

Dear Clients and Business Partners,

allow us to inform you through this year's Tax News on the tax news for 2016. This includes, for example, the income tax legislative amendment, VAT amendment, new subsistence level, increase of maternity leave allowance and other tax interesting points.

We believe that the reported pieces of information will be interesting and valuable for you. Should you have any questions, please, do not hesitate to contact us whenever you like.

With best regards,

LERIKA Team

THE INCOME TAX LEGISLATIVE AMENDMENT AS OF JANUARY 1, 2016

Year 2016 won't be without changes either. On 22.09.2015 the National Council SR passed an amendment to Income tax Act no. 595/2003 Coll., as amended. This amendment introduces improvement of provisions already adopted during 2015, as well as new, more advantageous conditions for taxpayers.

Perhaps the biggest change, affecting every taxpayer is the possibility to claim the tax deductible expenses only after their payment. According to the present wording it meant that it will apply to all services of the advisory and legal services type. However, from 1.1.2016 the term "advisory" will be specified more precisely. From the next year, the advisory shall have the meaning of the provision of accounting services, auditing services and tax advisory.

In case of certain expenses, there will be even limit set with regards to their eligibility for inclusion in tax expenses. This restriction will apply to expenses for obtaining standards and certificates, not exceeding 2,400 Euro. These expenses will not be accrued and they will be included in the tax base in the form of lump sum amount.

Positive change is the termination of tax license for land cooperatives and companies wound up without liquidation. The tax license exemption will be determined by income type and the annual turnover amount, which must not exceed 10,000 Euro. The tax license also won't have to be paid by a company, which during the taxable period filed an application for winding up without liquidation. A land cooperative, meeting the exemption criteria and the company winding up without liquidation, will not pay the tax license for calendar year 2015 either.



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SUBSISTENCE LEVEL FOR 2016

For the second year in a row, the subsistence level amount remains without change. This means that also in 2016 the amount for applying tax bonus (21.41 €/month), non-taxable part of tax base per taxpayer (316.94 €/month), as well as other values, derived from the subsistence level, remain the same.

Indexation of the subsistence level depends on the growth of net incomes or living expenses. The current value is 198.09 €/month, which represents the minimum value of private individual income, before it is qualified as material distress. The subsistence level is adjusted every year, as of July 1, by multiplying the subsistence amount by a ratio of net cash income growth per head or by the ratio of living expenses growth of low income households, with the lower value of these two. The subsistence amount is not adjusted if the ratio, which is used for its adjustment was equal to 1 or lower. This means that the subsistence level cannot decrease, but it can only rise.

MATERNITY LEAVE ALLOWANCE INCREASE

Part of the second social package presented by Fico government is the improvement of young families' status. As of January 1, 2016 the maternity insurance allowance increase comes into effect. Until the end of 2015 the maternity allowance was defined as 65 % of the assessable base. The assessable base is the employee income during the decisive period. The decisive period varies depending on the health insurance period of the employee. The new maternity allowance will be defined as 70 % of the assessable base. It won't be necessary to apply for the new allowance, as it will be increased automatically. The maternity leave allowance increase is planned once more, namely to 75 % of the assessable base. In case of minimum maternity leave, this will be approximately 20 €/monthly and in case of maximum allowance amount, it will be approximately 60 €/month. The maternity allowance duration remains without change. Increase will also apply to the childcare allowance, namely approximately by 50 €/month.

TIME ELEMENT FOR ASSESSING PENALTIES

The change of tax rules applies to the penalties levied on taxpayers in an effort to motivate them to more responsible approach to their taxes. The option to file additional tax return also after the commencement of a tax audit is a great advantage for the taxpayer, mainly from financial standpoint. The entitlement for filing must be exercised by the taxpayer latest within 15 days after the commencement of the tax audit, which will be rewarded by a lower penalty. In the case that the tax administration will assess tax based on the tax audit, the taxpayer will be charged a penalty of 10 % of the additionally assessed tax amount for each day overdue. In the case of an additional tax returns being filed prior to the delivery of the tax audit notice, the amount will be 3 % of the additionally assessed tax amount and in the case of an additional tax return being filed within 15 days after the tax audit, the penalty will equal 7 % of the additionally assessed tax amount. The penalty must not be higher than the additionally assessed tax.

