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VAT: Increased Rate

The government approved an increased VAT rate at a meeting held on 25 May 2011. Effective 1 January 2012, the reduced VAT rate is to be increased from 10% to 14% and from 1 January 2013, the basic and reduced VAT rate is to be unified in the amount of 17.5 %.

In connection with the increased VAT rate, a change to the Income Tax Act was proposed. On grounds of alleviating the impact of the increased VAT rate, the amendment proposes to increase the tax advantage for a dependant child by CZK 1,800, from the current CZK 11,604 to CZK 13,404 for a 12-month period. The increased tax advantage may be claimed from 1 January 2012.

The Chamber of Deputies is currently discussing the above-mentioned proposal.

VAT: Technical Amendment

The Ministry of Finance submitted a so-called technical amendment to the VAT Act for external consultation procedures. The amendment is expected to become effective from 1 January 2012.

The cited amendment changes, for example, the conditions under which a person obliged to pay tax becomes a taxpayer as well as related conditions for tax registration. Changes were proposed in respect of the moment of the obligation arising to file tax in case of receiving service from a person who is domiciled or with registered office in a foreign country but renders performance in the Czech Republic. Rules for tax documents for provision of services by persons not settled in the Czech Republic are to be unified as well.

In connection with corrections to a tax base and tax, a change of details for a corrective tax document was proposed. The change is intended to relate to cases where the correction relates to more than one taxable performance. The amendment also resolves the application of exchange rates in cases where the correction relates to more than one taxable performance rendered in a foreign currency.

The amendment allows the tax payer to decide, in case of transfer of real estate, to apply tax even after expiration of a three-year period (a five-year period has been newly proposed) from the issue of the first occupancy permit.

It proposes the payer, in case of a tax document on the basis of which he/she raises a claim for tax deduction, may prove the particulars of the document, such as the tax identification number and data decisive for the calculation of the tax, in another way.

The 10-year period for the change of the tax deduction is supposed to newly apply to the technical improvement of real estate.

The amendment specifies rules for situations where fixed assets subject to the change for claiming tax deductions are sold.

A new change of the special regime for travel service was also proposed.

The taxation period for persons registered for VAT was changed to a monthly basis.

In view of the fact that this technical amendment contains a relatively large number of changes, it may be assumed, pursuant to the reactions of the professional community, that it will be subjected to many further changes in comparison with the proposal.

Single Collection Point

The Ministry of Finance submitted for external consultation procedures a governmental bill on changes to acts in connection with a single collection point.

Most likely from 1 January 2013, the payment of all taxes, customs duties and social security contributions, state employment policy contributions, general health insurance contributions and legal injury insurance is expected to be concentrated in a single collection point.

The cited bill amends a total of 67 legal regulations that *inter alia* consists of the Income Tax Act, VAT Act, Acts on Reserves, Tax Rules, Financial Administration Act, which is currently being discussed by the Chamber of Deputies, Labour Code and others.



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Significant proposed changes include changes to the Income Tax Act. We briefly state some of these changes.

Changes to taxation of individuals

- Cancellation of the concept of the so-called "supergross wage" and, in relation thereto, an increase in the personal income tax rate from the present 15% to 19%.
- Persons with a monthly income exceeding the average wage by four times may not apply the basic tax relief.
- Reduction of the support for own housing by reducing the existing maximum tax deductible amount of interests on funds used for financing of such housing from CZK 300,000 to CZK 80,000. It was simultaneously proposed that the above-mentioned amount should not be reduced pursuant to the months in which the payer paid the interests.
- Cancellation of exemptions in case of a number of employee benefits; such cancellation should be compensated by introduction of a special tax relief for employees in the amount of CZK 3,000 per year.

Changes in taxation of corporate income

- Cancellation of certain tax benefits, such as cancellation of an investment incentive in the form of a tax relief and cancellation of tax exemption of income of a debtor in a reorganization;
- Introduction of a tax relief in the amount of the withheld tax on dividends; the tax relief can be applied in subsequent taxation periods without limitations.
- Zero taxation of collective investment entities and consistent taxation of payments from the collective investment system.

Tax on total wages

- Introduction of a tax on total wages in the amount of 32.5% for payers of employment income; the tax is supposed to include the current pension insurance contributions, health

insurance contributions, public health insurance contributions paid by the employer, injury insurance and contributions for the state employment policy.

Changes are also expected to occur in the social security and health insurance contributions. Such changes are expected to apply to employees as well as to gainfully self-employed individuals. In the field of public health insurance, the same contributions rate in the amount of 6.5% is expected to apply to employees as well as to gainfully self-employed individuals, and in case of employers, the rate is expected to be reduced from the current 9% to 7%. In the field of social security contributions, the rate is expected to be unified for both employees and gainfully self-employed individuals in the amount of 6.5%. The base of the public health insurance and social security contributions of gainfully self-employed individuals is expected to be 100% of the tax base in comparison with the current 50%.

FROM THE EUROPEAN COURT OF JUSTICE

VAT: Action of the European Commission against the Czech Republic

The European Commission filed an action against the Czech Republic at the European Court of Justice for an infringement of the VAT Directive; the directive was infringed by the fact that the Czech Republic allows a person who is not obliged to pay tax to become a member of a group established for purposes of VAT. In the Czech Republic, the possibility of the group registration is often used solely by holding companies, which do not perform any economic activities and therefore are not persons obliged to pay the tax. The European Commission requests the relevant remedy and proposes to impose reimbursement of the costs of the litigation on the Czech Republic.

Tax News includes only basic information that in no event can substitute the full wording of the relevant legal regulations. The information contained in *Tax News*



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