



News No. 7/2011

Law amendments as from 1st January 2012

As it is common shortly before the end of the year, amendments of laws have been ratified that will significantly affect the future life of both individuals and legal entities in the Czech Republic. We bring an overview of the most important changes in the last issue of the News in 2011.

1. VAT

Domestic reverse charge

In the Czech Republic, the so-called domestic reverse charge is applied to supplies of gold. With effect from 1st January 2012 the list of supplies subject to domestic reverse charge shall be extended. The following supplies have now been added:

- Construction and assembly work
- Petrol and diesel supplies (in excess of 1,500 l)
- Scrap metal and waste supplies

The supplier shall invoice for the above-mentioned supplies exclusive of VAT which is to be reported subsequently by the customer. Both the supplier and the customer shall post the supply on a special account and shall submit an abstract of this account to the tax administration in electronic format.

VAT rate amendment

The so-called rate amendment of the VAT Act has aimed in particular at an increase of VAT collection and its allocation to the pension sphere. With effect from 1st January 2012 the reduced rate shall rise from 10 per cent to 14 per cent; as from 1st January 2013, both rates should be unified at 17.5 per cent. The Czech government announced, however, shortly after the Parliament of the Czech Republic had approved the rate amendment that possible unification of both rates might take place before the end of 2012. The unified VAT rate itself would be set in accordance with current forecasts of economic development.



Other changes

Technical improvements shall now be considered to be fixed assets and shall, when applying VAT deduction, be shown on line No. 49 of the tax return.

Turnover threshold for VAT registration shall amount to CZK 750,000 for the previous 12 calendar months.

2. Social security and health insurance

In 2012 a different ceiling shall be applicable as the assessment base for social security insurance and for health insurance. While the cap applicable to the assessment base for health insurance shall remain at 72 times the average wage, the maximum assessment base for social security insurance shall revert back to 48 times the average wage as applicable in 2008 and 2009.

Remunerations paid to member of bodies and partners of legal entities shall be subject to health and social security insurance in all components as from 2012. Thereby, treatment of remunerations of members of boards shall be unified with that of income from dependent activity.

3. Labour Code

The amendment of the Labour Code shall increase the maximum amount of work performed on the basis of an agreement for performance of work from the current 150 to 300 hours per year. In case the employee receives remuneration in excess of CZK 10,000 per calendar month on the basis of an agreement for performance of work, such remuneration shall be subject to social security and health insurance as from 2012.

The Government of the Czech Republic has taken into account the need to extend the probation period applicable to selected employees. Accordingly, the maximum probation period applicable to managing employees shall be 6 months.

A fixed-term employment relationship for a period not exceeding, in total, 3 years may now be concluded. A fixed-term employment contract may be extended twice as a maximum. The break between two employment relationships concluded between the same contractual parties should amount to at least 3 years.



4. Meal allowance for business travel outside the Czech Republic

With effect from 1st January 2012 the rules for granting meal allowances for business trips outside the Czech Republic shall change. Full allowance shall be granted to employees who spend more than 18 hours in one calendar day abroad. When spending 12 to 18 hours abroad, the meal allowance shall be reduced by one third; when spending less than 12 hours abroad the meal allowance shall be granted in the amount of one third. If the employee has the right to Czech and foreign meal allowance, only the foreign allowance shall be granted in some cases. Foreign allowances are not granted if the employee spends less than 1 hour abroad.

The employer is now always obliged to reduce the employees' Czech and foreign food allowance for provided meals during business trips, unless the employer decides otherwise before sending the employee on a foreign business trip.

5. Act on Criminal Liability of Legal Entities

Also, attention should be given to the new Act on Criminal Liability of Legal Entities. The bill has been under discussion for some time; however, its approval was in the shadow of the tax reform. It will become effective on 1st January 2012.

The act provides a list of particular facts that may give rise to prosecution. Possible punishments are, among other things, a ban on professional activity for up to 20 years, forfeiture of property or a thing of the legal entity, a monetary fine of up to CZK 2,000,000 or dissolution of the legal entity. The punishments shall be recorded in the Criminal Register which is available to the public.

6. Restrictions on cash payments

By Act No 139/2011 Sb. the Payment System Act and further acts have been amended. The amendment have lowered the limit for cash payments of liabilities from EUR 15,000 to CZK 350,000. This amendment became effective on 27th May 2011.



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