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SPECIAL ISSUE

2012 VAT CHANGES

On a case-by-case basis throughout 2011 we informed you of the changes to take place on 1 January and 1 April 2012 involving VAT.

We provide a summary below.

Increase of the Reduced Tax Rate

The existing reduced 10% tax rate shall be increased to 14%.

Where, for example, advances have already been paid in 2011, the additional payments shall be subject to transitional provisions that will help apply the correct tax VAT rate. In addition, the transitional provisions apply to VAT charged on water, heat and cooling.

Definition of Long-Term Assets

The definition of long-term assets has been expanded to include technical valuations.

As a result, the rules for exercising the right to deduct a technical valuation of long-term assets acquired as of 1 January 2012 will become stricter.

Corrections to the Tax Base and Amount of Tax

The requirements for corrective tax documents have been modified in cases where the corrective tax document is being issued relative to several prior taxable supplies.

The exchange rate applicable on the first business day of the year in which the grounds for the correction came into existence can be applied to corrections of the tax base and the amount of tax, in addition to the exchange rate applicable on the date of the original taxable supply.

Terms and Conditions for Deductions

The tax identification number of the supplier or information decisive for determining tax shall no longer be required

to be included on the tax document for the purposes of claiming a tax deduction (as was the case before 1 April 2011).

Healthcare Services Exemption

The definition of exempted healthcare services has been harmonized with the so-called Recast Directive (on joint VAT system) that will become effective on 1 April 2012.

All the following requirements must be complied with for a healthcare service to be tax exempt: it must be a service acknowledged under the Healthcare Services Act; the service must be provided by a licensed healthcare services provider (either by a legal entity or a private proprietor) in line with the applicable authorization; and the service must be aimed at treatment or prevention.

Naturally, healthcare services such as analyses for the police, courts, and other authorities, as well as many other services provided for purposes other than treatment, shall not be VAT exempt. The more detailed definition of the healthcare services that may be VAT exempt with no right to a tax deduction thus means a change for many healthcare facilities in respect of the manner in which they deal with VAT.

Since healthcare facilities currently consider all taxable supplies they provide to be VAT exempt with no right to a tax deduction, they should as of 1 January 2012 note that some may be required to register for VAT. They should also keep in mind the consequences of failing to do so.

The terms and conditions allowing healthcare product deliveries to be exempt from VAT shall not change.

Tax Securement

The VAT Act provides tax authorities with the possibility to secure the payment of outstanding or yet-to-be calculated VAT in a stricter manner than the security available under the Tax Procedure Code. As of 1 January 2012 the VAT Act shall be followed in securing VAT.

Tax Guarantee

Recipients of supplies and deliveries are newly the parties responsible for guaranteeing VAT which the supplier failed to pay, if they pay for the delivery by wire transfer to a foreign bank account of the supplier.

Special Rules for the Construction Industry

Construction or installation work rendered between two payers in the Czech Republic shall newly be subject to reverse charges – the recipient shall be the party responsible for reporting and paying the tax on the performance.

Both contractors and recipients are subject to a new reporting duty. Details are provided in GFD's Instruction No. GFŘ-D-4.

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