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APPROVED AND EFFECTIVE ACTS

Income Tax Act and Act on Home-Building Savings System

In Release No. 127/2010, Coll., distributed on 8 December 2010, an amendment to the Income Tax Act under No. 346/2010, Coll., and an amendment to Home-Building Savings System Act under No. 347/2010, Coll. were published. The two amendments became effective on 1 January 2011.

Act on Accounting

The amendment to the Act on Accounting, of which we informed you in Tax News No. 5 from September 2010 (Parliamentary Press No. 17/0), was approved by the Senate and signed by president on 16 December 2010. The act became effective as of 1 January 2011.

Act on Renewable Sources

On 15 December 2010, the president signed (with comments) the amendment to Act No. 180/2005, Coll., on Support to Electricity Production from Renewable Sources. The amendment introduced time-limited taxes on solar electricity (hereinafter the "Tax"). The Tax applies to electricity produced in the period from 1 January 2011 to 31 December 2013, if it is produced in a facility put into operation in the period from 1 January 2009 to 31 December 2010.

The Tax rate is 26% of the purchase price of electricity and 28% of what is termed the green bonus. The administration of the Tax is performed pursuant to the Tax Rules. The producer of solar electricity is a Tax payer but the Tax is paid through the operator of a transmission system or operator of a regional distribution system. The Tax constitutes a tax-deductible expense for the producer pursuant to Section 24, subsection 2, letter p) of the Income Tax Act.

Solar electricity produced in an electricity production plant with installed output of up to 30kW, placed at a roof construction or peripheral wall of a building connected with the ground by a solid base and registered in the Cadastral Register, is exempt from the Tax.

COMMUNICATION OF THE MINISTRY OF FINANCE

Forgiveness of withholding tax

(Instruction of the Ministry of Finance No. D-346 dated 8 December 2010) - In compliance with the cited instruction, effective 1 January 2011 the difference between the calculated tax withheld pursuant to Section 36 of Act No. 586/1992, Coll., on Income Tax, as amended (hereinafter the "Income Tax Act") rounded to the nearest hundredths pursuant to Section 146, subsection 3 of Act No. 280/2009, Coll., the Tax Rules (hereinafter the "Tax Rules) and such tax rounded down to nearest whole CZK shall be forgiven. Such forgiveness shall not apply to the cases set out in Section 36, subsection 3 (withholding tax from dividends and state bonds) and Section 38, subsection 2 (withholding tax from interests in foreign currencies) of the Income Tax Act.

According to a justification of the Ministry of Finance, the withholding tax shall be forgiven on the grounds of removal of discrepancies between the tax amount prescribed pursuant to tax records and the amount withheld and paid in the month in question.

Tax administration periods

(Instruction of Ministry of Finance No. D-348 dated 29 December 2010) - In connection with the right of persons involved in tax administration to defend themselves against the inactivity of the tax administrator, the Ministry of Finance set forth periods within which the tax administrator should settle the filings made by such persons. A period of six months was set forth, for example, for a resolution of the appellate body on an appeal, resolution on a permission or rejection of renewal of proceedings or resolution on tax forgiveness or tax appurtenances. A period of three months was set forth, for example, for issue of a resolution on delegation of local competence, resolution on an objection or certain resolutions on an appeal. A period of 30 days was set forth, for example, for issue of a resolution on a change or cancellation of tax registration or resolution on setting forth of tax advances. Such periods shall commence at the moment of delivery of the relevant filing to



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the administrative authority. Such periods may be terminated or extended only on the basis of cases that were expressly set forth. The periods set forth by this instruction shall apply both to new proceedings and to proceedings commenced before 2011 that were not settled by 31 December 2010. This instruction shall supersede Instruction No. D-308.

