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1. VAT Act Amendment as of 2019

The Ministry of Finance has prepared an amendment to the VAT Act, which should come into effect as of 1 January 2019. However, the amendment has not yet been approved. Therefore, it is likely that the effective date of the amendment will be postponed.

The amendment extends the obligation / right for the clawback of the originally claimed VAT on fixed assets also for significant repairs of a real estate property in the event of its future VAT-exempt sale.

The clawback will apply for all significant repairs over a period of 10 years prior to the VAT-exempt sale of the real estate property. A stand-alone repair exceeding CZK 200,000 without VAT is considered a significant repair for the purposes of the VAT Act.

Under the transitional provision, a tax payer can decide whether this mechanism will apply also for repairs commenced before 1 January 2019 and completed after 1 January 2019.

Should you have any questions regarding the issues above, please do not hesitate to contact Romana Pelcová, e-mail: romana.pelcova@tpa-group.cz.



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2. Current Developments in Tax Deductibility of Interest According to the ATAD

As previously, we would like to draw your attention to the draft of the Income Tax Act amendment which the Ministry of Finance issued in February 2018. This amendment has not yet been approved. The validity of the amendment is still expected as of 1 January 2019; however, this date is prone to change due to the lengthy ratification process.

The major changes still concern mainly the adoption of several areas from the EU Anti-Tax Avoidance Directive (“**ATAD**”). The ATAD focuses on new deduction limitation rules for borrowing costs, exit taxation, controlled foreign company rules and hybrid mismatches.

As we informed you at the beginning of the year, it still applies that the Czech ATAD implementation introduces two thresholds for tax deductibility of net borrowing costs:

- 80,000,000 CZK (approx. EUR 3.1 million), or
- 30 % of EBITDA (earnings before interest, taxes, depreciation and amortization).

Net borrowing costs (i.e. costs exceeding related revenues) which would exceed the higher of the two thresholds will be considered “exceeding borrowing costs” and will be treated as tax non-deductible.

Abuse of Rights

We would also like to draw your attention to the impact of the forthcoming implementation of the ATAD to the Tax Code. The amendment should come into effect as of 1 January 2019; however, it has not been yet approved.

One of the fundamental principles of tax administration, the so-called Prohibition of Abuse of Rights, will be expressly incorporated in the Tax Code. According to the explanatory memorandum, this addition should not imply changes as against the interpretation of the abuse of rights under the current legislation.

New Obligation to Register Beneficial Owners

A new register of beneficial owners has been introduced in the Czech Republic. Companies and trustees are newly obliged to register information concerning their beneficial owners.

Any individual with a decisive influence in an entity is considered a beneficial owner for the purposes of this registration. The individual may have either direct or indirect influence through other entities.

This means that, to qualify as a beneficial owner of a company, such a person has to fulfil alone or together with other persons acting in consensus one of the following criteria:

- hold more than 25 % of the voting rights, or
- own a share in the registered capital of more than 25 %, or

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- be a beneficiary of at least 25 % of profit distribution.

If no such beneficial owner exists or cannot be determined under the above criteria, a member of the statutory body or a representative of a legal entity acting as such a statutory body is considered the beneficial owner.

The deadline for existing companies is 31 December 2018. Until this date, the registration is also free of court fees.

Should you have any questions regarding the issues above, please do not hesitate to contact Petr Karpeles, e-mail: petr.karpeles@tpa-group.cz.



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3. Country-by-Country Reporting

In connection with the implementation of the European Union Directive DAC IV, an obligation to compile a so-called country-by-country report has been introduced.

This obligation applies to companies within multinational groups whose consolidated earnings for the immediately preceding period exceed EUR 750 million. Periods commenced on or after 1 January 2016 are considered the first reporting period.

In each subsequent period, it is necessary to verify whether a group registered for country-by-country report filing still meets the relevant conditions (in particular, the amount of consolidated revenues as above). Further, it is necessary to verify whether a group that has not filed the country-by-country report previously is not newly obliged to do so.

Any changes in the fulfilment or non-fulfilment of conditions for the country-by-country report filing have to be reported to the tax administrator. It is also necessary to report to the tax office any changes in the registered data within 15 days. If there is no change in the previously reported data, there is no need to undertake any further steps.



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Should you have any questions regarding the issues above, please do not hesitate to contact Jan Soška, e-mail: jan.soska@tpa-group.cz.



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4. TPA Czech Republic is a Supplier of HELIOS Orange ERP

At the beginning of October 2018, TPA Czech Republic joined the network of authorized HELIOS Orange suppliers from Asseco Solutions, a.s.

HELIOS Orange is one of the most widespread ERP systems in the Czech Republic. This system offers its users high flexibility and capabilities in all areas of business processes from production, warehouse management, trade agenda to the economic part.

TPA has a team of experienced ERP consultants as well as knowledge of business processes. That is why we have decided to share this experience with our customers and offer them a comprehensive solution to their information system. As a certified partner of HELIOS Orange, TPA Czech Republic is ready to deliver system licenses, implementation and subsequent system support in very high quality and expertise resulting from many years of experience.

More information can be found on <https://www.tpa-group.cz/cs/sluzby/informacni-systemy/>.

Should you have any questions regarding the issues above, please do not hesitate to contact Jan Líbal, e-mail: jan.libal@tpa-group.cz.

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5. 25 Years of TPA Czech Republic



2018 marks 25 years of TPA's existence in the Czech Republic. On the occasion of this anniversary, we organized a festive gathering for our business partners in the SaSaZu restaurant in Prague at the beginning of October. Colleagues from Austria and Baker Tilly Europe Alliance also joined this gala evening.

On this special evening, Rostislav Kuneš, a partner at TPA Prague, together with Leopold Kühmayer, a partner at TPA Austria, handed over a check to Marie Řezníková, the CEO of the endowment fund called Sense and Sensibility, which provides support for foster families and abandoned children.



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This Newsletter is a service of TPA

Kind regards

Your TPA Team

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