



Accounting news



Tax news



Legal news



**Grants & Incentives
news**

dReport: June 2018

Leaf through the regular overview of tax, legal and accounting news, get up to speed on subsidy and investment incentives developments.

Contents

Tax news	3
Direct Taxes	3
New Notification Duties for Tax Payers	3
CbC Reporting: the First International Exchange of CbC Reports is Approaching	3
Corporate Income Tax Return Advanced topics	4
Cancellation of super-gross wage recalled	6
Indirect Taxes	7
Amendment to the VAT Act	7
Judicature of the Court of Justice of the EU (CJEU)	7
International TAX	8
News round up	8
Other	10
Topical comments on the distribution of profit in capital companies – an interpretation shift	10
Record in the register of beneficial owner data	11
Tax liabilities – June 2018	12
Tax liabilities – July 2018	12
Grants & Incentives news	14
Budget approved for the Horizon 2020 successor programme entitled Horizon Europe	14
Accounting news	15
Czech Accounting	15
Cash Pooling and Its Accounting Treatment	15
IFRS	16
Revised Conceptual Framework for IFRS – Part I.	16
IFRS EU Endorsement Process	18
US GAAP	19
Potential Areas of Difference between U.S. GAAP and IFRS in Accounting for Uncertainty in Income Taxes	19
Legal news	21
Topical comments on the distribution of profit in capital companies – an interpretation shift	21
The GDPR is Round the Corner. Is your HR Prepared?	22



New Notification Duties for Tax Payers

The Government of the Czech Republic is preparing an amendment to the Income Taxes Act, with anticipated effect from 2019, which still has to undergo the readings in the Parliament. As we have already informed you in previous dReport issues, the amendment primarily aims to implement the ATAD directive of the EU as well as other significant modifications which were added to the amendment subsequent to the standard consultation procedure.

These modifications include an **introduction of the new notification duty for tax payers with respect to income exempt from tax or income non-taxable in the Czech Republic pursuant to international Double Taxation Treaties**. However, this relates to income generated by tax non-residents from sources in the Czech Republic which are subject to withholding tax.

Form and manner of notification

- Notifications should be made in a similar manner as in the case of income which is currently subject to withholding tax. The payer thus has to **identify the income recipient and report data concerning the income paid**.
- Audited entities and entities with a data box will have to make the filing via a data box. Unaudited entities may use a printed form issued by the Ministry of Finance of the Czech Republic or its own output including all statutory requisites.
- Notifications should be made **until the end of the month following the one in which the income was paid**. A payer's

failure to comply with this non-monetary duty may result in a penalty of up to CZK 500,000, or higher if the filing was not made in electronic form where the payer was required to do so.

Exceptions

- The above-specified income of the same type not exceeding CZK 100 thousand in a calendar month is to be exempt from this duty.
- For serious reasons, the tax administrator may release a payer from the notification duty for a period of up to five years.

Practical implications of the new duty

Among other things, the notification duty will predominantly apply to dividends, interest and licence fees paid by Czech businesses to foreign parent companies or other foreign entities.

The tax administration was already able to obtain the majority of required data; nevertheless, additional administrative burden is placed upon payers, including the accurate interpretation of Double Taxation Treaties.

The data received by the tax administration should also be used for international information exchange with other jurisdictions.

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CbC Reporting: the First International Exchange of CbC Reports is Approaching

The first international exchange of Country by Country ("CbC") Reports will be performed by tax offices in June 2018 for the first time. The Czech tax administration will have available a new instrument to review transfer pricing.

In 2017, an amendment to the Act on International Cooperation in Tax Administration introduced a new notification duty in the Czech Republic as part of the international information exchange, referred to as Country by Country Reporting. This amendment stipulates a duty for groups of companies with consolidated global income exceeding EUR 750 million to file the Country by Country Report to tax administrations on an annual basis,

summarising financial information of this group. The duty to file the CbC Report, which is subsequently subject to automated information exchange between individual countries, to the tax authority is usually carried out by the ultimate parent company in the state of its residence on behalf of the entire group.

Groups of companies in the Czech Republic and in cooperating countries most frequently filed the first CbC Reports in December 2017 for the 2016 taxation period. As CbC Reports are filed pursuant to legislation in the relevant country, deadlines as well as the respective taxation periods may vary.



A list of jurisdictions to which the automated information exchange with the Czech Republic applies was published in the [February issue of the Financial Bulletin](#) (02/2018). The first exchange of CbC Reports between those jurisdictions should take place in June 2018. From this date, tax administrations will have available another tool for the monitoring of international group transactions.

In the CbC Report, multinational groups of companies must publish especially the following information:

- In which countries (jurisdictions) the group operates;
- The amount of revenues generated by the group with related and unrelated parties in individual countries;
- The group's profit or loss before tax in individual countries;
- The amount of tax paid;
- The amount of the group's registered capital and number of employees in individual countries;
- The amount of the group's tangible assets other than cash and cash equivalent in individual countries etc.

