

BDO NEWS

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EDITORIAL



Dear Readers,
In February 2022, BDO celebrates its 30th anniversary in the Czech Republic. I joined the company a year after it was founded, as a student. I had heard about auditing at school and for the first time it felt like I was hearing about a profession I would like to pursue one day. And it was a fateful meeting in every way, because I have stayed with BDO and auditing to this day.

So, I started as a student and gradually worked my way up to assistant auditor, then to a manager who was already independently managing assignments, then a certified auditor, partner and for some time managing partner of BDO in the Czech Republic. I now hold the role of Chairman. Just as my position in the company has evolved, so has auditing itself. From today's perspective, what we did in the early years cannot be called an audit. That's how much the business has changed. We were still learning. We started with paper, pencil and a calculator. The computer was just for writing a report in a word processor. Today, we have incomparably more efficient technology and tools at our disposal. The quality of our service is also on a completely different level thanks to this, and we can

also be much more efficient and focus our attention on areas that machines can't help us with.

BDO in the Czech Republic is a fascinating success story of a Czech company. It was founded by Czech partners and is owned and managed solely by Czech partners to this day. We are neither a subsidiary of a foreign entity nor a franchise. We are a purely Czech firm that has become an important part of the fifth-largest global brand in our industry due to the high quality and scope of our services. Our international network provides us with world-class services and facilities as well as global know-how, and our Czech clients receive the same quality of service as elsewhere in the world. At the same time, it guarantees our professional level and quality of service, which is regularly and strictly controlled. Local ownership allows us to be flexible, to make quick decisions and to ensure strong relationships with the company, with our employees, with our clients and to a job well done. These are the keys to our success. The year 2022 will be marked by this 30th anniversary for us. We will continuously revisit it in the form of stories about us and our clients.

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BDO CZECH REPUBLIC

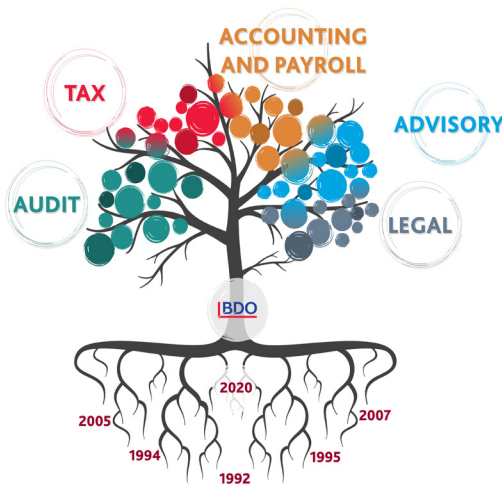
- ▶ Audit, Tax, Accounting & Payroll Advisory, IT and Valuation
- ▶ 450 specialists
- ▶ 58 Certified Tax Advisers, 36 Certified Auditors, 7 Certified Appraisers, 7 Attorneys at Law
- ▶ 6 offices in the Czech Republic

On behalf of myself and all BDO partners and employees, I thank you, our clients, colleagues and friends for being with us. I trust we will have many opportunities to meet you throughout the year, both professionally and socially. I wish BDO all the best for the next decade. And to all of us together, I wish you all the best in your dreams.

Petr Slaviček
Partner



6 February 2022 marked 30 years since BDO was entered into the Commercial Register of the then still Czechoslovak Federal Republic. A lot has changed since then, both in terms of the business environment and the market, the huge advances in technology, but also within the company itself, which has evolved, grown and merged with many other successful companies and professionals during this time. However, it has managed to preserve what is essential: its professional values, its human face and its healthy, open corporate culture.



This year's anniversary is an opportunity for us to reminisce, to reflect on the present and on the vision that gives us direction for the future.

This anniversary is not just about the company as such. It's all about the people, the clients and their stories. And we live those stories. So, throughout the year, we'll share the most interesting ones with you, enriching them with our insights and experiences and providing recommendations or inspiration that could help you on your way to success.

