

## VAT News

*Please find below a summary of most important changes of Value Added Tax (hereinafter "VAT"), which should mostly be effective as of 1 January 2015*

### *Implementation of Second Reduced VAT Rate 10%*

Amendment of the Value Added Tax Act (hereinafter "VAT Act") was signed by President on 7 November 2014 (Senate document No.345). In this respect second reduced VAT rate of 10 % will be implemented as of 1 January 2015. This second reduced VAT rate will be applicable for essential baby nutrition, pharmaceuticals, vaccines, radiopharmaceuticals, printed books, picture books for children, as specified in an appendix 3a of the amended VAT Act.

The current reduced rate of 15% remains effective with the exception of the above mentioned change.

### *Changes in the place of taxable supply of certain services provided to end customers (B2C)*

As of 1 January 2015 will be effective change in the method of determining the place of taxable supply of electronic, telecommunication, television and radio broadcasting services provided to end customers seated in the EU. As electronic services are for example understood presentation on electronic network, downloading or online access to applications, games, music, movies, electronic books, antivirus programs, online auctions etc.

The place of taxable supply will be determined according to the place of residence of the end customer. To prevent increase of related administration a special regime "one-stop-shop" will be implemented for the above mentioned services starting from 1 January 2015. This special regime allows providers of above mentioned services to file their VAT returns through an electronic portal and settle their VAT liabilities as have arisen in the individual EU member states only in one EU member state where they are VAT registered for this purpose (EU seated providers in a country, where they are seated and providers seated outside EU in any EU member state). Providers may register for this special regime starting from 1 October 2014. This change is regulated by the Act no. 196/2014 Coll.

### *Stricter conditions, under which the taxpayer becomes the unreliable payer*

Based on the information published by the General Financial Directorate stricter conditions, under which a taxpayer becomes an unreliable VAT payer will be effective starting from 1 October 2014 and in some cases starting from 1 January 2015.

For example starting from 1 October 2014 the limit for treating a situation as a serious violation of taxpayer's duties in the form of VAT underpayment was reduced from CZK 10 mil to CK 500 thousand existing over a period of at least three calendar months. As unreliable tax payer could also be identified a payer who (without proper justification) repeatedly failed to file VAT returns,

reports or special evidences within a due date (at least twice in a period of twelve consecutive calendar months).

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Starting from 1 January 2015 as an unreliable payer could also be considered a tax payer who fails to file the information about the actual seat of a company. This adjustment is focused on virtual and home office companies.

As there are many other tightening conditions increase of the number of unreliable payers may be expected.

If your business partner (supplier) is to the date of taxable supply published as an unreliable payer, then you as the acquirer of the given supply automatically act as a guarantor for the tax liability unpaid by the supplier. To avoid this situation, the tax liability could under certain conditions be paid by the acquirer directly to the tax office of the supplier. We recommend verifying the status of your supplier [on this link](#).

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## *Extensive technical amendment of VAT*

Another VAT amendment (Document of the Chamber no. 291) is discussed these days by the Chamber of Deputies. Majority of the proposed changes should come into force as of 1 January 2015.

Starting from 1 January 2015 the below listed main changes should be implemented:

- adjustments to the application of exemption from VAT in case of real estate transfer
- extension of local reverse-charge mechanism to other types of goods and services (e.g. mobile phones, tablets, laptops, game consoles, integrated circuits) if the tax base exceeds CZK 100 thousand per a tax document and with no limit in case of certain cereals and industrial crops, raw or semi-processed metals, including defined precious metal and allowances for greenhouse gas emissions etc.
- local reverse charge mechanism should be applicable also in case of sale of immovable property when the VAT payer opts for taxation even if the sale could be VAT exempt

Starting from 2016 the obligation of the Local Sales and Purchase Report (hereinafter "report") should be implemented. The report should be submitted together with the VAT return. It is intended that the report will list local taxable supplies realized between VAT payers (supplies liable to Czech VAT or local reverse charge mechanism). Specific form of this report has not been published yet.

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