For each country, the group must provide a list of entities operating therein, specifying the character of their business activities.

What are the potential implications of exchanging CbC Reports for Czech companies?

Pursuant to available information, the tax administrator will combine data from the CbC Report with information included in the transfer pricing annex to the tax return and other information available to it. Based on this information, the tax administrator will select entities, or transactions, exposed to risk for a possible in-depth analysis.

Various combinations of reported data may be considered exposed to risk: high payments for licence fees, interest and management services to countries in which companies have a low number of assets/employees while reporting high revenues vs. low taxation rate. Tax administrations will certainly focus on situations in which the group's production plants (for which a similar activity may be anticipated) report in individual countries different profitability levels under similar turnover, in consideration of the aggregate taxation rate etc.

In order to eliminate risks, we recommend that companies which are subject to CbC reporting give sufficient attention to the CbC Report. Unless it is available to them, companies should require the CbC Report from the Group well in advance and verify the information included therein. We recommend analysing the report from the viewpoint of the tax administration – how the reported data may be interpreted by the tax administration and what other issues may possibly arise.

Subsequently, we recommend assessing the outcomes of the analysis in view of the supporting documentation used by the company to prove, during tax audits, the pricing in group transactions, along with transfer pricing documentation if available. Such review may indicate potential areas for debate with the group that may clarify some issues, or a need to provide additional documents or promptly address the situation. Such actions should certainly be performed prior to an audit by the tax office.

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Corporate Income Tax Return Advanced topics

Due to positive feedback on our previous article, we decided to point out several other areas where people often make mistakes during the preparation of the corporate income tax return. This area will also be discussed during our online webcast on 5 June 2018.

1. Inventory and its tax deductibility

Inventory taking should serve as a means of correct assessment of tax deductibility of the individual situations that can occur with respect to inventory. Aside from the well-known reasons for disposals of inventory (such as sale), which are usually a tax deductible expense (hereinafter "TDE"), there are many situations which require deeper knowledge of this area.

Donation of inventory

If you decide to donate some inventory, the expense arising in such a way is as a rule a non-tax deductible expense

(hereinafter "NTDE"). The only exception is promotion objects meeting the legal conditions, i.e. it must be an advertising object with the input price lower than CZK 500 net of VAT per piece.

Deficits and damages

With some exceptions, they are NTDEs. However, we would like to point out the definition of "damage", which means something different according to the Income Taxes Act than what we would normally imagine, and it is essential for assessing the relevant case. Damage represents e.g. impairment that led to disposal of the asset, i.e. it does not apply to small damage to goods that is subsequently repaired.

If your company records inventory where disposals occur naturally (e.g. drying up, evaporation), we recommend starting to consider setting up an internal "natural disposal standard". If you are able to defend the standard to the tax



administrator, the respective disposal may be a TDE up to the given amount.

If someone steals your inventory, you can also treat the expense as a TDE in some cases. E.g. if you have a police report stating that it was committed by a person unknown, or if you report related income (whether from the perpetrator or the insurance company).

Did you liquidate assets during the year? In order to prove the tax deductibility of this expense, you need to have the liquidation report, containing strictly set elements as per the Income Taxes Act.

Sometimes damage can be caused by nature. If it is a so-called natural disaster, the related expense is a TDE. But be careful, not all nature manifestations may be characterised as natural disasters. Has wind blown away part of your inventory? It is a natural disaster only if the speed of the wind exceeded 75 km/h.

Another possibility is accidental exchange. If a warehouse worker mistook one (easily mistakable) type of inventory for another type of inventory and during inventory taking you subsequently identify surplus in one type and deficit in the other, in justified cases you can use the institute of accidental exchange and offset the surplus against the disposal.

Last but not least, we would like to point out that unlike the “old” version of the VAT Act, where the amount of deficit deduction was adjusted in the current taxation period, according to the current wording of the Act, for destroyed, lost or stolen inventory the amount of deduction that was claimed in a previous VAT return must be adjusted.

2. Assets

With the amendment to the Income Taxes Act (hereinafter the “ITA”) from 1 July 2017, the inconspicuous words “at least” have been added to the number of months given by the ITA as the period of amortisation of intangible assets (e.g. software is now newly amortised over *at least* 36 months). The potential extension of the amortisation period is applicable only to companies whose financial year began after the amendment to the ITA, i.e. companies using the calendar year (from January to December) will use it only for the tax return for 2018.

3. Rent vs. lease

Most companies are now able to distinguish between operating and finance leases and they are aware of the related tax consequences of both treatments. Starting from 1 July 2017, a new restriction has been incorporated, which means that intangible assets and tangible assets excluded from depreciation may no longer be the subject of finance leases.

Another problematic area seems to be the technical improvement performed by the lessee on the leased asset. You should always consider the tax consequences and not limit yourself only to the legal assessment of the respective contracts. If, for example, you as the lessee terminate the lease agreement, do not eliminate the technical improvement

and receive no reimbursement from the lessor for the expenses incurred, the carrying amount will irretrievably become a non-tax deductible expense. It is therefore necessary to always think about the tax impacts, which may occur several years after the conclusion of the contract, already at the time of concluding the contract.