On the occasion of this anniversary, Miroslav Jandečka and Petr Slaviček met with two of the three founders of BDO, Vlastimil Hokr and Jiří Czaban. During the discussion about the company's beginnings and its current form, changes and market development, they clearly agreed that success was, is and will be primarily about people, mutual respect, cooperation and support for personal and professional development.

Modern technology will gradually replace routine work, but it will never function without interpersonal relationships and mutual trust.



NAVIGATE SUSTAINABILITY AND GET A HEAD START

Green Deal for Europe, Fit for 55, taxonomy, CSRD, carbon footprint, ESG... These are just some of the new concepts that are starting to change the business world. Would you like to know how these new approaches will affect your business? We've put together an overview of the most important sustainability issues.

What is ESG?

One of these new concepts is ESG. It is a framework that links the environmental („E“), social („S“) and governance („G“) aspects of organisations. It thus brings a comprehensive approach to responsible business and investment. ESG marks a further shift in the approach to business towards an even greater focus on its ethical impacts. This approach and its associated standards also largely form the basis for new European Union legislation on sustainability.

However, legislation is not the only driver of change. Increasingly, customers themselves are forcing change. For example, for more than half of Czech citizens, corporate social responsibility is important and can influence their purchasing decisions (Ipsos, 2020). Even up to 65% of Czechs are willing to pay extra for a product that is socially responsible.

Companies today are also struggling to attract new talent and retain



existing employees. Here too, ESG can be a significant opportunity. After all, up to 78% of people care about whether their employer behaves in a socially responsible way (Ipsos, 2019). It's even more important for the up-and-coming Generation Z - a staggering 94% of university graduates.

Environment (environment, „E“)

So what exactly is behind each letter of the acronym ESG? The „E“, which refers to the environmental domain, includes standards defining how to report on environmental impacts and risks. It refers to information on climate change mitigation or adaptation, waste management or biodiversity promotion.

Carbon footprint measurement

Reporting on the carbon footprint of an organisation, product or service is also an important part of this area. Carbon footprint refers to the amount of greenhouse gases we produce in connection with our daily activities. This includes, for example, the burning of fossil fuels for electricity, heat or transport. For the purposes of measurement and follow-up, emissions are generally broken down according to the extent to which the company can influence their production.

Framework 1 - Direct emissions

These are activities that fall under the responsibility and control of the company and release emissions directly into the air. They include, for example, emissions from boilers or generators burning fossil fuels on the undertaking, emissions from mobile sources (e.g. cars) owned by the undertaking, or emissions from industrial processes, waste treatment or wastewater treatment in facilities operated by the undertaking.

Framework 2 - Indirect emissions from energy

Emissions associated with the consumption of purchased energy (electricity, heat, steam or cooling) that are not generated directly by the business but are a consequence of its activities. These are indirect emissions from sources that are not directly controlled by the company, but still have a significant impact on their magnitude.

Framework 3 - Other indirect emissions

Emissions that result from the activities of the business and that arise from sources outside the control or ownership of the business but are not classified as Framework 2. This includes, e.g. business trips by plane, landfill disposal, purchase and transport of materials by a third party, etc.

Climate change mitigation

- ▶ Insulation of buildings
- ▶ Energy efficient appliances
- ▶ More advantageous technological processes
- ▶ Use of solar systems
- ▶ Fleet renewal

Examples of actions taken as a result of carbon footprint mapping

Social aspects (social, „S“)

The social area includes standards defining how to report on the impacts on people and the risks arising from them within the company's „ecosystem“. This includes equal opportunities, occupational health and safety, human rights or data protection.

Employees

- ▶ Implementation of a satisfaction survey

- ▶ Management training
- ▶ Work-life balance measures
- ▶ Revision of the remuneration system
- ▶ Review of working practices in terms of occupational safety

Examples of measures to mitigate the risk of employee turnover

Governance (governance, „G“)

The corporate governance area includes standards defining how to report on aspects of sustainability that are directly relevant to the reporting entity itself. This area establishes criteria for reporting on the composition of a company's senior management or on procedures for preventing and detecting unethical or corrupt behaviour.

