would be compatible with the most common accounting and business software.

Quick Response Code is a bar code successor that is much more complex and can carry much more (and more complex) information, while also being more resistant to reading errors during computer processing.

On the new type of invoice, the QR Code would bear encrypted substantial information from the document, such as the invoice number, due date, date of taxable supply, tax base and tax, and date of issue as well as things like the invoice issuer's logo, web link, etc. The software is designed to ensure data is read properly and submitted for further processing.

If completed, the project would open many opportunities for expediting invoice processing and minimize random errors as compared to manual processing.

The project is currently it its pilot stage, and public comments and objections can be submitted until the end of April.

The End of Banking Secrecy?

Act No. 105/2016 Coll., which took effect retroactively as of 1 January 2016, amends

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the International Tax Cooperation Act and introduces the Global Account Tax Compliance Act (GATCA) standard.

Since GATCA is, in terms of the automated information exchange, very similar to the US FATCA (in other words, it fulfils all requirements that act imposes), the amendment replaces the Account Information Exchange Act with the US for tax administration.

GATCA is aimed at providing tax authorities from countries that are parties to the treaty with information such as account balances from the countries in which taxpayers (be they individuals or corporations) have bank accounts and which could better oversee whether the taxpayers are complying with their tax duties.

The individual tax authorities in GATCA countries will apply a prescribed procedure which will identify accounts that are to be subject to the information exchange and also identify which particular information is to be exchanged on an annual basis. The reporting duty includes the general account information, the account balances, and the gross amount of dividends or interest and revenues from financial assets and other information.

The Czech tax authorities are required to identify "reported accounts", which are considered all newly opened or existing accounts whose balance as of 31 December 2015 or anytime in the future exceeds the amount of USD 250,000 (the threshold for legal entities) or USD 11 million (the threshold for individuals) or an equivalent thereof in another currency.

Switching to the GATCA standard is another major step in combating tax evasion. It is thus now clear that the sun has set on banking secrecy and that the extent to which privacy has been protected by statute thus far is narrowing.

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

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