4. Marketing and gifts

Here, we would like to point out the careful differentiation between gifts and sponsorship – they have the opposite regime of tax assessment.

If you decide to give out anything, it is your obligation to be able to bear the burden of proof in the event of a tax audit. If, for example, you give out your company's samples or promotion objects at children's day, photo documentation of the event will certainly come in handy when you need to prove that the recipients of the objects were not e.g. your employees (the tax treatment would be different).

If you decide that to boost your sales with marketing support, e.g. television advertisements, with a cost exceeding CZK 60 thousand and useful life greater than one year, it would be a mistake to recognise this expense only once; from the ITA perspective this is a fixed asset whose acquisition cost will appear in expenses via depreciation for tax purposes.

5. Investment incentives

If your company operates in the investment incentive regime, you should pay increased attention to transfer pricing within the group to make sure the prices are in line with the arm's length principle.

Since this is an additional benefit in the form of public support, it entails a wide variety of obligations. Among other things, it is necessary to maximise all deductions from the tax base (i.e. The utilisation of loss, deduction for research and development and deduction for the support of professional education), maximise depreciation and tax provisions against receivables.

6. Research and development deduction

The number of tax audits focused on research and development deductions has grown substantially in recent years. Never forget that project documentation is a prospective document that looks to the future, but failure to comply with (even just formal) requirements on its content or the failure to sign it before the initiation of development activities leads, according to the current practice of tax offices, to the exclusion of the whole deduction from the tax return and to the application of all sanctions allowed by the Tax Code

Aside from this, you also need clear and demonstrable separate expense records (posting on synthetic accounts is not sufficient). Last but not least, when defending activities you have assessed as research or development, you may benefit from an expert opinion of an independent expert institute. It is not a legal requirement but given the current tax audit practice we strongly recommend it.



7. Provisions against receivables

At present, you can still record receivables against which provisions are recognised based on the “old” regime, and those whose recognition follows the current rules set by the Reserves Act. With the new Civil Code, the limitation period of receivables has been shortened. If your receivable happens to be past the limitation period, you cannot create a provision against it (not even a partial one). Your legal department should therefore keep a close eye on the limitation period of receivables, among other things.

8. Expenses related to holding an equity investment in a subsidiary

Have you received dividends from a subsidiary that you record in your tax return as income exempt from tax?

Then you should not forget about a review on the side of expenses, since all direct expenses (e.g. interest on loans) and indirect expenses (e.g. part of staff costs) are NTDEs. In addition, if you are unable to prove that the amount of indirect expenses is lower than 5% of the value of received dividends, this amount will become a NTDE. It is a partial paradox that the ITA will force you to make this adjustment even if your subsidiary is in liquidation and you cannot exempt your dividend income from tax (you will therefore have taxable income and the related NTDE).

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Cancellation of super-gross wage recalled

Personal taxation will remain unchanged next year

The Ministry of Finance withdrew its original proposal to cancel super-gross wage and the related conceptual changes in the personal income tax calculation. The proposal was part of an amendment to the Income Taxes Act with the proposed effective date from January 2019, which will now contain only the implementation of the Anti Tax Avoidance Directive (ATAD).

The income of natural persons will therefore continue to be taxed at 15%, with a solidarity tax surcharge of 7% for income exceeding the 48th multiple of the average wage per year. Since the work on the new act on income taxes (which we informed you about several months ago) has been suspended, employers and taxpayers can enjoy legislative

peace. It is impossible to rule out last-minute surprises in the form of parliamentary draft proposals during the discussion of the tax amendment for 2019, but they are not expected.

However, we recommend paying attention to the changes in interpretation by the Financial Administration, especially with respect to personal income tax prepayments of tax non-residents and residents working abroad. Tax authorities complicate the reimbursement of amounts overpaid and challenge the method of calculation of tax prepayments, the correct calculation of prepayments therefore becomes a difficult task where it is worth contacting tax specialists for assistance.

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Amendment to the VAT Act

An amendment to the VAT Act with the proposed effectiveness from January 2019 has been referred to the Government of the Czech Republic for consideration. Another critical change was added to the amendment, concerning the taxation of supplies of goods including assembly by a person

established in a country other than the Czech Republic. If both the supplier and the customer are VAT payers, the supplier will have to invoice the supply including Czech VAT (the supply would be subject to self-assessment by the customer through the end of 2018).

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Judicature of the Court of Justice of the EU (CJEU)

The judgment in case C-81/17 Zabrus demonstrates that tax administrators must not reject a claim for a VAT deduction applied as part of additional tax returns if all substantive criteria for its application are met. This gives rise to the question whether tax payers may retrospectively elect the taxation periods for which VAT deductions will be claimed.