Compliance:

- ▶ Introduction of an ethics hotline (whistleblowing application and whistleblower protection)
- ▶ Management training on corporate criminal liability

Examples of measures to detect fraud or other unethical behaviour

„Green“ EU legislation at a glance

Green Deal for Europe

One of the main reasons for the changes is, of course, legislation. There have been major changes in the area of sustainability recently, making it difficult to navigate the new rules.

Perhaps the most talked about document is the Green Deal for Europe. It is a set of policy initiatives by the European Commission, the main aim of which is to make Europe climate neutral by 2050. The Green Deal for Europe is intended to set a binding framework leading to a 55% reduction in EU greenhouse gas emissions by 2030 compared to 1990. The second objective of the agreement is to transform the European economy to be sustainable in the long term.

One major initiative is the Fit for 55 package, which introduces new rules on climate, energy and transport. Following the Green Deal, the EU is revising existing legislation to meet these ambitious targets. The package includes, for example, an emissions trading scheme, national reduction targets, emission standards for cars and vans, energy taxation and a border carbon offsetting mechanism.

EU Taxonomy and Sustainable Finance

The EU Taxonomy is a common European classification system for environmentally sustainable activities. It is intended to strengthen transparency on the environmental impacts of companies' activities. It will have an impact on companies' access to finance, whether in terms of obtaining investment, credit or subsidies, for example.

The taxonomy defines six environmental objectives. An economic activity is considered sustainable if it contributes to at least one of these objectives without significantly harming any of the others. These objectives include:

1. Climate change mitigation
2. Adaptation to climate change
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy, including waste prevention and recycling
5. Prevention and control of pollution
6. Protection and restoration of biodiversity and ecosystems

CSRD or new developments in corporate reporting

The European Commission has also drafted the CSRD (Corporate Sustainability Reporting Directive), which changes the rules on corporate sustainability reporting. It significantly expands the scope of the requirements of the existing legislation and sets ESG reporting. Among the innovations are:

- ▶ extending the obligations to a much wider range of companies; the changes will affect companies with more than 250 employees and an annual turnover of more than EUR 50 million, or companies with an annual balance sheet total exceeding EUR 43 million or publicly traded companies;
- ▶ introduces more detailed reporting requirements according to defined EU standards;
- ▶ non-financial reporting will now be subject to mandatory audit.

The Directive is expected to be transposed into Czech law by the end of 2022 and the new obligations will apply from 2023.

What to do step by step

The first step should be to get information on the new rules and the upcoming changes. Following this, we recommend raising awareness of ESG in your company to help further steps towards the required changes. You may find one of our upcoming [seminars](#) helpful.

If you have the necessary information, you can determine which areas of ESG are important to you, whether in terms of risks, stakeholders or new legislation. It may also affect you indirectly – for example, if you are part of the supply chain of a larger (or foreign) company, are considering bringing in a key investor or need a loan. New requirements will also be reflected in the terms of subsidy programmes or government procurement.

Review your current sustainability strategy and company processes from an ESG perspective. Evaluate the risks, gaps and opportunities identified and consider what steps are needed to improve. This analysis can also include mapping your carbon footprint and assessing opportunities to reduce it.

Prepare an action plan of measures to improve company processes from an ESG perspective. Monitor progress and share with stakeholders. We will be happy to introduce you to ways to move towards greater sustainability. Contact us and together we will find the best solution for your company.

Stanislav Klika
stanislav.klika@bdo.cz

TAX IMPLICATIONS OF TRANSFERRING PRODUCTION FROM ABROAD

Our colleagues at BDO in the US have prepared an interesting [study](#), in which they define seven factors that can significantly influence the success of large multinational enterprises, as well as the development of national economies in 2022. These factors include, among others, efforts to reduce dependence on China by moving production closer to the end customer in the domestic economy or so-called „nearshoring“.

At a time when supply and procurement chains have been disrupted by the Covid-19 pandemic globally, it can be assumed that production will shift back to more than just the US.

