



**INFORMATION CONCERNING CHANGES IN THE TAX SECTOR
CONNECTED WITH PASSAGE OF THE ACT
ON PUBLIC BUDGET STABILIZATION
(Act No. 261/2007 Sb.)**

After a relatively long discussion and a moderately non-standard approval procedure the Act on Public Budget Stabilization has passed finally the whole procedure. Despite the polemic on inadequate intervention with the objective of a material change in the budget policy, its importance and in particularly the number of amendments in individual related acts is relatively significant.

a) Amendment of the Income Tax Act (586/1992 Sb.)

aa) amendments in the sector of natural person income tax

- The uniform tax rate of 15% is implemented; from 1 January 2009 - at the level of 12.5%; introduction of the tax above is accompanied by cancellation of the common taxation of the married couples, cancellation of the minimum tax base and cancellation of the possibility to distribute taxation of the named income reached for more taxation periods (mainly the income of agricultural production, copyright and income of the trustees in bankruptcy); at the same time this rate is also applied to the withholding tax for all the incomes, subject to the withholding tax.
- Taxation from the so called super gross wage is a material change, i.e. under the tax base we shall now understand the cleared wage-earning income increased by the sum of the social security insurance, contribution for the state employment policy and the general health insurance, which shall be paid of these incomes by the employer by itself.
- The deviation in the time test in case of stock transfer exemption has been de facto cancelled, i.e. the time test (term of holding) is now extended to 5 years, all other ownership interests in the trading companies and cooperatives alike, the exception (exemption after 6 -month holding) is valid only for the marketable securities with the held volume limit at the level of max. 5% during the last 24 months; but the existing regulations are still valid for the securities obtained till the end of 2007.
- Exemption of the yield of interest from the mortgage bonds has been cancelled; the existing regulations are also valid for the bonds obtained before the effective date of the Act (01.01. 2008).
- Income for work of the liquidators is newly considered the wage-earning income explicitly.
- The limit for exemption of the employer's contributions for pension and life insurance has been unified to the max. sum of CZK 24 thousand per year (two separate limits, 12

thousand CZK each in the past).

- The limit of authors' income for contributions into newspapers, journals, broadcasting is increased - after taxation by a special tax rate of 15% - from the monthly CZK 3,000 to CZK 7,000.
- If the so called flat (lump) expenses are applied by the self-employed persons, the newly determined percentage rate also covers the expenses for social and health insurance.
- The sums of tax reduction have been amended as follows:
 - the basic sum per one taxpayer: instead of CZK 7,200 to CZK 24,840; from the year 2009 - to CZK 16,560;
 - for husband/wife living in the common household: from CZK 4,200 to CZK 24,840; from the year 2009 - to CZK 16,560;
 - in case of the partial disability pension: from CZK 1,500 to CZK 2,520;
 - in case of the full disability pensions: from CZK 3,000 to CZK 5,040;
 - holder of the invalid certificate: from CZK 9,600 to CZK 16,140;
 - in case of systematic preparation for future occupation (student): from CZK 2,400 to CZK 4,020;

At the same time the basic sum per one taxpayer shall also be applied to the old-age pensions exceeding the annual limit of CZK 38,040.

- The tax privilege for the dependent child living in the common household is increased from CZK 6,000 to CZK 10,680; from the year 2009 - to CZK 10,200.

ab) amendments in the sector of legal entity income tax

- the tax rate has been amended, namely step by step: for the year 2008 - to 22%, for the year 2009 - to 20% and for the year 2010 - to 19%.

ac) amendments in common provisions

- Introduced taxation of: unsettled obligations overdue for 36 months from the term of their maturity or limitation, except the obligations following from securities and other investment tools⁷, performance in favour of the equity capital, settlement of losses of the company, credits, loans, guarantees, advance payments, contract penalties, interest on overdue payment and other sanctions from contractual relations, and also of the obligations resulting in expense (cost), but it is considered the expense (cost) for acquisition, maintaining and keeping the taxable income only if paid (e.g. sanction payments).
- Limitation of the entry price of the passenger car for its depreciation (incl. the limit for financial leasing) has been cancelled, but at the same time the term for car depreciation has been extended to 5 years (group 1a cancelled, included into the group 2); the existing regulations are still applicable for the financial lease contracts made till the end of 2007; the same is applicable for the passenger cars entered into the

property till the end of 2007.