The Advocate-General of the CJEU in his opinion on case C-249/17 – Ryanair provided a new point of view as regards the possibility of applying a VAT deduction from the purchase and holding of business shares where the respective subsidiary is not provided with any taxable supplies. The Advocate-General opines that it is still possible to apply the tax deduction under certain circumstances, which is contrary to previous judgments of the CJEU to a certain extent. It is uncertain whether his opinion will also be adopted by the CJEU.

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News round up

EU publishes provisions for evaluating the impact of CCTB on national tax revenues

On 20 April 2017, the EU Council published specific provisions for evaluating the impact on national tax revenues of the proposed directive on a Common Corporate Tax Base (CCTB). The key provisions of the CCTB proposal which will be observed are: whether or not the scope of EUR 750 million is maintained (Article 2), whether a qualifying subsidiary should have a right to exercise more than 50 % of the voting rights (Article 3), certain definition in Article 4, elements of the tax base in Article 7, the revenues which are exempted from the taxation (Article 8), the items which are considered as tax deductible/non-deductible (Articles 10 a 12) and the assets which may be depreciated individually (Article 33). The evaluation of the observation will take place throughout 2018 by member states with technical assistance from the European Commission services.

EU proposals to ease moves of company seat to another member state

On 25 April 2018, the European Commission issued a [press release](#) announcing a draft directive that would introduce common EU-wide procedures for a company to move from one EU member state to another, or merge or divide into two or more new entities across borders. Individual member state rules in this area currently differ considerably or contain administrative hurdles, which discourage businesses from pursuing new opportunities, and creates potential for inadequate protection of employee, creditor and minority shareholder interests. The new rules for cross-border conversions and divisions would include specific anti-abuse measures, such as effective safeguards against abusive arrangements to circumvent tax rules, undermine workers' rights or jeopardize creditors' or minority shareholder interests. The directive would allow companies in all EU member states to electronically register, set up new branches or file documents with the business register (currently only 17 member states allow online company registration).

Chile announces activation of treaty MFN clauses

On 19 April 2018, the Chilean tax administration published Circular 22/2018, announcing that the conditions for activation of the most favoured nation (MFN) clause in the tax treaties signed by Chile with the Czech Republic, Denmark, Ireland, Korea (Rep.), Poland and the United Kingdom have been met. The conditions were met with the entry into force of the Chile - Japan Income Tax Treaty (2016), which lowers certain withholding tax rates for interest and royalties in the aforementioned countries. The new rates are applicable as from 1 January 2017.

Hong Kong proposes tax incentives for R&D costs

The Inland Revenue (Amendment) (No.3) Bill 2018 (the Bill) was gazetted by the government on 20 April 2018. By amending the Inland Revenue Ordinance (IRO), the Bill seeks to provide for enhanced tax deduction for expenditure incurred by enterprises on qualifying research and development (R&D) activities in Hong Kong. Currently, the IRO provides 100% deduction for R&D expenditure, as well as capital expenditure incurred in the purchase of plant or machinery for R&D purposes, in the year it is incurred. Subject to the passage of the Bill, enterprises will be able to enjoy additional tax deduction for domestic R&D expenditure incurred. The first HKD 2 million spent on qualifying R&D will enjoy a 300% tax deduction, and expenditure beyond that threshold will enjoy a 200% tax deduction. In addition, there is no cap on the amount of enhanced tax deduction.

Lithuania to become member of OECD

OECD Countries agreed on 3 May 2018 to formally invite Lithuania to become a member of the Organisation, with the signing of an Accession Agreement planned during the upcoming meeting of the OECD Council at ministerial level on 30-31 May in Paris. Lithuania's membership will take effect after it has taken the appropriate steps at the national level to accede to the OECD Convention and deposited its instrument of accession with the French government, the depository of the Convention. Lithuania's accession will extend OECD's membership to 36 countries. Throughout its accession process, Lithuania has been reviewed by 21 OECD Committees on two fronts: an evaluation of the country's willingness and ability to implement substantive OECD legal instruments, as well as a detailed assessment of Lithuania's policies as compared to OECD best practices. As part of the process, Lithuania undertook a number of important reforms in areas such as the corporate governance of listed and state-owned enterprises, anti-corruption and investment.

Netherlands announces transitional regime for upcoming fiscal unity regime amendments

On 20 April 2018, the State Secretary for Finance announced the introduction of a transitional regime (subject to conditions) with a view to the upcoming amendments to the fiscal unity regime designed to remedy incompatibilities of the regime with EU law, following a judgement of the Court of Justice of the European Union. Article 10a of the Corporate Income Tax Act (CITA) stipulates that the deduction of interest, including costs and currency exchange losses, is denied if a related party grants a loan to a company which uses that loan for certain "tainted" transactions (i.e. A profit distribution or repayment, a capital contribution and/or the acquisition



or an extension of a participation in a company which becomes a related company after this acquisition or extension). Currently, the effect of article 10a is more beneficial in situations where a fiscal unity exists than where no such unity exists). Under the legislative proposal this article would be applied as if no fiscal unity exists.

