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Reverse Charge Expanded to Apply to Telecom Services

Governmental order No. 296/2016 Coll., which was published on 19 September 2016 in the Czech Collection of Acts, expands transferred tax obligations to include telecommunications services. As of 1 October 2016, telecom services are to be subject to reverse charge. The new obligation applies only to businesses engaged in electronic communications.

The reverse charge is to apply to wholesale services under:

- i) electronic communications network access agreements;
- ii) electronic communications network interconnection agreements; and
- iii) purchases and sales of such services.

New item "21 – Provision of predefined electronic communications services" has been included in VAT status reports under the numerical code for objects of performance (Sections A1 and B1 of the status report). Instructions for how to complete the status report were updated accordingly as of 20 September 2016 and are available on the Financial Administration's website. Moreover, the General Financial Directorate has published guidelines for how to apply the reverse charge rules to electronic communications.

Double Taxation Avoidance Treaty with Iran

On 16 September 2016, the Foreign Affairs Ministry's report (No. 47/2016) on the Czech Republic's entry into a double taxation avoidance treaty with the Islamic Republic of Iran was published in the Collection of International Treaties. The Treaty applies to personal and corporate income taxes and any other tax of an identical or similar nature. A Protocol constitutes an inseparable part of the Treaty. The Treaty was signed on 30 April 2015 and took force on 4 August 2016.

The provisions of the Treaty will apply to withholding tax as of 1 January 2017 and to other income taxes for each tax year as of the first day of 2017.

Senate's Version of Act on Proving the Legitimate Origin of Assets Adopted

The Lower House approved the Senate's version of the draft Act on Proving the Legitimate Origin of Assets on 6 September 2016. The Senate returned the draft to the Lower House with a proposal to reduce the threshold for proving the legitimate origin of assets from CZK 7 million to CZK 5 million. After being signed by the President, the Act was published in the Collection of Acts under No. 321/2016 Coll. The Act will take effect on 1 December 2016.

Amendment to Auditors Act Published in Collection of Acts

On 21 September 2016, an amendment to the Auditors Act was published in the Czech Collection of Acts under No. 299/2016 Coll., which reflects Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audits of public-interest entities.

The changes primarily apply to audits of public-interest entities (listed companies, banks, insurance companies, etc.). The amendment increases the influence of audit committees and expands the scope of audit reports to provide broader information beyond the scope of a standard auditor statement. The amendment has been in effect since 1 October 2016.

Act on Central Registry of Accounts Published in Collection of Acts

On 21 September 2016, the Act on the Central Registry of Accounts, which amends certain acts in connection with the adoption of the Act on the Central Registry of Accounts, such as Act No. 300/2016 Coll., or Act No. 301/2016 Coll., was published in the Collection of Acts. As noted in a previous edition of Tax News, the so-called central register of accounts is to be

established under the Act and is to contain information on account numbers and account holders (whether individuals or legal entities) with banks and savings cooperatives in the Czech Republic. The account registry is designed to help combat crime and to prosecute offenders by expediting the process of obtaining information on the existence of bank accounts. Both Acts took effect on 6 October 2016, with some provisions of Act No. 300/2016 Coll. regarding the commissioning of the registry to take effect as of 1 January 2018.

Commission IFRS Regulation

The European Commission adopted Regulation (EU) 2016/1703, which is to clarify the application of International Financial Reporting Standards – IFRS 10 Consolidated Financial Statements, an amendment to which was published in December 2014. The reason for the adoption is that IFRS 10 refers to IFRS 9, which at present cannot be applied because IFRS 9 has not been adopted by the European Union. The Regulation therefore explicitly states that any reference to IFRS 9 as laid down in the Annex to this Regulation should be read as a reference to IAS 39 Financial Instruments: Recognition and Measurement. The Regulation was published in the EU's Official Bulletin on 22 September 2016 and is binding and directly enforceable in all Member States with retroactive effect as of 1 January 2016.

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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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