- A number of provisions concerning division of the company has been extended and interpreted more precisely.
- The insurance premium paid by the employer for insurance of the risk to pay refund of wage, salary or remuneration or reduced wage for the time period of temporary disablement has been defined newly as the tax expenditure.
- It has been determined explicitly that the costs spent for increase of staff qualification cannot be applied as tax effective.
- The following expenses can be assessed newly as tax effective: arisen due to the provably carried out disposal of the stock of material, goods, work in progress, intermediates and final products; in case of drugs, medicinal products or food products only if the shelf life of these drugs, medicinal products or food products has already expired and the drugs, medicinal products or food products cannot be put into circulation any more according to special legal regulations; the method of evidencing is specified as well (these costs were tax allowable only in case of tangible assets disposal till now).
- The limit of the costs for temporary staff accommodation out of the permanent domicile has been cancelled.
- The term of financial lease has been extended (due to material costs) to the time period of depreciation of this property determined in the Act, except the real estates, where the minimum term is 30 years.
- The so called tax administrator's editing duty has been expended by
 - mandatory assessment of the method of breakdown of the expenses (costs) which cannot be allocated to the taxable income only
 - mandatory assessment of the ratio of the expenses (costs) connected with operation of the real estate used partially for business or another self-employed activity or for lease and partially for private purposes
 - mandatory assessment of whether or not intervention into the property can be considered technical betterment (retrofit) - -
 - mandatory assessment of whether or not we are speaking about the expenses (costs) spent for implementation of R+D projects.At the same time the administration (management) charge for issue of all mandatory assessments has been determined to CZK 10,000.
- The following items are defined as tax unallowable expenses: non-monetary benefits granted by the employer to the employee in the form of contribution for cultural performances and sports events, possibility to use recreational and educational facilities, health centres, preschool facilities, corporate library, facilities for physical education and sports, except the facilities shown § 24 item 2 j), items 1 to 3, or granting of recreation, incl. excursions, which is tax exempted on the employee's side; soft drinks on the workplaces are also tax unallowable costs.
- The provision concerning tax allowance of the defined financial costs (in particular the interest and related costs connected with credits and loans) has been extended

materially - the limit has been introduced, linked with the so called reference value, excluded are the costs connected with the so called subordinate credits and loans and conditionally payable costs, multiple of the so called low capitalization has been increased temporarily by 6 times for all taxpayers except the financial institutions; since 2009 it will be reduced to 4x; this determination does not cover the cases when the total level of such costs fails to exceed one million Czech crowns for the taxation period. The existing regulations will be applicable for the executed contracts till 2010.

- The limit of financial costs connected with the financial lease has been determined similarly - one million CZK for the taxation period; if the limit is exceeded, tax allowance of these costs is limited to 1% of the total rental; this provision is applicable only for the contracts made from 1 January 2008.
- A number of provisions concerning collection of the natural person income tax has been modified, linked with the amended tax calculation.
- The so called old block (maturity till the end of 1994) can be written off in 2007 for the last time.

b) Act on provisions for determination of the income tax base (593/1992 Sb.)

- The basic amendment is as follows: determination of the limit of the receivable (CZK 200,000) for creation of the provision at the basic level within the scope of 20% only provided that the time condition of 6 months (overdue) from the term of maturity is fulfilled; in case of the receivables exceeding CZK 200,000 the condition on initiation of the arbitration, court or administration proceeding has to be fulfilled even for the basic range of the provision.

c) Value added tax act (235/2004 Sb.)

- Increase of the value of the so called reduced rate of 5 % to 9% is the basic amendment.
- The so called group taxation is enabled.
- The editing duty has been implemented for mandatory assessment of correct allocation of the taxable performance from the point of the tax rate.
- § 48 and § 48a have been formulated newly in link with the new conditions for application of the reduced rate in case of the housing construction (the so called social dwelling is limited by the total floor area up to 120 m² in case of the flat/apartment and up to 350 m² in case of the family house; validity of provisions of § 48 is limited by the end of 2011.
- Firewood has been included newly into the reduced rate.

d) Property tax act (338/1992 Sb.)

- The municipalities are entitled to exempt from the tax (by relevant regulation) the arable land, hop-fields, vineyards, orchards and permanent growth; at the same time the municipality is entitled to apply the so called local coefficient for all real estates in the territory of the municipality, i.e. to determine one local coefficient at the level of 2, 3, 4 or 5; both measures are applicable for the first time only from 2009.
- The coefficients of 0.3 and 0.6 for determination of the tax base in small villages have been cancelled both for the land and for the structures; the basic coefficient is now 1.0 for all municipalities up to 1 000 inhabitants.

e) Inheritance, gift and (real estate) conveyance tax act (357/1992 Sb.)

- The inheritance tax has been cancelled between the persons of the group II, i.e. brothers and sisters, nephews and nieces, uncles and aunts, and also child's spouses (daughters-in-law, sons-in-law), husband's/wife's children, husband's/wife's parents, parents' spouses and the persons that lived with the deceased person for at least one year before his/her death.
- At the same time the gift tax has been cancelled between the persons of the group I (first-line relatives) and the group II.

At the same time the act on sales registers has been cancelled; the consumption tax rates have been increased (by ca 10% for cigarettes - 1.80 CZK/1 piece as a minimum, by ca 30% for cigars and tobacco).

The so called environmental taxes, i.e. the gas tax, fossil fuel tax and electricity tax, have been introduced in link with the EU regulations.

Elaborated by:
Konzulta Brno, a.s.
October 2007