Slovak Republic: Guidelines for taxation of non-resident operators of digital platforms

On 28 March 2018, the tax administration issued guidance regarding the taxation of non-residents that perform regular intermediation of accommodation and transport services within the Slovak Republic through digital platforms. From 1 January 2018, the Slovak Republic amended the definition of permanent establishment based on which non-resident operators of digital platforms that repeatedly facilitate the conclusion of contracts for providing transportation and accommodation services are deemed to carry out the activities through a fixed place of business in the Slovak Republic. As a consequence, non-resident operators of digital platforms must register a permanent establishment in the Slovak Republic by the end of the month following the month when these repeated activities are carried out. Additionally, the guidelines clarify that these rules apply irrespective of whether there is a tax treaty concluded between the Slovak Republic and the country of residence of the foreign operators.

Sweden: Proposal to restrict deductions of interest expense revised

On 21 March 2018, the Swedish government presented a revised proposal to restrict the deduction of interest expense and reduce the corporate tax rate. The proposed measures

would implement the EU anti-tax avoidance directive (ATAD I and II) and the relevant recommendations under the OECD BEPS project into Swedish law. The revised proposal would introduce a general interest deduction limitation rule that would restrict a company's deduction for net interest expense (the amount of otherwise deductible interest expense that exceeds taxable interest income) to 30% of tax EBITDA. The revised proposal also provides for a two-step reduction in the corporate income tax rate: the rate would be reduced from the current 22% to 21.4% in 2019, and then to 20.6% by 2021. If approved, the changes would be effective as from 1 January 2019.

Sweden clarified VAT exemption for companies with turnover of not more than SEK 30,000

On 2 May 2018, the Tax Agency published a clarification on the VAT exemption for companies with a turnover estimated to be not more than SEK 30,000 during the tax year and whose turnover has also not exceeded that amount in the two preceding fiscal years. The exemption does not apply to all sales and purchases where the company as a buyer will declare outgoing VAT. For newly started companies, the assessment regarding whether the threshold will be exceeded must be based on future sales and an adjustment must be made if the tax year is shorter or longer than 12 months. The clarification provides that the determination of whether the exemption applies is not affected by whether the business has been taken over from another person or another subject that had a higher turnover.

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Topical comments on the distribution of profit in capital companies – an interpretation shift

As the deadline to complete financial statements is drawing closer (for most companies) it is time to recall the legislative conditions for possible considerations on the distribution of profit and other equity funds. From the tax perspective, most distributions of dividends among capital companies are exempt from income tax; however, the interpretation of the legal framework, which limited the deadline to make a decision on profit distribution, has shifted.

Recently, there has been a significant shift in the interpretation of the rules for the distribution of equity funds of capital companies. There was a change in the use of the regular financial statements for making a decision on the distribution of profit after the expiry of the six-month deadline for the approval of the financial statements by the General Meeting from the end of the reporting period as stipulated by law. There is a new interpretation that distribution based on regular financial statements may also take place after more than six months after the expiry of the reporting period.

The above-specified approach has never resulted from the wording of law; it was inferred in judicature in the period of the then-effective Commercial Code. The Supreme Court¹ inferred that the deadline to call the regular General Meeting to approve the regular financial statements is also the deadline within which the financial statements may give a true and fair view of accounting and within which thus shareholders can make qualified decisions on profit distribution. This conclusion, albeit criticised, was enforced in practice.

After the effective date of the new Civil Code and the Act on Business Corporations, it was still unclear whether the above-mentioned court interpretation would be adopted in respect

of the new law. Similarly as a number of other unclear issues, this matter was discussed for quite a long time, however, the professional legal public has come to the conclusion² that under the new law this approach will not be implemented. The key argument is the expansion of rules to pay out equity to include the insolvency test, which was not required by the Commercial Code.

In addition to the limits for the equity distribution contained in the provisions for a limited liability company and a joint-stock company³, the Act on Business Corporations also stipulated a “golden” rule with respect to the payment, which is fully within the competence of the statutory bodies. The rule is the above insolvency test. The Act refers to the definition of bankruptcy under the Insolvency Act. In practice, it means that a statutory body should make an economic consideration and a corresponding calculation before funds are provided to shareholders.

We may conclude that a decision on the distribution of profit or other equity funds based on regular financial statements approved by the General Meeting may also be made in the second half of the following reporting period without any worries that the former judicature interpretation will prevail. The Act does not prohibit (and so it is permissible) deciding on the distribution of profit, even repeatedly, until the end of the following reporting period. From the perspective of statutory bodies, compliance with legal requirements for distribution and performance of insolvency testing before the payment should always be appropriately documented.

