

IB.Prague Express Service

Changes in VAT from 1 January 2010

09.11.2009

The VAT Act will change significantly in 2010. The changes will reflect the package of cost-saving measures implemented in order to reduce the state budget deficit and also the implementation of changes in the Council Directive 2006/112/EC on the common system of value added tax and the new VAT Council Directives („EU VAT package“) to the Czech VAT Act.

Reduction of state budget deficits

The standard VAT rate will increase from 19% to 20% and the reduced VAT rate from 9% to 10% from 1 January 2010.

Implementation of the „EU VAT package“

The main changes:

1. New rules for the determination of the place of taxable supply of services,
2. Tax base determination at the usual price level,
3. New rules for the refunding of VAT paid in other member countries,
4. Disclosure of services in the EU sales report,
5. Other changes.

1. Place of taxable supply of services

Services to other than entrepreneurs (to ultimate consumers) – for most of these services the place of the taxable supply will remain the same, i.e. the place where the seat or place of business of the supplier is located. There are several exceptions from this rule, listed in „Special provisions“.

Services to entrepreneurs – the place of the taxable supply shall be the **place where the seat or place of business or establishment of the customer** is located (formerly it was the seat or place of business of the supplier). Again there are several exception listed in „Special provisions“.

Special provisions

Services provided to both entrepreneurs and non-entrepreneurs

- Services connected with real estate (including the services of an expert, appraiser, real estate agency, architects, accommodation) – the place of the taxable supply shall be the place where the real estate is located.
- Passenger transportation – place where the respective part of the transportation is effected.
- Cultural, artistic, sports, scientific, educational, entertainment and other similar services – place where the event takes place.
- Catering services – place where the catering service is actually provided
- Short-term lease of vehicles (where the holding or use of the vehicle **does not exceed 30 days** or 90 days in case of ships) – place where the vehicle is **actually handed over for using**.



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Services provided to non-entrepreneurs

- Brokerage – if the service is provided by a person acting on behalf and on account of a non-taxable person, the place of the taxable supply shall be the place where the arranged service is provided.
- Transportation of goods– place where the respective part of the transportation is effected; in case of transportation between EU member countries it shall be the place where the transportation has started.
- Services connected with transportation (loading, unloading, handling), works on movable assets – place where the service is actually provided
- Service provided to a foreign person such as a cession of rights, advertising, advisory and financial services, lease of movable assets other than vehicles – the place where the seat or residence of the foreign person is located.

2. Tax base determination at usual price level

Provisions regarding the use of usual prices in certain transaction effected to the benefit of “related parties” were implemented to the Czech VAT Act. The parties can be related through capital (25% share in capital or voting rights) or otherwise related, they can be close persons, employees or persons doing business in the form of an association.

The usual price has to be used by taxpayers for the following supplies:

- supplies to a person who has no deduction entitlement (employee, close person) and the price is lower than the usual price (the customer would „save“ VAT),
- in case when the taxpayer has to reduce the input tax through a coefficient and the price of the **effected taxable supply provided by him** would be higher than the usual price (the taxpayer would „improve“ his coefficient),

- in case when the taxpayer has to reduce the input tax through a coefficient and the price of the **tax exempt supply provided by him** would be higher than the usual price (the taxpayer would „improve“ his coefficient).

3. New rules for the refunding of VAT paid in other member countries

The new rules for the refunding of input VAT paid by persons registered for VAT in EU member countries will be in force from 1 January 2010 onwards. The main changes are as follows:

- the period for the filing of applications is extended to 30 September (formerly 30 June),
- the application shall be filed through an e-portal in the applicant’s country,
- the member country shall immediately confirm the receipt of the application and decide within 4 months after receiving the application (8 months in case there is a request for additional information),
- the member country shall pay the acknowledged amount of VAT within 10 days from the approval.

4. Disclosure of services in the EU sales report

The Council Directive 2008/117/EC was implemented to the Czech VAT Act. Newly there will be an obligation to disclose the provision of services with a place of supply in another member country in the EU sales report. In that case the EU sales report has to be filed monthly. In case that only services with a place of supply in another member country are provided (no supply of goods), the EU sales report will be filed together with the tax return (i.e. either monthly or quarterly). The EU sales report shall be filed on the blank form issued by the Ministry of Finance and solely in the **data form with an official electronic signature of the person responsible for the transfer or through a data box**, always in the form and structure determined by the Tax Office.

5. Other changes

- Transfer of shares in companies and memberships in cooperatives is newly considered as an exempt supply with no deduction entitlement (so far it has been a non-taxable supply),
- Newly there is a possibility to reduce the tax by a proportional part of the output tax paid upon a premature termination of a financial lease agreement, where there is an obligation to pay VAT from the whole value of the leased asset already before the right to use the leased asset arises to the lessee.
- A Czech taxable person who provides a service to a person registered for VAT in another member country becomes a VAT payer on the date the service is provided.



Mark in you diary!

1 December 2009

Hotel ADRIA, Václavské náměstí 26, Praha 1

our seminar

**„FINANCIAL STATEMENTS 2009,
TAXES 2009/2010
NEWS IN THE PAYROLL PROCESSING“**

The seminar will be held in Czech.

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