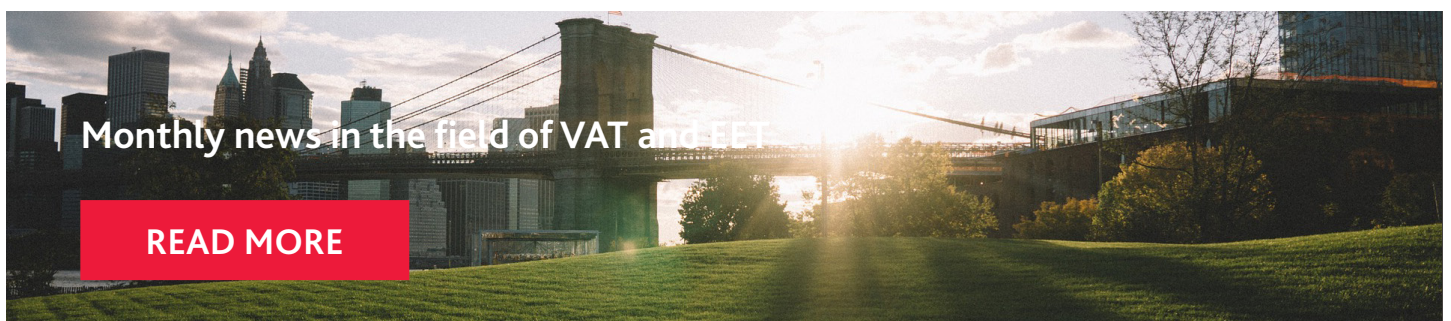
Related to the shifting of production programmes is the issue of transfer pricing, referred to as „function shifting“. This is a situation where there is a transfer not only of production machinery from abroad, but often also of entire production programmes, on terms that have been negotiated by an entity in the group other than the company that will continue the transferred production programme in the domestic tax jurisdiction.

In the Czech Republic, we have already encountered the transfer of functions in the past. However, the reason for the transfer of the production programme was not to reduce dependence on China, as is now the case in the US, but to achieve so-called relocation savings. This was the case, for example, when production programmes were transferred to the Czech subsidiary by the German parent company, which could no longer make the planned profit in Germany due to high production costs.

In such situations, the German tax authorities impose a so-called exit tax on the transferred profit potential. The amount of the tax was calculated based on the cash flow that the production company would have generated if the transfer had not taken place.

In practice, it was possible to encounter a situation where the German parent company transferred the obligation to pay the exit fee to the Czech subsidiary in the form of a royalty. The reason for this was that Czech tax legislation did not have a specific statutory regulation addressing how this fee should be taken into account in the tax base when it was part of the price for the transferred production programme.

For transfer pricing purposes, the company that will continue the production programme must be able to demonstrate that the prices at which it acquired the production facilities were negotiated at arm's length. In the case of royalties, it is necessary to demonstrate what the substance of the royalty is and what benefit it provides. Where the company merely continues its production programme without being able to change the prices agreed by the transferring parent company



Monthly news in the field of VAT and EET

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with the final customer for whom the products are produced, proving the benefit of the royalty paid may be problematic.

To resolve the situation, it is first necessary to correctly define the contractual relationship based on which the production programme is transferred. If this contractual relationship bears the hallmarks of a transfer of part of an enterprise, the Czech company involved in the transaction should follow the applicable Czech accounting and tax legislation.

In the case of a transfer of part of an enterprise, the current Czech accounting legislation gives a choice. The added value of the transferred part of the production plant, consisting of the transferred contracts, the value of which has not been recognised in the assets of the transferring company, may be quantified by the transferee company in the form of a valuation difference. The amount of this valuation difference will be determined as the difference between the price paid by the transferee company for the transferred production programme and the sum of the residual values of the transferred production facilities or other assets, as the case may be, recorded in the accounts of the foreign transferor company.

The second option is to use goodwill. This is the difference between the recipient's individual revaluation of the transferred production facilities and the price paid for the transferred production programme. If one assumes that the prices of the products of the transferred production programme are to remain unchanged because the gain from the relocation is to be achieved by reducing costs, then the use of goodwill may put the recipient of the production programme in a proof gap.