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¹ Decision file no. NS 29 Cdo 4284/2007 of 30 September 2009

² Štenglová, I., Havel, B., Čileček, F., Kuhn, P., Šuk, P.: Act on Business Corporations. Comments. 2nd issue. Prague: C. H. Beck, 2017, p. 688. “Under the Commercial Code regime, the Supreme Court has inferred that the deadline to call the General Meeting... is logically... the deadline within which the results of the financial statements to be used for the discussion of the regular General Meeting may be considered to be those that may give shareholders a true and fair view of accounting of a joint-stock company based on which they may make a qualified decision on profit distribution” (NS 29 Cdo 4284/2007). Although the Act on Business Corporations also determines that “a profit share is determined based on regular or extraordinary financial statements approved by the highest body of the business corporation” (Section 34 (1)) and, at the same time, it provides for the deadline to discuss regular financial statements of a joint-stock company we believe that the above-mentioned conclusions will no longer be implemented. It is because that the new Act – as opposed to the

Commercial Code – explicitly determines the ‘insolvency test’ (Section 40 (1)), which should be sufficient to achieve the goal pursued by the above-quoted decision (ie to prevent from paying profit shares “at the expense” of a company’s creditors). Moreover, in companies that have issued shares with a fixed profit share (refer to Section 276 (3) and Section 348 (4) and comments thereon), an opposite conclusion would cause inequality between shareholders holding this type of shares and other shareholders; as the right for a fixed profit share for the previous reporting period arises as of the first day of the following reporting period (if profit was generated in the previous reporting period) whereby Section 348 (4) only provides for the due date, the shareholders (as opposed to other shareholders) would receive a fixed profit share even if the General Meeting fails to decide on profit distribution within six months.”

³ Sections 161 (4) and 361 (1) and (2) of Act no. 90/2012 Coll., on Business Corporations and Cooperatives (the Act on Business Corporations), as amended



Record in the register of beneficial owner data

Starting from 1 January 2018, all legal entities and trust funds have been obliged to record information of their beneficial owners in a public register – register of beneficial owner data. This obligation is newly imposed in connection with the amendment to Act No. 253/2008 Coll., on Certain Measures against Money Laundering and Terrorism Financing (“AML Act”) and Act No. 304/2013 Coll., on Public Register of Legal Entities and Natural Persons.

Who is the beneficial owner?

Pursuant to Section 4 (4) of the AML Act, a beneficial owner is the natural person who has, de facto or de jure, the **possibility to directly or indirectly exercise control over a legal entity**, trust fund or another legal organisation without legal personality. The **beneficial owner is always a specific natural person**. The AML Act also states which facts may indicate the beneficial owner. However, the meeting of these criteria does not necessarily have to mean that the person is the beneficial owner. It is always necessary to assess whether this person has the possibility to exercise control.

Companies are obliged to identify their beneficial owner and record current data to discover and verify the identity of the beneficial owner including information about the fact that serves as a basis for being in the position of beneficial owner or another justification why this person is considered to be the beneficial owner.

Register of beneficial owner data

The register of beneficial owner data is a **non-public register**. Information about the beneficial owner is not provided together with a copy of the record in a public register and it is not disclosed. An extract from the beneficial owner data may be obtained by the recorded person. An extract from the beneficial owner register in a limited scope may be obtained by a person who proves interest in terms of preventing criminal acts of handling stolen goods, money laundering, their source criminal acts, and the criminal act of a terrorist attack.

Remote access to the register will be available for courts, law enforcement authorities, tax authorities, the Financial Analytics Office, the Czech National Bank and other state authorities. Remote access will also be available to obliged entities as per the AML Act that will be able to use the data recorded in the register of beneficial owner data as part of customer identification and due diligence.

Record in the register of beneficial owner data

Legal entities recorded in the Commercial Register must record their beneficial owner in the register by 1 January 2019. Other entities obliged to record their beneficial owner in the register must meet this obligation by 1 January 2021.

The following information about the beneficial owner is recorded in the register:

- Name and address of permanent residence (as well as temporary residence if applicable);
- Date of birth and personal number, if assigned;
- Nationality;
- Information about the fact that serves as a basis for being in the position of beneficial owner.

Information about the fact that serves as a basis for being in the position of beneficial owner is supported by the relevant documents. Such a document may be, for example, an extract from a record in a public register or foundation documents.

The record in the register of beneficial owner data is not subject to a fee until 1 January 2019; after this date the fee will amount to CZK 1,000.

What are the consequences of the failure to record the beneficial owner in the register?

Legal regulations do not set a direct sanction for the failure to comply with the obligation to record data on the beneficial owner in the beneficial owner register, but such a conduct may have a **negative impact on the company's business activities**. The failure to record the beneficial owner in the register may lead to the impossibility to participate in public tenders or to obtain a grant from EU funds, and make obtaining bank financing more difficult.

Based on the announcement published on the website of the Ministry of Industry and Trade, the management body of the Operational Programme Enterprise and Innovation for Competitiveness anticipates that calls announced from June 2018 will include a condition that the **applicant for a programme grant cannot be an entity whose beneficial owners are not recorded in the register of beneficial owner data as of the day of filing the application**.

