

Communication of the Finance Ministry

Information of the FM dated 23 December 2008 on the amendment to the Real Estate Tax .

FM wishes to note the tax exemption of construction of new constructions and apartments in new constructions has been cancelled effective 1 January 2009. Formerly these exemption were provided for a period of 15 years. The earlier recognized claim to tax exemption shall be permitted until the end of 2009. From 1 January 2009, claims for tax exemption of new constructions shall no longer be recognized, which will affect constructions or apartments completed in 2008. Similarly, tax exemption is cancelled for insulation of constructions.

FM determines flat rates for conversion of foreign currencies for 2008.

The uniform rates were published in Instruction No. D-321 on the FM website on 14 January 2009 and are intended for payers who do not keep accounting books. From the list of uniform rates, we mention several conversion rates, such as 25.05 CZK per euro, CZK 17.11 per US dollar and CZK 80.54 per 100 Slovak Crowns. The list contains a total of 35 foreign currencies. The Tax payers shall use a conversion through a third currency, to be agreed upon between them for conversion of foreign currencies that are not listed by the CNB.

FM issues Instruction No. D-320 on Average Prices of Fuel.

Pursuant to instruction dated 14 January 2009, in case of the tax payers' own road vehicles not included in business assets and in case of road vehicles borrowed for free, the following average prices of fuel in Czech crowns per litre may be used for determining expenses for consumed fuel:
 Special gas (BA-91): CZK 29;
 Natural gas (BA-95): CZK 30.34;
 Super plus gas (BA – 98.99, 100): CZK 32.65;
 Normal gas (BA-91): CZK 29.85; and
 Engine oil: CZK 31.68.

Where the tax payers use higher prices, they must present documents proving fuel purchase. FM states in the instruction that tax payers may also use average prices per

litre set forth in the Ministry of Labour and Social Affairs' Decree No. 357/2007, Coll. for the year 2008 pursuant to authorization by the Labour Code. The average prices set forth by the Decree amount to:

Gas with 91 octanes: CZK 30.60;
 Gas with 95 octanes: CZK 30.90;
 Gas with 98 octanes: CZK 33.10; and
 Engine oil: CZK 31.20

The tax payer decides which average price shall be used. The survey clearly shows gasoline prices set forth by the Ministry of Labour and Social Affairs' Decree to be higher than those set forth by the FM, but the opposite is true in the case of oil.

The FM also notes that no new instructions determining the average prices of fuel shall be issued and in the future tax payers shall proceed pursuant to relevant decrees issued by the Ministry of Labour and Social Affairs.

For 2009, the average prices set forth by the Ministry of Labour and Social Affairs' Decree No. 451/2008, Coll. are as follows:

Gas with 91 octanes: CZK 26.30
 Gas with 95 octanes: CZK 26.80
 Gas with 98 octanes: CZK 29.00
 Engine oil: CZK 28.50

The rates of the basic reimbursement for use of a road motor vehicle not included in the payer's business assets are set forth by Decrees of the Ministry of Labour and Social Affairs. For 2008, this rate amounted to CZK 4.10 per kilometer. From 1 January 2009, this rate was reduced to CZK 3.90.

International relations

Communication of the Ministry of Foreign Affairs on termination of the Agreement between the Czech Republic and the Union of Soviet Socialistic Republics on Social Security and the Protocol to the Agreement in relation to the Russian Federation

Effective 1 January 2009, the Agreement between the Czech Republic and the Union of Soviet Socialistic Republics on Social Security and the Protocol to the Agreement



Prague Main Office

Jungmannova 24, 110 00 Prague, Czech Republic
 tel.: +420 / 224 103 316, facsimile: +420 / 224 103 234
 e-mail: ksbpraha@ksb.cz

Karlovy Vary Office

Na Vyhliďce 53, 360 21 Karlovy Vary, Czech Republic
 tel.: +420 / 353 225 996, facsimile: +420 / 353 227 781
 e-mail: ksbkv@ksb.cz

Brussels Office

36, avenue d'Auderghem, 1040 Brussels, Belgium
 tel.: +32 / 223 032 15, facsimile: +32 / 223 033 47
 e-mail: brussels@ksb.cz

in relation to the Russian Federation ceased to be valid. The Czech Republic withdrew the agreement and the protocol on 4 June 2008.