Format and structure of data messages. (Instruction of Ministry of Finance No. D-349 dated 28 December 2010) - By this instruction, the Ministry of Finance set forth the format and structure of data messages through which an application for tax registration, due and additional tax assertion, shall be filed and simultaneously sent to the tax administration through a data box. The filing must be in the .XML format and structure. The corresponding XSD schemes are defined and published at: http://eds.mfcr.cz/adistc/adis/idpr_pub/epo_struktury.faces For creation of a file in the prescribed .XML format and structure to be sent to the tax administrator's data box, it is possible to use the service Electronic Filings for Tax Administration (EPO) at: <http://eds.mfcr.cz>. Application. From 1 January 2011, this instruction supersedes Instruction No. D-331.

Termination of validity of tax payment slip - According to the press release of the Ministry of Finance, from 1 January 2011 the Ministry of Finance shall no longer pay the post office fee for tax paid in cash through a tax payment slip. Tax payers will receive by post a standardly available payment slip "A" to pay the real estate tax, i.e. they will have to pay the fee at their own costs. Tax payers have the possibility to pay their tax duties as follows: at the cash office of the Financial Office (only up to CZK 500,000), by a bank order or through Internet banking.

New Value Added Tax Return form. This new form became valid from 1 January 2011 and will be submitted for the first time for the taxation period January 2011 or for the first quarter of 2011. These adjustments were made in connection with the Tax Rules and the amendment to the Value Added Tax Act (see the information below). You can find detailed information on the

new form on the website of the Czech Tax Administration:

http://cds.mfcr.cz/cps/rde/xchg/cds/xsl/dane_poplatky_10660.html#.

Information of the Ministry of Finance concerning the calculation of the base of the tax on income of individuals from employment activities and emoluments (hereinafter the "Base of Tax on Income from Employment Activities") - Act No. 347/2010, Coll., which amends certain acts in connection with austerity measures of the Ministry of Labour and Social Affairs, extended the period for provision of compensation for wage (salary) and remuneration from the first 14 to the first 21 days of temporary sick leave. Effective 1 January 2011, sickness benefits will be paid from the 22nd day of the sick leave. This amendment shall be valid for a period of three years. Another new amendment is that employers shall not be allowed to deduct half of the compensation for wages paid to employees for the period of the first 21 days of the sick leave from the social security contributions. An exception may apply to minor employers with the average monthly number of employees of up to 25 people, for whom this deduction shall be preserved, if they use the possibility of additional social insurance. It means that their social security and unemployment contributions shall be increased by 1%, i.e. from 25% to 26%. Other employers do not have such possibility. This exception will not be taken into account for determination of the base of the tax on income of individuals from employment activities and emoluments (super gross wage). Where the employer chooses to pay higher social security contributions to preserve the advantage of the deduction, the employee's gross salary shall only be increased by the lower legal social security contributions in compliance with Section 6, subsection 13 of the Income Tax Act. Thus it cannot occur that employees in similar positions have different tax bases only on the grounds of the fact that the employer used or did not use the exception. From the viewpoint of the employer's tax expenses, such higher social security contributions will constitute a tax-deductible expense pursuant to



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Section 24, subsection 2, letter f) of the Income Tax Act.

The rate of the basic compensation for use of road motor vehicles, meal allowance and average price of fuel - Decree No. 377/2010, Coll., dated 13 December 2010 was published in Release No. 136/2010, Coll., distributed on 17 December 2010. The Decree changed the rate of the basic compensation for use of road motor vehicles and meal allowance and set forth the average price of fuel. The Decree set forth the basic compensation rate of CZK 3.70 per km for passenger road motor vehicles. The limits for both types of meal allowances were reduced by several crowns. The average price is CZK 31.40 for one litre of petrol for cars (91 octanes), CZK 31.60 for one litre of petrol for cars (95 octanes), CZK 33.40 for one litre of petrol for cars (98 octanes) and CZK 30.80 for one litre of diesel oil. The Decree became effective on 1 January 2011.

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DISCUSSED BILLS

Value Added Tax Act

On 17 December 2010, the Chamber of Deputies approved in the third reading an amendment to the Value Added Tax Act in the wording of the proposed amendments (Parliamentary Press No. 129). The amendment concerns the effectiveness of the act postponed from 1 January 2011 to 1 April 2011. The amendment will also be discussed by the Senate.

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