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Tax liabilities – June 2018

June

Monday, 11	Consumption tax	Tax maturity for April 2018 (except the consumption tax on alcohol)
Thursday, 14	Intrastat	The Intrastat statement for May 2018, paper version
Friday, 15	Income tax	Quarter or half-year tax advance payment
Monday, 18	Intrastat	The Intrastat statement for May 2018, electronic version
Wednesday, 20	Income tax	Monthly payment of deducted advance payments on personal income tax from employment
Tuesday, 26	Value added tax	Tax return and tax for May 2018
		EC Sales List for May 2018
		Tax control statement for for May 2018
	Energy taxes	Tax return and tax maturity on gas, solid fuels and electricity for May 2018
	Consumption tax	Tax maturity for April 2018 (only the consumption tax on alcohol)
		Tax return for May 2018
		Tax return for claiming of refund of consumption tax, for example on fuel oil, other petrol (benzine) for May 2018 (if applicable)

Tax liabilities – July 2018

July

Monday, 2	CRS (GATCA) report	Submission of announcement according to Section 13k of Act No. 164/2013 Coll., as amended
	FATCA report	Submission of announcement according to Section 13k of Act No. 164/2013 Coll., as amended
	Income tax	Submission of tax return and payment of tax for 2016, if the taxpayer has obligatory audit or the tax return is elaborated and submitted by the tax advisor Payment of special-rate withholding tax for May 2018
Tuesday, 10	Consumption tax	Tax maturity for May 2018 (except the consumption tax on alcohol)
Monday, 16	Road tax	Advance payment of tax for 2nd quarter 2017
Tuesday, 17	Intrastat	Submission of statements for intrastat for June 2018, paper form
Thursday, 19	Intrastat	Submission of statements for intrastat for June 2018, electronic form
Friday, 20	Value added tax	Tax return and maturity of the MOSS VAT
	Income tax	Monthly payment of deducted advance payments on personal income tax from employment
Wednesday, 25	Lotteries and other similar games	Submission of statement to advanced payment on lotteries and other similar games and payment of advanced payment for 2nd quarter 2018
	Value added tax	Tax return and tax for Q2 and for June 2018
		EC Sales List for Q2 and June 2018
		VAT control statement for Q2 and for June 2018
	Energy taxes	Tax return and tax maturity on gas, solid fuels and electricity for June 2018
	Consumption tax	Tax maturity for May 2018 (only the consumption tax on alcohol)
		Tax return for June 2018
		Tax return for claiming of refund of consumption tax, for example on fuel oil, other petrol (benzine) for June 2018 (if applicable)
Tuesday, 31	Income tax	Payment of special-rate withholding tax for June 2018



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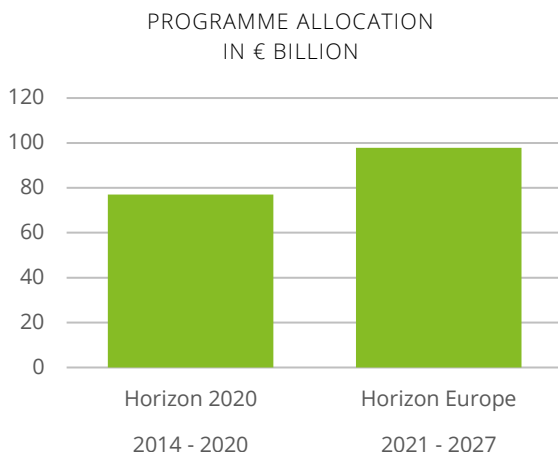


Budget approved for the Horizon 2020 successor programme entitled Horizon Europe

The current Horizon 2020 programme will be replaced by the ninth science and research framework programme entitled Horizon Europe. As part of the new programme, it will be possible to draw funds in 2021 – 2027 for the support of research and innovation, for example in the form of prototype development or the transfer of know-how and technology.

As proposed by the European Commission, the new programme should allocate € 98 billion, which represents an increase of € 21 billion compared to the current budget of the Horizon 2020 programme. This reflects the efforts of the European Commission to enhance investments in areas such as research and innovation, strategic infrastructure or digital transformation, which should be key for unlocking future growth and addressing common challenges such as decarbonisation or demographic changes.

Unlike Horizon Europe, which anticipates increasing the allocation compared to the preceding period, the allocations to the European Structural Funds programmes decrease. Latest information indicates that the amount intended for the Czech Republic in the new EU programming period will be approximately 15 – 20% lower compared to the allocation that was available in 2014 – 2020. In absolute numbers, this could represent a decrease from approx. CZK 600 billion to approx. CZK 500 billion. With respect to this fact, the increase in the funds available in Horizon Europe becomes even more interesting for Czech entrepreneurs, who should in the future consider not just grants as part of structural funds or national subsidies, but also the grant funds allocated directly by the European Commission, such as the Horizon Europe programme, the LIFE programme or the programmes of the ESA (European Space Agency).