Imagine a manufacturing company that is wholly controlled by a parent company that has decided to transfer part of its business. Over the years that the recipient company will continue its production programme, energy or personnel costs will increase. To demonstrate that these costs, for which the market risk of negotiating the price is borne by the receiving company, were the reason why the location saving was not realised, it will be necessary to compare the costs before and after the relocation of the production programme. In a situation where goodwill is used, the depreciation of the transferred production facilities will be calculated differently than if the relocation of the production programme had not occurred. This will make the analysis of deviations from the planned cost savings less transparent.

The failure of the recipient of the production programme to demonstrate responsibility for the reasons for the losses generated by the transferred production programme may, in the event of a tax audit, lead to the conclusion that the loss-making entity should have been granted price compensation by the controlling company that decided to transfer the production programme, since its decision caused damage to the controlled company continuing production.

Companies to which a production programme is to be transferred from another country are advised to consult early with tax advisors and transfer pricing specialists in both tax jurisdictions concerned. This is the only way to avoid a situation where the amount paid as an exit fee in the country of the transferor of the production programme will be taxed a second time in the country of the recipient due to a failure to recognise the amount and manner in which it will be included in the tax-effective cost.

The implications of aligning corporate tax to 15% for multinational

companies that are considered technical leaders so that these companies are incentivised to return their know-how to domestic jurisdictions in relation to transfer pricing will be addressed in the future.

Lenka Lopatová

lenka.lopatova@bdo.cz

INTERRUPTION OF THE TIME TEST WHEN CHANGING THE AMOUNT OF THE SHARE CAPITAL OF A PUBLIC LIMITED COMPANY

Income from the sale of shares is taxable income. However, income from the transfer of shares for consideration is exempt from income tax if the period between the acquisition and transfer of the shares exceeds at least three years. In this context, the law provides for a number of case-by-case rules regulating under which circumstances this period is interrupted (it starts counting from the beginning) or under which situations its running is maintained. This period is often referred to as the time test.

Public attention has recently been attracted by a series of decisions of administrative courts, which was subsequently concluded in November 2021 by the Third Chamber of the Constitutional Court. The central point of contention between the parties was the assessment of whether the time test is maintained even if, during its course, the share capital of the issuing joint-stock company is nominally increased from its own equity and the shares are disposed of in such a way that they are exchanged (i.e. the original shares are replaced by new shares with a higher nominal value).

At the same time, the higher courts have concluded that the time test is not interrupted only when shares are „exchanged“ by the issuer for other shares of the same total nominal value. This is essentially the case with stock splits, stock combinations, changes in the type or rights attached to the stock, or certain forms of corporate conversions. If a share is exchanged for a share of a higher nominal value, on the other hand, the time test will be interrupted and the shareholder who transfers the shares at that time must include the income so received in the tax base.

In addition, the Court of Cassation concluded, contrary to the Regional Court, that there is no reason to distinguish between the various techniques of implementing a nominal capital increase, i.e. exchange or bypassing, since their economic effect, i.e. their effect from the point of view of tax administration, is identical.

The reasons for the individual decisions also offer a general rule that if there is any change in the amount of the share capital, the time test is suspended without further delay. Against this it must be argued that the judicial review in the present case was limited to the so-called nominal increase in the share capital (from equity) by increasing the nominal value of the shares, which can technically be carried out in the above-mentioned ways, and that it can therefore in no way be generalised to arbitrary changes in the share capital.

Finally, we note that judicial review of public administration is almost invariably bound by the parties' allegations. It is likely, therefore, that there are serious and compelling arguments that the courts in this

litigation simply have not had the opportunity to address, and which, in our view, would likely move the judges' position in the opposite direction.

