TAX NEWS
KSB Tax Services

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AMENDMENT TO THE INCOME TAX ACT

The Lower House has passed an amendment to the Income Tax Act (ITA), which brings a number of changes for both individuals and legal entities alike.

The amendment limits the maximum amount of lump sum expenses for all taxpayers whose annual income from independent activities exceeds CZK 2 million. The lump sum expenses percentage has remained unchanged.

As noted in previous editions of Tax News, a borrower's property-related benefit from an interest-free loan, borrowing or gratuitous grant will newly be subject to taxation. Only in certain cases and in the case of certain individuals will such income be tax exempt. Partial tax exemption will also apply to legal entities.

The possibility allowing all pensioners to apply a personal annual tax discount has been returned to the ITA and the tax advantage for the second and every additional child has been increased. The tax return filing obligation for employees whose tax advance was increased by a solidarity tax surcharge but whose annual income is not subject to such surcharge has been cancelled.

The annual settlement deadline for employment income tax advances has been extended from the 15th to the 31st of March and the deadline for paying overpayments from such annual settlement has also been extended.

A new obligation has been introduced for individuals who receive tax exempt income. Where tax exempt income exceeds CZK 5 million, the taxpayer is obliged to file a notice on its tax exempt income. Failure to fulfill this duty will result in a penalty imposed by the tax authority.

Starting 1 January 2015, investment funds will have to fulfill the conditions put in place by the amendment so that they are considered as basic investment funds from the viewpoint of the ITA and are thus subject to 5% income tax rate. If the conditions are not fulfilled, the investment fund tax base will be taxed by 19% and if they are fulfilled for only a part of the taxation period, a 5% tax rate will be applied to part of the tax base only.

The amendment must now be passed by the Upper House and signed by the president.

The act should become effective on 1 January 2015, but pursuant to interim provisions certain changes can be applied to 2014.

AMENDMENT TO THE VAT ACT

Act No. 196/2014, Coll. has amended the VAT Act. On 1 October 2014 changes concerning the term "territory of an EU Member State" became valid.

Other changes, particularly concerning determination of the place of performance and introduction of a special arrangement for a single point administrative office, will become valid starting 1 January 2015.

Another amendment to the VAT Act has been passed by the Lower House and is now waiting approval by the Upper House and signature by the president.

Within the framework of this amendment, MPs approved a new 10% VAT rate for books, medicines, baby food and certain veterinary medicines.

AMENDMENT TO THE ACCOUNTING ACT

The Ministry of Finance submitted for external consultation an amendment to the Accounting Act, which should implement a new EU accounting directive into the Czech legal system. The amendment will become effective on 1 January 2016.

The draft amendment puts in place a new classification system for accounting entities and defines the boundaries for microenterprises, small- and medium-size enterprise and groups. It also narrows the definition of public interest entities to include only listed companies, banks, insurance companies, including health insurance and pension companies.

In addition, the draft amendment obliges large accounting entities in the mining and old-growth forests industry to prepare a report on payments to governments in countries where they operate.

The amendment also specificies in detail the obligation to file accounting documents in the Document Register, again puts in place single-entry bookkepping for non-profit entities and individuals, and cancels the obligation to capitalize incorporation costs.

NEW SOCIAL SECURITY TREATIES WITH INDIA AND RUSSIA

Social security agreements simplify obligations in the field of social insurance for persons migrating between treaty countries and ensure that such persons pay insurance contributions from the same income just in one country. The agreements ensure that seconded employees can remain in their home social security system for the period agreed in the treaty, i.e. two years under the treaty with Russia and five years under the treaty with India.

In accordance with the agreement between the Czech Republic and Russia, only citizens of the two countries may benefit from the advantages stipulated in the agreement; in addition to pension insurance, the agreement also includes sickness and maternity pay, old-age pensions, child allowances, etc.

The agreement with India only governs pension insurance benefits.

Both treaties allow insurance periods completed in the Czech Republic and in India or Russia to be taken into account in respect of old-age pension eligibility.

We note that neither of the agreements concerns health insurance, which will remain governed by local legislation.

The social security agreement between the Czech Republic and India became valid on 1 September 2014 and the agreement between the Czech Republic and Russia will become valid on 1 November 2014.

NEW INTERNATIONAL TREATY

A double tax treaty on the prevention of tax evasions in the field of income tax and tax on assets and a protocol to the treaty between the Czech Republic and Luxembourg was published in the International Treaties Collection under No. 51/2014.

This is a new treaty, which will be implemented on 1 January 2015 and which supersedes the treaty concluded in the early 1990s. The treaty excludes double tax on Czech tax residents' income from sources in Luxembourg. Such residents will no longer be tax exempt in the Czech Republic, but any tax paid in Luxembourg will be credited toward their Czech tax liability. The withholding tax rate on dividends will also be reduced.

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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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