Novelties in legal regulations from 2009

In Price Bulletin No. 14/2008 dated 14 December 2008, the FM's Ruling No. 01/2009 was published stipulating a list of goods with regulated prices. The regulated items include maximum prices of freight and passenger railway transport, prices of real estate which are fully or partially paid from the state budget, state fund or other state funds, rent from land not used for business purposes and dairy products for students. The Ruling also set out a list of goods (the terminology of price regulations deems services as goods) to which factually regulated prices are applied. The list contains 13 items that include, *inter alia*, rent in residential rooms intended for living, collection, transport, sorting out and removal of communal waste. With respect to the listed goods, the Ruling sets forth what can be considered as financially eligible costs and sets out items that cannot be recognized as financially eligible costs.

Amendment to the Income Tax Act published and distributed on 1 January 2009

The amendment to the Income Tax Act, which we have mentioned many times before, was published for the very first time in the Collection of Acts and distributed on 1 January 2009, i.e. on the date of a statutory holiday. On the grounds of the date of effectiveness of the amendment set forth on the date of announcement thereof, potential disputes concerning the interpretation of certain provisions would be prevented if the act were published by 31 December 2008 inclusive, or commencing 2 January 2009 and later.

Negotiated amendments

Tax Rules

The Tax Rules, which were discussed for a long time and redrafted many times, were

presented to the Parliament of the Czech Republic for negotiation. The Tax Rules should replace the Act on Administration of Taxes and Charges of 1992. Pursuant to the Finance Ministry, which prepared the Tax Rules, they should be simpler and more unambiguous than the existing act. The Tax Rules bring an entirely new terminology. Significant conclusions from the existing judicature of the Supreme Administration Court and the Constitutional Court have been included in a number of its provisions.

At the first sight, it is evident that it is a modern norm. It will be interesting to monitor how this norm will pass through the legislative process. We will inform you of the course of approval of the Tax Rules and will notify you of important changes that will affect the process of collection and payment of taxes. The effectiveness of the Tax Rules is proposed since 1 January 2010.

Amendments to acts concerning tax administration

In connection with the Tax Rules, a separate act is submitted amending other legal regulations relating to tax administration. The Tax Rules should affect about two hundred other legal norms, such as the Code of Civil Procedure, Act on Court Fees and Act on Administrative Fees, Accounting Act, substantive-law tax regulations and others.

Amendment to act on public health insurance

The government submitted to the Chamber of Deputies a proposal a draft amendment to Act No. 48/1997, Coll., on Public Health Insurance (print 691/0). The submitted draft act also contains proposed changes to Act No. 592/1992, Coll., on General Health Insurance Contributions, Act No. 551/1991, Coll., on Všeobecná zdravotní pojišťovna České republiky, and Act No. 280/1992, Coll., on Branch, Industry, Company and Other Health Insurance Companies. The purpose of the proposed amendments is in particular achievement of terminological compliance with the proposed acts in the field of health care services.



Prague Main Office

Jungmannova 24, 110 00 Prague, Czech Republic
tel.: +420 / 224 103 316, facsimile: +420 / 224 103 234
e-mail: ksbpraha@ksb.cz

Karlovy Vary Office

Na Vyhliďce 53, 360 21 Karlovy Vary, Czech Republic
tel.: +420 / 353 225 996, facsimile: +420 / 353 227 781
e-mail: ksbkv@ksb.cz

Brussels Office

36, avenue d'Auderghem, 1040 Brussels, Belgium
tel.: +32 / 223 032 15, facsimile: +32 / 223 033 47
e-mail: brussels@ksb.cz

The amendment incorporates the results of the coalition agreement concerning regulation fees, i.e. exemption of children from six years of age from the fee for visiting a doctor and reduction of the fees limit and fees that are included in such limit for older children.

Further, it is proposed to carry out amendments leading to alleviation of the administrative burden of certain payers of the social security contributions; the alleviation arose in connection with the changes performed in Act No. 48/1997, Coll. by Act No. 261/2007, Coll., on Stabilization of Public Budgets, which included all persons with employment income and emoluments into the category of employees. Under such extension of the range employees, it was not taken into account whether such income is one-time income (e.g. remuneration for a court witness, remuneration for members of an election committee during election to the Parliament or municipal offices of municipalities or regions, one-time remuneration of a director of an association, etc.) or repeated income (such as a regular monthly remuneration for a member of a commercial company's body or a member of a statutory body) or whether the activities from which such income arise or is to arise took several days, months or years and what is the aggregate amount of such income. It is therefore proposed to exclude persons whose income is not regular from the category of employees for the purposes of the cited act or to include them in the category of employees only in the calendar months in which their income amounts to the amount set forth by law.