Jiří Šmatlák, Filip Lukačovič

jiri.smatlak@bdolgal.cz, filip.lukacovic@bdolegal.cz

WHEN IT IS NECESSARY TO FILE AN ADDITIONAL VAT RETURN AND WHEN IT IS SUFFICIENT TO REPORT IN THE REGULAR TAX RETURN

It's annual accounts time. This involves not only the rigorous documentation and examination of balance sheets, but also the effort to resolve open business cases. As a result, various credit notes, bonuses and late approved invoices received need to be reflected in the VAT return. Is it possible to include everything in the regular tax return or do you need to file a supplementary return? Let's take a look at a few situations.

1. Correction of the tax rate always leads to an additional return
The payer received an invoice on 7 February for January at the basic rate of 21% but was convinced that the correct rate was 15%. After a few weeks they convinced the supplier that they were right and the supplier issued a corrective tax invoice for the difference in rates. The issuer is entitled to have the tax authorities refund the difference by which they originally paid more VAT, but only by filing a supplementary tax return for January. The recipient does not have to correct anything because, even though they received the receipt at 21%, they could only claim VAT on it at the correct rate, i.e. the 15% rate.
2. The right to deduct is three years, but beware of the coefficient
If a taxpayer accepts a tax document for which they are only partially entitled to a deduction because they use the services received or the goods purchased both for an activity on which they pay VAT and for an activity that is exempt without a deduction, they are limited to the period in which they can claim the deduction. The period for claiming the deduction remains three years in this case, but in a regular tax return the taxpayer can only claim such VAT in the year in which they could have claimed VAT on the purchase for the first time. Thus, in February, they cannot put in a deduction document with a partial deduction received in December of the previous year and must file a supplementary tax return by December to claim the deduction.
3. Omitted invoice for the purchase of goods from the EU
When reconciling mutual receivables and payables in February, the payer discovers that their December invoice for goods from Germany got stuck in the approval process and did not reach the accounting office. The Czech VAT Act allows the invoice for the purchase of goods from the EU to be shown and therefore taxed in the regular tax return without penalty and with a delay. This is possible even if the invoice relates to a previous calendar year, provided the taxpayer purchaser is fully, not partially, entitled to deduct the invoice.
4. Credit note for change of tax base
The adjustment of the tax base is a separate taxable supply and is therefore always included in the regular tax return for the period in which the event leading to the change in the tax base occurred. This may be, for example, the date of an agreement to reduce the price, the

date of repayment of a payment received or the date of approval of a reorganisation plan.

5. Do not forget to change the advance coefficient
Taxpayers who must reduce their deductions by a factor will calculate a settlement factor on their December or fourth quarter tax return. They then use this as a backup in the following year. When the previous year's settlement factor is changed retroactively, the payer must start using the changed factor in the new year from the month/quarter after the payer's new settlement factor was assessed.

Petr Vondraš
petr.vondras@bdo.cz

ERRORS AND MISTAKES IN TAX RETURNS - INDIVIDUALS

As the deadline for filing personal income tax returns for 2021 approaches, it is useful to review the areas in which individuals make mistakes when preparing their returns. Below we provide you with an overview of the errors and mistakes we encounter in our practice, together with information on their impact in terms of potential penalties from the authorities.

Obligation to file a tax return and declare certain types of income

Simply put, tax returns do not have to be filed by persons with no income (or with total income up to CZK 15,000), persons whose income consists almost exclusively of employment income from one employer (other income up to CZK 6,000 in total) and persons who have entered the flat-rate regime and have not violated its conditions in any way.

In practice, we often see that individuals make errors in situations where they have earned income above the other income thresholds, but fail to file a return under the misconception that the thresholds are for profit (i.e. the difference between income and expenses) or net income, and not just the thresholds for gross income (e.g. before deducting the cost of assets or before deducting foreign withholding tax). Thus, if a person, for example, sells a car less than one year after buying it, even at a loss, or securities for more than CZK 100,000 a year even with a small profit, exchanges cryptocurrency for a new phone, etc., he or she is most likely obliged to file a tax return.

