



## **Expected changes in the VAT Act from 1 January 2011**

Another change in the Value Added Tax Act is expected from 1 January 2011. The planned amendment is quite comprehensive and affects many provisions of the Act. With regard to the fact that the act amendment will have to undergo the entire legislation process, we would like to outline in brief the spheres it should apply to.

The amendment could introduce a new customer guarantee for the tax not levied by the supplier. The respective motion of the VAT Act amendment includes more detailed rules for the operation of this instrument. Furthermore the suggested amendment text includes modification of the rules for correcting the tax base and tax, and it newly describes the option to correct the levied tax in some cases, if the receivable is not paid by the debtor.

The rules applying to filing the claim for tax deduction and the method of modifying it in the following year could also be reworked. The motion also significantly expands the scope of performance between two domestic taxpayers, in which case the value added tax will be declared by the customer using the mechanism of self-assessment. This will include, for example, carrying out construction works, supplies of petrol and diesel or trading greenhouse gas emission allowances. Important changes might appear also in the sphere of establishing and operating a "group" for the purpose of value added tax.

We will prepare more detailed information for you concerning the Value Added Tax Act amendment in the subsequent News issues.

### **Planned changes to the tax administration system**

The parliament enacted the Income Tax Act amendment, which inter alia amends the Act on Territorial Tax Authorities. This amendment has not yet been enacted by the Senate and signed by the President.

The amendment to the Act on Territorial Tax Authorities implements two new tax administration authorities – The General Revenue Directorate and the Specialised Tax Authority. The General Revenue Directorate (GFŘ) with its registered office in Prague should be established as of 1 January 2011 by excluding it from the Central Revenue and Tax Directorate, which is a part of the Ministry of Finance of the Czech Republic. The General Revenue Directorate will be a new independent element between the Ministry of Finance and revenue directorates and will take over certain functions performed up to now by the Ministry of Finance. The scope of activities of the GFŘ will include, in particular, preparing new legislation (including publishing the tax printed forms), managing the revenue directorates and reviewing the decisions made by the revenue directorates in the administrative proceedings. However the establishment of the General Revenue Directorate has no impact on the current competencies of the Ministry according to the Act on Administration of Taxes and Fees, or the tax code.

The second authority that should start operating from 1 January 2012 is the Specialised Tax Authority (SFÚ) with its registered office in Prague, subordinated to the Revenue Directorate for the capital of Prague. Selected entities should fall within the Specialised Tax Authority's competence, including banks (inclusive of foreign bank branches), insurance companies, reinsurance companies and legal entities established for the purpose of achieving profit with a net turnover over CZK 2 billion. The General Revenue Directorate should also have



the competence to decide if any other entities fall within the competence of the Specialised Tax Authority, as it is necessary to have certain expert knowledge for inspecting them (for example in the sphere of international taxation or transfer prices), or it can decide on the contrary that a certain legal entity will not be considered as the selected entity.

### **The Accounting Act amendment – accounting according to IFRS**

On 10 May 2010, the Czech Republic government approved an Accounting Act amendment suggested by the Ministry of Finance, which should allow the companies which are a part of the group consolidating according to the International Financial Reporting Standards modified by the European Community law (IFRS), to compile individual Financial Statements according to IFRS instead of the Czech accounting standards. The amendment effectiveness is suggested for 1 January 2011. Despite this, the Czech taxpaying entities will not avoid the application of the national standards, because it will still be necessary to report the economic results pursuant to the Czech accounting standards for the purpose of determining the legal entity income tax.

### **Accounting for an easement**

On 10 May 2010, the National Accounting Council issued a new interpretation of I-16 Accounting for a Separate Easement Acquired for a Consideration. In the case of acquisition of an easement for a consideration, the easement will be evaluated with the acquisition price and posted to the Balance Sheet account of intangible fixed assets. On the side of beneficiary, the intangible assets acquired in such a way will be depreciated for a period set in the contract to establish an easement, or for the period set by internal regulation for intangible assets depreciation, if the contract is entered into for an indefinite period of time. The received consideration is a revenue on the obligor's side.

### **Cancelling the administrative fee exemption when using electronic signature**

Effective from 1 July 2010, the validity of Instruction D-336, by which the administrative fees for acts requested and performed via remote access (by electronic signature) were excused, provided the fee did not exceed CZK 2,000.00, will be terminated. Any proceedings started after 1 July 2010, when the act is requested and performed via remote access affixed with the electronic signature based on qualified certificate of services, will be subject to an administrative fee.

**Warning:** All of the above mentioned is of a general indicative nature only and is not comprehensive. The purpose is only to draw attention to the most important points of the amendments and changes. No damage claims for steps made based on the information shall be accepted. If you use information included in this document, you will only do it at your own risk and responsibility.

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