

APRIL 2013 (No. 1)

NEW INTERNATIONAL AGREEMENTS

FINANCIAL ADMINISTRATIVE AUTHORITY

Data Boxes

Regional Offices

Unused Vacation Time

TAX RULES AND CHANGES IN 2013

Registration Proceedings

Penalty for late Tax Statement

TAXATION OF INDIVIDUALS IN 2013

Cooperating Persons

Solidarity Surcharge & Advance Payments



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

Ostrava Office

Českosobotská 7, 702 00 Ostrava, Czech Republic
tel.: +420 / 553 030 511, fax: +420 / 553 030 512
e-mail: ksbostrava@ksb.cz

NEW INTERNATIONAL AGREEMENTS

NOTIFICATION from the Ministry of Health on the conclusion of a Double Tax Treaty between the Czech Republic and Poland. The notification was published in the Collection of International Treaties (Release No. 55/2012) on 31 December 2012.

The treaty is a brand new agreement and will be implemented starting 1 January 2013. The treaty will supersede the treaty concluded with Poland in the mid-nineties and is based on the OECD's international model convention.

NOTIFICATION from the Ministry of Foreign Affairs on the conclusion of a Double Tax Treaty and the related Protocol between the Czech Republic and Denmark. The notification was published in the Collection of International Treaties (regulation No. 14/2013, Coll. of International Treaties) on 28 January 2013.

The Treaty and the Protocol took force and effect on 17 December 2012 and will be implemented starting 1 January 2013. The 1992 treaty is no longer implemented or in force.

FINANCIAL ADMINISTRATIVE AUTHORITY

Establishment of new data boxes for financial authorities and their regional offices and new bank accounts for tax payments

As noted in the last edition of Tax News in 2012, on 1 January 2013 the bodies of the Czech Financial Authority underwent a substantial change and new financial offices were established in regional cities and Prague. The original 199 financial offices were transformed into regional offices of the newly established financial authorities.

In connection with these changes, new fully functional data boxes were established and activated by law on 1 January 2013 for the new financial authorities, their regional offices, the Specialized Financial Authority, and the Appellate Financial Directorate.

The former data boxes ceased being functional on 1 January 2013. The new data box IDs are available on the Financial Administrative Authority's website.

New bank accounts for tax payments were opened on 1 January 2013. All necessary data are available on the Financial Administrative Authority's website.

Should paid taxes be transferred to the original bank accounts, they will be automatically transferred to the new accounts. Such retransferring should take place throughout all of 2013.

Regional Offices

Regional offices are the internal organizational units of the financial authorities and act on their behalf. The authority and territorial scope of the regional offices have not been defined. No person or entity (tax subject) can be assigned to a regional office. Regional offices have their own data boxes and filing rooms.

Filings provided in the filing rooms or data boxes of a regional office will be equivalent to the filings that would have been provided to the data box or filing room of the relevant financial authority.

Unused Vacation Time

Pursuant to the new wording of Section 218 of the Labour Code effective as of 1 January 2012, an employee's right to vacation does not cease to exist if the vacation to which the right commenced in one calendar year is not used by the end of the subsequent calendar year. In certain cases, vacation thus may be drawn after three or four years.

According to the General Financial Directorate, the change does not affect bookkeeping or the Income Tax Act.

According to the General Financial Directorate, the employer should record vacation pay as a cost in the year in which the vacation is used (for the current or a preceding period), i.e. when an employee is

entitled to receive pay for the used vacation.

The claim for vacation pay applicable to a certain year but not used in that year cannot be recorded in costs as a tax-deductible estimated liability. Although a reserve may be used to record an unused claim to compensation for vacation pay, the reserve will be excluded from the tax base.

The only exception when pay for unused vacation time may be recorded as an estimated liability in compliance with accounting regulations is when a claim to compensation for a salary arises in favour of an employee in respect of unused vacation that will be paid in the subsequent accounting period. At present, such a claim may arise in favour of the employee only after his/her employment has terminated.

