



Package of Austerity Measures for the Year 2010

On 9 September 2009 the President of the Czech Republic signed the government bill amending some acts in relation to the bill on the state budget of the Czech Republic for the year 2010. The Act, which should become effective on 1 January 2010, is nicknamed "Janota's austerity package" and should be valid in the year 2010 only. The Act will become a supporting document for preparation of the state budget for the year 2010.

Although the Act is presented as an austerity package, most of its provisions should increase revenues of the state budget. Just a small portion of amendments deals with reductions of expenses. Although it is declared that some amended provisions of acts shall be valid in the year 2010 only, their effectiveness shall not be limited by this Act. It means that it will be necessary to adopt new acts in the year 2010 that will replace these provisions.

Below you will find the most significant changes after this Act becomes valid.

Real estate tax

The Act doubles all rates of the real estate tax. It is not necessary to file a new real estate tax return in relation with this change in the rates, but the increase must be reflected in payments in 2010. The real estate tax for the year 2010 shall be due by 31 May 2010.

Income tax

The provision amending Act No. 586/1992 Coll., on Income Taxes, as amended (hereinafter "ZDP"), stipulates that the performance in kind provided to state officials shall no longer be exempted from income tax.

The amendment should change expense lump-sums for trading income and other undertakings of entrepreneurs. The overview of lump-sum expense tariffs is given in the below table:

Type of income	Up to 2008 incl.	2009	2010
Agricultural production	80 %	80 %	80 %
Craft trades	60 %	80 %	80 %
Other trades	50 %	60 %	60 %
Trading income based on special regulations	40 %	60 %	40 %
Rent	30 %	30 %	30 %



Value added tax, excise taxes

On 1 January 2010 there will be an increase in both the basic and the reduced tariffs of the value added tax. The new VAT tariffs will be 10% and 20%.

The Act also increases the excise tax on petrol, medium oils and hard gas oils by CZK 1.00 per 1 litre. Furthermore, the excise tax tariff on spirit, beer and tobacco products shall be increased as well.

Social security and health insurance contributions

The tariffs for transfer of social security contributions, state employment policy contributions and health insurance contributions remain unchanged for the year 2010, i.e. the same as in 2009. However, the maximum assessment base for calculation of these contributions shall equal to 72-fold of the average wage. The estimate calculation is given in the table below:

Type of income	2009	2010*	Difference
Average wage multiple	48	72	1,5-fold increase
Maximum average base (gross wage per year)	CZK 1.130.640,-	CZK 1.706.866,-	CZK 565.320,-
Gross wage (per month)	CZK 94.220,-	CZK 142.239,-	CZK 48.019,-
Maximum amount of contributions paid by the employer (per year)	CZK 384.418,-	CZK 580.334,-	CZK 195.916,-
Physical person income tax upon income of CZK 1,706,866 per year	CZK 288.853,-	CZK 318.240,-	CZK 29.387,-

* Estimate values (exact data will be available upon publication of the average wage in the national economy for the year 2009)

Sickness insurance

Act No. 187/2006 Coll., on Sickness Insurance, as amended, will contain new provisions valid in the year 2010 only. These provisions involve the daily assessment base for calculation of the health insurance and the maternity benefit, decrease of the first reduction limit for calculation of the maternity benefit and the supplementary benefit in pregnancy and maternity as well as reduction of the period of time of support for the nursing benefit.

State social support

The Act will decrease the child benefit as well the family benefit. At the same time, the conditions for entitlement to the child benefit were moderated.



Changes in VAT Act upon 31 December 2009

The Czech Republic is obliged to implement the Council Directives of February 2008 (2008/8/EEC and 2008/9/EEC) dealing with specification of the place of performance for services and the process of tax refund. The text below summarizes some basic information on the planned amendment of Act No. 235/2004 Coll., on Value Added Tax (VAT), as amended.

Place of performance for services

The principle of taxation in the country of consumption should be strengthened within the European Union which would further spread the reverse charge mechanism. When providing services to a person liable to pay taxes (the recipient), the place of performance shall be the place of registered office or the place of business of this person. When providing services to a person not liable to pay taxes, the place of registered office or the place of business of the service provider shall still be decisive. The Act will include other exceptions for certain types of services for which the place of performance should be specified in some other way based on specific criteria.

Summary report

With regard to the changes in specification of the place of performance for services, there will be an obligation to give such performance in a summary report. From now on, the summary report will have an electronic form with a secured electronic signature. Such summary reports shall be filed each month from 1 January 2010.

VAT refund

In order to simplify the process of the VAT refund to persons registered in other member states of the European Union, applications for the VAT refund will be filed through the electronic portal maintained by the tax authority in the member state in which the applicant is registered. The application will be electronically submitted to the relevant member state to process. Dates to process such applications shall be reduced. Late payment interest may be charged in case of delayed tax refund. With regard to further spread of the reverse charge mechanism, it is probable that the number of VAT refund applications will reduce significantly.

As the Parliament of the Czech Republic has not dealt with the Act yet, the detailed information on the final version of the VAT Act will be published in some other editions of News.



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Tax Rules

On 22 July 2009 the Tax Rules were published under No. 280/2009 Coll. In 2011 they should replace Act No. 337/1992 Coll., on Administration of Taxes and Fees (SDP), as amended. The reason to replace SDP with the brand-new Act were its faults and inconsistencies concerning its application. Due to interpretation problems, courts and tax offices often issued contradictory decisions in similar cases. There is also another reason for this: increasing requirements for international cooperation of tax authorities. This Act will be also described in detail in some other editions of News.

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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