

VAT Flash

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Newsletter PwC

Long-awaited news in the VAT area is just around the corner

A bill which amends some of the taxation laws including the VAT Act has been signed by the President on 28 April 2017. The amendment of the VAT Act comes into force on the 15th day following its publication in the Collection of Laws. Since the date of publication was on 16 June 2017, the amendment will come into force on 1 July 2017. Please find below the summary of the most important changes in the VAT area.

Destruction, theft or robbery of assets and goods

The amendment clarifies how and when to pay VAT in case of the destruction, theft or robbery (further as losses) of business assets which is not sufficiently justified (e.g. shortfall of goods). Newly, it will be necessary to adjust the initially claimed input VAT. The adjustment will have to be performed in the taxable period in which the VAT payer finds out about the insufficiently justified losses of assets and goods. The appropriate part of a VAT deduction in the case of the fixed assets will have to be returned if the insufficiently justified losses take place within five years (ten years in the case of immovable property). The VAT payer also has to return the VAT deduction for goods or current assets if the insufficiently justified losses occur within three years from their acquisition. Practical aspects of the adjustment of the initially claimed input VAT from losses will be further detailed in the guidelines issued by the General Financial Directorate.

Another extension of the local reverse charge mechanism

The local reverse charge mechanism will also newly be applied to the hiring of workers for the purposes of construction and assembling services, supply of goods provided as a guarantee within the execution of such a guarantee, supply of goods after the assignment of the exclusive ownership rights and execution of this right by the assignee and in some other additional cases. The official guidance that is actually being prepared by the General Financial Directorate shall further specify details for such cases.

Payment of VAT from received advances

Czech VAT will clearly state that the obligation to pay output VAT from advances received before performance of a taxable supply arises only provided the following parameters of the future supply are known at the time the advance is received: type of goods or services to be provided, VAT rate and the place of supply. There is no obligation to pay output VAT if these parameters are not known. This rule is applicable to both regular advance payments and to the sale of single- or multi-purpose vouchers (so-called SPV or MPV). In a true sense it is not really new, but is instead the inclusion of the settled interpretation of European legislation in the VAT Act. The examples of how to evaluate the above-mentioned parameters will be further detailed in the guidelines issued by the General Financial Directorate.



Introduction of an unreliable person

In addition to list of unreliable VAT payers the already exists, the amendment newly introduces category of so-called unreliable persons. The objective of this measure is to prevent VAT payers that are currently listed as unreliable from cancelling their old VAT registration and receiving a clean one after new registration. (Until now these VAT payers could shed their status as an unreliable VAT payer by just cancelling their existing VAT registration and then obtaining a “clean” VAT registration.) With the amendment, an unreliable VAT payer automatically becomes an unreliable person right after cancellation of an existing VAT registration. Such an unreliable person will again be listed as an unreliable VAT payer provided it again registers for VAT. The unreliable person can also become a taxable person who is not registered for VAT, but who states the output VAT on the invoice but does not pay this VAT to the tax authorities. The principles of an unreliable person will be further described in guidelines issued by the General Financial Directorate.

Taxation of supplies which are provided over a year

Taxable supply with a place of supply in the Czech Republic which provides a supply of service for more than 12 months is newly considered as having been performed on the last day of a calendar year following the calendar year in which the supply started, at the latest. The law refers to this kind of supply as a long-term supply. This adjustment will not be applied if the advance payment has been paid, or the supply includes the supply of heat, cold, electricity, gas, water, etc. At the same time, this amendment abolishes the definition of a repeat supply.

News in financial leasing

Assets purchased using financial leasing (i.e. with obligation to purchase the assets), will be newly considered as fixed assets. The main impact of this change is on the adjustment of the initially claimed input VAT if there has been a change in the use of the assets. Before the amendment the time limit for an adjustment was only three year; however, as the result of the amendment, the period will be extended to five years (ten years in the case of immovable property). A VAT payer is at the same time obliged to correct the VAT base and the VAT amount if the consideration changes or if the transfer of ownership over the property is not performed.

Special rules concerning associations abolished

Amendment of the Czech VAT Act abolishes special rules regarding associations (in Czech “společnost” or formerly known as “sdružení bez právní subjektivit”). Nevertheless, it will be possible to apply the current rules until the end of 2018. Practical aspects of the change in respect of billing and claiming input VAT for members of the associations still contain many uncertainties shall be partially covered by the guidelines issued by the General Financial Directorate.

Extension of joint liability

Joint liability principle is newly extended to include situations when a customer (being a VAT payer) pays for the taxable supply entirely or partially in a virtual currency (e.g. Bitcoin). If the supplier does not pay the relevant amount of output VAT to the tax authorities, the customer is automatically liable for the unpaid VAT. This extension was proposed by the Ministry of Finance because of the riskiness of such kinds of payment and given the fact that the popularity of making payments using virtual currencies is still growing.



Should you have any questions or interest in our services, please do not hesitate to contact Martin Diviš or your own contact person.

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