Other often overlooked reasons for filing a tax return are, for example, termination of pension or life insurance on which tax benefits were drawn, securities transactions or gains derived from securities abroad, cryptocurrency transactions such as exchanges for other cryptocurrencies or NFTs, exchanges for goods, etc. Finally there are employee stock option plans, which in some cases trigger the employee's obligation to tax the difference between the market price of the securities acquired and the consideration paid for them on the tax return (despite the expectation that the employer is always responsible for taxation).

In situations where a return is not filed, there is a late filing penalty. This is calculated on the total tax (not the additional tax) and can be quite high. It is not uncommon for persons to realise the error later. If, for example, a person who has income from employment of approximately CZK 80,000 per month files their tax return six months late, they face a penalty of approximately CZK 6,000, even though they have not made a significant profit.

If the income in question also gives rise to tax arrears, persons are liable for a penalty in the form of default interest of approximately 12% of the tax arrears for the year.

Exempt income is not included in the tax return. However, we would like to remind you of the obligation to report exempt income if it amounts to more than CZK 5 million per year. Failure to file the notification leads to significant penalties depending on the length of the delay in filing (0.1% - 15% of the exempt income). Exempt income to be reported may be, for example, income from inheritance (immovable and movable property), income from gifts (e.g. between family members), income from the sale of securities after three years of holding or business shares after five years of holding.

Deadline for filing tax returns

A relatively large number of people have noticed the change in tax filing deadlines effective from last year. From the traditional deadline of 1 April, the deadline is automatically extended to the first working day of May (2 May 2022) in certain circumstances. In order for the extension to take place, the filing must be made electronically, i.e. by data box, qualified certificate or via the My Taxes portal (with a verified identity).

At the same time, it is important to note that if the return is filed, even electronically, before 1 April, the deadline for payment of any tax arrears is 1 April and not 2 May. If a person is in a hurry to pay the overpayment, they should file their return, in whatever form, by 1 April. If, on the other hand, the filer wants to pay the tax as late as possible, they should file their return after 1 April.

Formalities of tax returns

Regarding errors in the formalities of the tax return, we often see that people fill in the address where they are currently staying and not the address of their permanent residence (i.e. from their ID card). This is most likely due to the name of the „residence address“ boxes. However, incorrectly filling in the address may lead a person to file the return with a tax office other than the one with local jurisdiction or to have the return rejected. This may again result in a delay in filing the tax return before the tax authorities forward the return between themselves.

If you are filing a paper return, we recommend that you check that the return is signed, both in the signature box and on any overpayment claim (so two signatures on one page are required). Otherwise, the overpayment will not be refunded.

We also recommend that you include a contact – either phone or e-mail – on your tax return. If the tax authorities find any minor discrepancies, they will often informally (i.e. by phone or e-mail) ask the person to correct them. If no contact is given, the tax authority has no choice but to send a formal written notice, which can delay, for example, the refund of overpaid tax that many people are anxiously awaiting. If a person does not want to give the tax authority the information requested over the phone, they can of course refuse to give the information and ask for a written request to be sent. This can be handled later by a tax advisor.

Missing annexes and important conditions for claiming tax benefits

To claim the various items to reduce the tax liability, a number of supporting documents must be submitted. The signature page of the tax return form, where the „DAP Attachments“ are listed at the top, can be a guide to the necessary supporting documents. In our experience, people often do not attach attachments to the tax return that are not specifically listed (mainly because only the first year of

application needs to be documented). Without them, however, the tax authorities usually will not apply the items. For the deduction in the form of interest paid on a mortgage loan for housing needs, the tax administrator requires the submission of a mortgage loan agreement in the first year of claiming the deduction. It is also advisable to submit the title deed from the Land Register. These documents must show that the conditions for claiming the deduction are met, i.e. that the person claiming the deduction is the owner of the immovable property and also a party to the loan agreement.

At the same time, it should be remembered that interest cannot be claimed from the outset when concluding a future contract. It is necessary to fulfil the condition of permanent residence in the property, which is obviously not possible if the property is under construction. When claiming a deduction in the form of a pension or life insurance contribution, the tax authorities require the insurance contract in the first year of claim.