TAX RULES AND CHANGES IN 2013

Registration Proceedings

Significant changes to Act No. 280/2009, Coll., the Tax Rules, effective as of 1 January 2013, occurred concerning registration proceedings.

The provisions regulating the substantive-law conditions governing only income tax have been significantly reduced. The provisions setting forth when the obligation to file a registration application and the deadline for the filing were transferred to the Income Tax Act, similarly as other taxes (value added tax, concise tax, road tax). Since the tax rules constitute a general procedural regulation, it now contains only rules that are identical for most taxes (such as a resolution on registration or re-registration).

All data and information necessary for registration purposes will be newly specified in the relevant registration form.

The obligation to provide data for registration purposes no longer explicitly applies in respect of information that the tax administrator may obtain automatically from other records or public registers. The

proposed new regulation is thus aimed at reducing the administrative burden on tax entities.

It is newly stipulated in the tax rules that the notification duty concerning changes of registration data must be fulfilled through a particular form, namely the "Notification of Registration Data Changes/Application for Registration Cancellation".

Penalty for Late Tax Statement

A positive change in the amended tax rules is that the penalty for submitting a late tax statement if the particular entity fails to file a regular tax statement or an additional tax statement on time is reduced. In certain events, such as when the penalty amount is lower than CZK 200, no penalty is imposed. The minimum sum of the penalty for failure to file a tax statement was not changed and amounts to at least CZK 500.

TAXATION OF INDIVIDUALS IN 2013

Cooperating Persons

The General Financial Directorate commented on the application of lump-sum expenses by individuals and the discount for a spouse who is a cooperating person.

In our opinion, the absolute maximum lump sum expenses must be applied in respect of the total income generated by individual gainful activities performed in cooperation with one's spouse, i.e. before the allocation of incomes and expenses incurred in connection with the cooperating person.

In connection with the above-mentioned statement, the General Financial Directorate confirmed that where taxpayers (gainfully self-employed individuals) deducting lump-sum expenses would allocate incomes and expenses to the cooperating person, the restriction of the deductibility in relation to dependent children pursuant to Section 35ca of the Income Tax Act would only apply to the main individual, not to cooperating gainfully self-employed individuals.



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

Ostrava Office

Českosobotská 7, 702 00 Ostrava, Czech Republic
tel.: +420 / 553 030 511, fax: +420 / 553 030 512
e-mail: ksbostrava@ksb.cz

Solidarity Surcharge & Advance Payments

The solidarity surcharge included in the Income Tax Act for a temporary period became effective on 1 January 2013.

For taxpayers with employment income, the solidarity surcharge will be applied when calculating their income tax advance payments.

The solidarity surcharge will be calculated for the income tax advance payments from the positive remainder between the income included in the tax base for calculating the advance payment and the amount of CZK 103, 536.

Taxpayers whose tax advance payments were increased by the solidarity surcharge will be **required to file a personal income tax return**.

Tax News includes only general information and cannot substitute for the full wording of the relevant legal regulations. The information contained in *Tax News* should not be construed as legal advice or legal opinion. Kocián Šolc Balaščík explicitly disclaims all liability for any activities or conduct arising as a result of the information contained in *Tax News*.

If you need more details or would like to address specific problems, please contact a KŠB tax advisor. We would be pleased to provide you with more information on any of the issues discussed above.

We are sending you *Tax News* as a business partner of Kocián Šolc Balaščík. If you no longer wish to receive *Tax News*, you can unsubscribe here:

<http://www.ksb.cz/newsletter/unsubscribe/tn>.

KŠB's tax team contact info:

Pavla Blažková pblazkova@ksb.cz

Jan Černohouz jcernohouz@ksb.cz

Marek Kurka mkurka@ksb.cz

Helena Navrátilová hnavratilova@ksb.cz

Tel.: +420 224 103 316



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

Ostrava Office

Československá 7, 702 00 Ostrava, Czech Republic
tel.: +420 / 553 030 511, fax: +420 / 553 030 512
e-mail: ksbostrava@ksb.cz