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Component depreciation

Taxation of benefits and related VAT

1. Component depreciation of fixed assets

From 1 January 2010, it has been possible to apply in financial accounts something known as component depreciation of tangible fixed assets. This method can be applied to, for example, production lines, buildings, residential and nonresidential buildings, for a separate chattel or for a group of chattels, in such a way that they are divided into individual components and they will be depreciated separately based on their individual component life cycles. Although this method leads to more accurate reporting of assets in the accounting, it cannot be applied to tax depreciation, which may give rise to deferred taxation in the accounts

2. Interest rate due to delays

In the case that the taxpayer does not have enough money to pay the tax when it is due, he may request from the respective financial authority either an authorisation to pay the tax in installments or for a postponement of the tax payment. If the financial authority does not accept the request and an appeal is not possible and the tax will not be paid on time, the taxpayer will be charged with late interest at the rate of 15%. The same interest rate, or any other penalties, will be charged by the financial authority for additional tax in the event of a tax inspection.

3. Taxation of benefits and related VAT

One major topic in Czech tax of late has been the taxation of benefits of employees. The reason for this, is the amendment of the VAT Law effective from 1 January 2010, which states that the taxable amount is the usual market price, not the preferential price as it was before. Before now, companies paid the VAT from the preferential price, whereas now the VAT will be charged on usual market price. The incurred difference is a tax non-deductible expense for employers. As a result, companies have to pay more for all services or products provided to the employees at a preferential price (e.g. corporate catering, telephones, accomodation, cheaper company products such as overhead tickets).

There are three options to deal with the situation. The first option will have an impact on employers who must pay higher tax. This, however, represents tax non-deductible expense and ultimately it will result in more expensive benefits for employees. The second option is to keep existing benefits while compensating these additional costs otherways on the employees side. Finally, the employer may decide to cancel all employee benefits and avoid the increase of non-deductible expenses caused by higher VAT.

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