For the child tax credit, parents often make the mistake of both claiming the tax credit for the same child. However, the tax authorities will often catch this, as the data (e.g. the child's birth registration number) is available to them in these matters.

More tips that can reduce tax liability and speed up the tax process

It will be possible to retroactively claim the higher rate of tax credit for the second and subsequent child on your 2021 tax return (it has not been reflected in your interim wages). Therefore, unless the person has applied for an annual income tax return with their employer, we recommend that they file a tax return and claim the increased amounts. It is quite common for individuals to claim a so-called percentage of income expenses (30% of income or CZK 600,000, whichever is lower) on their tax return for rental income instead of claiming actual expenses. However, when claiming actual expenses, it is possible to deduct tax depreciation of the rented item, i.e. a predetermined allocation of the purchase price to expenses (tax base) over the years. These are often sufficient for tax purposes to cover the rental income and so no tax liability arises on this income. However, the situation is quite complex and it is necessary to examine case-by-case in which situations the application of actual expenses together with depreciation or a change to the application of expenses in this way actually pays off.

We also recommend that you keep careful records of any acquisition costs or expenses that are offset against income for different types of income. The tax authorities can usually request these documents up to three years after the tax return is filed. The person must be able to substantiate the items, although they are not usually required to submit records and supporting materials with the actual filing. If the person fails to satisfactorily substantiate the claimed information (here, expenses), the tax authorities may assess income tax in subsequent proceedings, together with penalties (20% of the resulting tax) and interest on late payment (about 12% per annum).

For high-income earners, we recommend considering a separate tax base for foreign income from profit shares, etc., which is taxed at 15% (instead of the normal rates of 15% and 23%).

We recommend that you complete your income tax return on the EPO portal (via My Taxes), which highlights a significant number of errors („Error Log“). Of course, you can print out the file and bring it to the tax office in paper form after the check.

MARK IN YOUR CALENDARS: EVENTS AND SEMINARS

Also in 2022, we have prepared a series of training courses on the modern opportunities in responsible business and digitalisation, as well as an overview of new legislation. The seminars are held in person and as online webinars. Check out the current overview of BDO seminars:

NEW DEVELOPMENTS IN WHISTLEBLOWER PROTECTION: CURRENT RISKS AND OBLIGATIONS FOR COMPANIES AND THE PUBLIC SECTOR

- ▶ 24 February 2022
- ▶ 28 April 2022
- ▶ 19 May 2022

The Whistleblower Protection Act, which transposes the EU Directive, was due to come into force on 17 December 2021. But the draft law was not passed and the Directive was not implemented on time. What does this mean for businesses and organisations? This seminar will propose effective solutions to manage these challenges and minimise the regulatory and reputational risks outlined above. We will also describe how to make the most of the new obligations for the benefit of the company or how to link whistleblower protection with existing ESG frameworks.

Lecturer

- Stanislav Klika, Head of Risk Advisory Services

DIGITALISATION IN FINANCE

- ▶ 22 March 2022

We cordially invite you to a seminar where we will introduce you to the possibilities of automation and digitalisation in the field of financial processes in companies. At the seminar, we will show you what activities can be processed using robots and machine learning. Based on practical experience, we will explain how the use of robotics and automation will affect the processing of economic agendas. We will look at what technologies are helping in finance today, what the return on investment is for such solutions, and we will also touch on the main pitfalls in their implementation.

Lecturers

- Tomáš Kubíček, Partner
- Ondřej Beránek, Consultant

HOW TO NAVIGATE THE NEW "GREEN" OBLIGATIONS AND MAKE THEM A COMPETITIVE ADVANTAGE

- ▶ 23 March 2022
- ▶ 11 May 2022

Green Deal, Fit for 55, Taxonomy, NFRD, CSRD, SFRD, ESG... Have you heard these terms before but aren't sure what they mean? Would you like to know how these new obligations will affect your business? Are you wondering how to make the most of them? Or would you just like to do business responsibly and are considering what approaches to take?

Lecturers

- Lucie Johaníková, Partner
- Stanislav Klika, Head of Risk Advisory Services