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VAT

Changes in VAT rates from 1 January 2010 and their application

As we have already informed you, in effect from 1 January 2010, the standard VAT rate increased from 19% to 20% and the reduced VAT rate increased from 9% to 10%. Considering the potential problems with the application of this very important amendment, the Ministry of Finance has published on its web site information that clarifies the transitional provisions relating to the time scope of this amendment.

At the turn of the year, the uncertainties, in respect of the question "Which rate and when should it be used?" may occur. The following simple rule says that the tax payer applies that VAT rate which is valid in the moment when the obligation to declare and pay tax has arisen, thus either on the date of taxable supply or on receipt of payment, whichever is earlier.

A VAT payer, which provides supplies of electricity, gas, water, heat, cooling or telecommunications services, whereas the consumption of these services and their delivery ran through partly in the year 2009 and will continue in the year 2010, is entitled to carry out the check-up of the measured values on 31 December 2009 and thereby divide the billing period into the period until 31 December 2009, when the previous rate of 9% or 19% should be applied, and into the period from 1 January 2010, when it will be necessary to use the rate of 10% or 20%. A similar process applies, if the check-up is carried out this year, i.e. in the period after 1 January of the year 2010.

Information from the Ministry of Finance also resolves the situation regarding received advance business payments, when the liability to declare tax on the received payment has arisen in the year 2009 but the taxable supply will be realized this year. If the tax liability arose in the previous year, the rate of 9% or 19% is applicable. As a consequence of that, these rates also apply to the settlement of the advance payment as of the date of the taxable supply, which occurred after 1 January 2010. On the contrary, payments received in the year 2010 are already subjected to the new increased rates. It should also be noted that if the value of taxable supply realized in the year 2010 is higher than the advance payment received in the previous year, whereas the tax was charged on the date of receipt of the advance payment, the incurred difference shall be taxed at the rate valid for the year 2010, i.e. 10% or 20%.

For the credit notes and debit notes when editing the tax base and the tax amount, the tax rate valid on the date of the original taxable supply is applicable.

Regarding financial leasing contracts, if the closing and also handover of the subject of the contract was made before 31 December 2008, taxable supplies from these contracts are subjected to the rate of 9% or 19%. Moreover, not only the provisions regulating the tax rates, but all relevant provisions of the VAT Act valid until 31 December 2008 are applicable on such contracts.



Tax administration

Road tax

The issue of the road tax saw significant changes in the year 2009 that need to be reflected in the tax return for the year 2009 and also in the advance tax payments for the year 2010.

The subjects of the road tax are still motor vehicles and trailers registered in the Czech Republic, if they are being used for business or other entrepreneurial activities. The road tax is not relevant for special tracked vehicles, agricultural and forestry tractors and their trailers and vehicles, which have been registered under the special mark. If you use a vehicle for a business purpose registered abroad, but not registered in the ČR, this vehicle is not the subject of the road tax in the ČR, but subject to the tax in the country where the vehicle is registered.

For the year 2009 there are the following changes in comparison to the year 2008:

- Trucks of over 3.5 tons are newly subject to the road tax if these are used for cargo transfer and are registered in the Czech Republic, whereas does not matter whether used for business purpose or not. Till 31 December 2008 there were only vehicles with a maximum allowed weight of at least 12 tons. For trucks including tractors and truck trailers with a maximum allowed weight over 3.5 tons and less than 12 tons, unless these vehicles are used for business activity or for an activity from which derives taxable income, or if used for an external person's activities of non-entrepreneurial character, or if used as training vehicles or by individuals, there can be applied a tax deduction up to 100%. For vehicles with a maximum allowed weight over 12 tons, the deduction applied can be up to 48%.
- Fire-fighting vehicles are exempt from the road tax in the event of vehicles of security forces, municipal police and volunteer firefighters. Till 31 December 2008 there were also corporate fire-fighting vehicles exempt from the road tax.

- Completely road tax exempt are vehicles with a maximum allowed weight of less than 12 tons, which use electric or hybrid actuation, combining combustion engine and electric motor, or use liquefied petroleum gas (LPG) or compressed natural gas (CNG) or are equipped with an engine that burns a mixture of gasoline and ethanol known as E85. Not only vehicles that use LPG or CNG exclusively are road tax exempt, but also vehicles that use in addition to organic fuel also a normal fuel (e.g. gasoline).
- For vehicles registered in the Czech Republic or abroad till 31 December 1989 the annual tax rate was increased from 15% to 25%.

In the context of these modifications we remind the taxpayers of their obligation to notify their tax administrators about any termination of the road tax obligation within 15 days. If the taxpayer continues to pay the road tax for other vehicles, although his liability from certain vehicles expired, changes do not need to be reported to the tax administrator.

Audit

Verification of the financial statements by auditor

At the end of the year, companies are obliged to prepare a financial statement, and some of them must have this financial statement verified by an auditor. The audit is not carried out to approve that the accounts are 100% correct, what is after all not possible after only the short external control. But if the audit is carried out properly, there is a high probability of revealing significant errors or important inaccuracies. As regards to tax issues, the auditor focuses on them to that extent whether they are not significantly distorted in the financial statement. However, he does not guarantee the accuracy of the tax returns, i.e. he does not guarantee that no additional taxes or fines will be charged in the future.



Financial statements include a balance sheet, profit and loss account statement and an attachment, which clarifies some of the information provided in the two previously mentioned reports and also provides some additional information that cannot be extracted from these statements. Financial statements can be made in full or simplified extent on the date, when the accounting books are being closed. Financial statements of the company must be audited, if during the period for which financial accounts are verified and during the period immediately foregoing the company has already crossed or reached at least two of following three criteria:

1. Company's assets amount to 40,000,000 CZK or more
2. The annual total net turnover is 80,000,000 CZK or more
3. The average number of employees during the accounting period was more than 50

Stock companies are required to have an audited financial statement when meeting one of the previous criteria. Regardless of these three criteria, the current legislation imposes the obligation of having an audited financial statement also on foundations, foundations funds, political parties and political movements under special legislation.

In companies where audited financial statements are required, the auditor is determined by the company's highest authority. If the company does not have any highest authority or auditor is not designated by such authority, then the supervisory board of the company determines the auditor. The statutory authority is authorized to sign a contract on this obligatory audit only with such designated auditor. It is necessary to choose a company that had been granted with a license by the Chamber of Auditors of the Czech Republic (KAČR) to carry out audits. A good example of such a company is our sister company Baker Tilly Czech Republic Audit s.r.o.

In the case, the company is not obliged to have audited financial statements as required by the law; the company can have their accounts verified by an auditor voluntarily. It is also possible to carry out a partial audit, for example the system audit, tax audit or audit of tangible assets or stocks, or there is also a possibility to carry out stocktaking. The reasons why companies should carry out an audit voluntarily are different. It may be required by creditors, clients or associates who are not actively participating in the management of the company. Also the bank may require such verification as an attachment to an application for a loan, or it can be a necessary condition required by a potential investor. Another reason may also be that the company itself wants to make sure that its accounts are kept in order, are complete, relevant and accurate and give a credible picture of the company. An experienced auditor can help in various areas of accounting and can identify weak points and inefficiencies in the company's internal control system. He can also highlight the risks of fraud or other business risks and advise on company controlling. Findings from these areas should be submitted to the audited company by the auditor in the management letter. This is the unpublished information, which often may have higher value for the company than the actual audit report itself.



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