The last area of proposed changes are parametrical amendments to price regulation and payments for medications established on the experience from the first eight months of the new system that determined prices and payments and the comments of the European Commission on the current legal regulation. In particular, this concerns specification of the procedure for using a foreign reference for determination of the amount of payment for medications from the public health insurance.

Amendment to the Price Act

The draft governmental amendment to the Price Act extends the possible range of price interventions by the cases where this is required by EU laws (such as Commission Regulation (EC) No. 657/2008 dated 10 July 2008, which sets forth implementing rules for Regulation of the Council (EC) No. 1234/2007, concerning a support by the EU to provision of milk and certain milk products at schools). In the field of goods pricing, the provisions of Directive No. 98/6/EC concerning protection of the consumer in pricing of products offered to the consumer were incorporated into the draft; pursuant to the cited provisions, the seller is obliged to designate the product by the final price to which no further amounts can be added. These provisions will also have impacts on taxes, since the final offered price always includes all taxes, customs and other duties. The act also newly defines administrative violations and amounts of penalties that may in certain cases amount to CZK 1,000,000, and in case of the most serious infringements of obligations even CZK 10,000,000. The act shall affect in particular the following entities:

- entrepreneurial entities selling and purchasing goods that do business in industries that might become subject to price regulation;
- travel offices and agencies selling holiday packages and other touristic services; and
- sellers and purchaser who infringe price regulations.

It has been proposed that the act become effective from 1 October 2009.

From the judicature

The Constitutional Court Has Issued a Further Interesting Award.

The break-through resolution of the Constitutional court concerning the deadline for additional tax assessment of which we informed in the past Tax News was preceded by another interesting resolution from the end of November 2008 in which the Constitutional court provided



Prague Main Office

Jungmannova 24, 110 00 Prague, Czech Republic
tel.: +420 / 224 103 316, facsimile: +420 / 224 103 234
e-mail: ksbpraha@ksb.cz

Karlovy Vary Office

Na Vyhliďce 53, 360 21 Karlovy Vary, Czech Republic
tel.: +420 / 353 225 996, facsimile: +420 / 353 227 781
e-mail: ksbkv@ksb.cz

Brussels Office

36, avenue d'Auderghem, 1040 Brussels, Belgium
tel.: +32 / 223 032 15, facsimile: +32 / 223 033 47
e-mail: brussels@ksb.cz

its comments on the contents and objective of tax inspection. In view of the fact that a negative standpoint given by a judge of the relevant panel of judges was attached to the cited resolution, it can be expected that the Constitutional Court will return to this issue. Pursuant to the new judgment, the tax administrator should already upon commencement of the tax inspection identify the grounds for the inspection or to state a suspicion that the tax entity failed to comply with its tax duty or complied therewith to a lesser extent. Pursuant to the Constitutional Court, only such inspection should have an impact on suspension of the period for additional tax assessment.

This summary only provides basic information that in no way can substitute the full wording of the relevant acts. If you need more information or resolve specific problems, please contact any KŠB's tax advisor. We will be pleased to provide you more information on the above.

KŠB Tax Team:

tel. 22410 3316

fax 22410 3234

e-mail: hnavratilova@ksb.cz

pblazkova@ksb.cz

rkucerova@ksb.cz

ajuric@ksb.cz

vpatek@ksb.cz

dbucek@ksb.cz



Prague Main Office

Jungmannova 24, 110 00 Prague, Czech Republic
tel.: +420 / 224 103 316, facsimile: +420 / 224 103 234
e-mail: ksbpraha@ksb.cz

Karlovy Vary Office

Na Vyhliďce 53, 360 21 Karlovy Vary, Czech Republic
tel.: +420 / 353 225 996, facsimile: +420 / 353 227 781
e-mail: ksbkv@ksb.cz

Brussels Office

36, avenue d'Auderghem, 1040 Brussels, Belgium
tel.: +32 / 223 032 15, facsimile: +32 / 223 033 47
e-mail: brussels@ksb.cz