The new system for penalty calculation will be applied to additional tax returns filed after December 31, 2015.

VAT AMENDMENT AFTER JANUARY 1, 2016

The principal change of the approved VAT act amendment is the possibility of VAT payment only after the payment by the customer. Small and medium enterprises will no longer have to pay to the government VAT immediately after the issuing of an invoice, as was the case so far, allowing them to avoid financial problems or unnecessarily high penalties for late tax payments to the tax office. Everyone who decides to utilise this principle and is legally entitled to do so, is obliged to indicate this fact on the invoice by stating that "the tax shall be applied upon the receipt of the payment." This immediately provides information to his customer, that equally as he applies the output tax only after the payment, he as the recipient cannot apply the input tax until such invoice is paid to the supplier. The restriction is that this principle cannot be applied by a company with turnover higher than 100,000 Euro.



Changes will also apply to VAT control statement, namely in section B.3, where in the past all information was entered in summary form from simplified invoices. Since during 2015 there were a number of cases, suspicious of tax avoidance, where in section B.3, the taxpayers stated amounts for tax deduction in multiples of thousands, the tax office introduced restriction. Each taxpayer supplying data in section B.3, will have to monitor the amount of tax deducted from these invoices. After the deducted tax amount will exceed 3,000 Euro, it will be the taxpayer's obligation to enter separately all these documents in section B.3, in order to show clearly which document is involved. In the VAT control statement, the taxpayer will enter the total VAT base amount, the total VAT amount and the total amount of deducted tax, broken down according to suppliers with their VAT ID number. This change will come into effect on April 1, 2016.

For more than two years the government has been tightening the requirements regarding VAT registration applications, namely by introducing the tax bond. Without its payment to the tax authority, it was not possible to register a tax entity (taxpayer). Today the situation changes and from the next year, the tax office will allow registration also without the payment of the bond, whereby it will still pursue the outstanding portion of the bond. Full exemption shall apply only to newly starting businesses.

From January, the government will reduce VAT rate for selected foodstuffs. This change is also part of the second social package. The new lower VAT rate will be 10 % and it will apply to 10 types of groceries. Currently, the 10% VAT rate applies to medications and books. From the next year, this shortlist will include probably all types of fresh meat, including fish, fresh bread, butter and milk.

MINIMUM WAGE IN 2016

Same as every year, also from the next year, there will be again an increase in the minimum wage. Minimum wage per employee, performing the least demanding work is 405.00 €/month (2.328 €/hour). The highest demand labour category has minimum wage set at 810.00 €. Therefore every employer should know at what level of difficulty his employees perform their work, in order to maintain the minimum wage entitlements for each employee. More detailed specification of individual labour demand levels is in appendix no. 1 of the Labour Code.

VIRTUAL CASH REGISTERS

The Virtual cash register (VCR) project was launched in April 2015, which in many instances replaced the electronic cash register. Setup expenses for VCR are zero. Only an application and subsequent registration with the tax authority are required. It's utilisation was not available to all of tax entities, because also this novelty encountered certain restrictions. The use of VCR is available only to a taxpayer, who during one month does not issue more than 1,000 receipts. Initially, the VCR could have only been used by a business, which was obliged to record sales from the cash register in accordance with new regulations. From January 2016, the VCR will be available to all businesses, who are subject to obligation to record their sales in cash register.

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Even though due care is paid to the preparation of the tax news, please be aware that their contents are only meant to be informative. Therefore, we recommend that any action envisaged on the basis of the tax news be discussed with your counsel prior to implementation.

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