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Cash Pooling and Its Accounting Treatment

In today's article we will focus on cash pooling as an expanded instrument to optimise corporate accounts and its accounting treatment. We will also remind you of the related obligations to various governmental bodies.

What is Cash pooling?

Cash-pooling is an instrument used to optimise corporate accounts. Companies typically use a number of current accounts and cash-pooling gives them the opportunity to consolidate these bank accounts into a 'master account' and accrue interest on a daily basis as a whole. The overriding benefit is that companies have the ability to avoid interest being charged on current accounts where the negative balance of an overdraft account is offset by a positive balance on another bank account. Obviously, cash-pooling does not necessarily serve only companies that have multiple bank accounts but also group companies to manage funding within the whole group.

Banks typically offer their corporate clients physical cash-pooling where the balances of all accounts physically transfer to one account that has been designated as the 'master account', or notional cash-pooling that makes it possible to achieve the same effect of interest optimisation as with physical cash-pooling, without the need to physically transfer account balances.

Accounting implications of using cash-pooling

Notional cash-pooling does not result in physical transfers of cash balances and, for this reason, this cash-pooling form has no accounting implications.

By contrast, **physical cash-pooling** poses a question as to whether the company does or does not have, at any point of time, the ability to "touch" its money that was transferred to the master account. In the vast majority of cases, the group conditions will be set such that physical cash-pooling will *de facto* represent an intercompany loan and hence the cash-pooling account balance will not be reported as part of "Cash at bank" or "Payables to credit institutions" but as a component of intercompany receivables or payables, ie in balance sheet lines C.II.2.2 "Receivables - controlled or controlling entity" or C.II.6 "Payables - controlled or controlling entity".

Similarly, in the cash flow statement, if the company does not have the ability to handle the funding on the cash-pooling account, the cash-pooling account will not be included in cash and cash equivalents but rather as part of the "Cash flow from financial activities" section.

Legislative requirements for cash-pooling reporting

Cash-pooling transactions are not defined by law. However, they are subject to standard rules as any other transactions with the same substance. If foreign transactions are performed under physical cash pooling we recommend taking into consideration the obligations with respect to the Czech National Bank or the Tax Authorities.

Reporting to the Czech National Bank

Certain cash-pooling transactions can be subject to reporting to the Czech National Bank (the "CNB") based on Regulation 235/2013 Coll., on Reporting to the CNB by Statistically Significant Reporting Entities for the Purpose of Preparing Cross-Border Payment Balance, Investment Position and Debt Service. This Regulation defines the number of reporting entities that are required to provide the CNB with the reports defined in the appendices to the Regulation. Under the Regulation, reporting entities include entities with the total annual amount of financial loans provided or received in respect of a foreign entity of at least CZK 100 million at the end of the calendar year.

According to the CNB's statement, information on cross-border financial transactions is only reported by entities that have been notified by the CNB that they have been included in the group of statistically significant entities under the criteria specified in Regulation 235/2013 Coll. The obligation to prepare and submit a monthly statement on the balance of payments (ČNB) 41-12 "Financial Loans and Accounts Abroad" thus does not apply to any company exceeding the annual limit of financial loans provided or received in respect of a foreign entity in the amount of CZK 100 million.

Tax impacts of cash-pooling transactions

The Tax Authorities will naturally focus on tax impacts of cash-pooling transactions. When providing loans under cash-pooling, group entities are obliged to set up the arm's length loan conditions or at least calculate the difference between the arm's length and the set-up conditions and reflect the difference in preparing their tax returns. Any incorrect set-up of cash-pooling may result in additional tax assessment and the payment of resulting sanctions.

Please note that the rules of thin capitalisation should be followed, ie that the limit for the application of loan interest (or the related fees, etc) as the tax deductible item applies to cash-pooling as well. For non-financial companies, tax-deductible items only include financial expenses of the amount of up to the quadruple of the company's equity.

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Revised Conceptual Framework for IFRS – Part I.

On 29 March 2018, the International Accounting Standards Board (IASB) published its revised 'Conceptual Framework for Financial Reporting', which became effective immediately. In this article, we outline the main changes and the key concepts in the revised Framework.

The main purpose of the Framework is to guide the IASB when it develops International Financial Reporting Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, providing useful information for investors and others. The Framework can also be helpful for preparers and auditors when there are no specific or similar standards addressing a particular issue.

Background

The IASB's Framework was published initially in 1989. In 2005 the IASB started working with the US FASB to develop a common Framework. The boards published chapters setting out the objective of general purpose financial reporting and the qualitative characteristics of useful financial information in 2010, and these were incorporated into the IASB's Framework.

The IASB then decided to continue its work alone. In May 2015 it published an exposure draft proposing six new chapters, and some changes to the chapters it had completed with the FASB. The IASB finalised this work and issued a revised Framework on 29 March 2018. It came into effect as soon as it was published, although the practical consequences are unlikely to be significant in the short term.

Structure of the Conceptual Framework

The 2018 Conceptual Framework is structured into an introductory explanation on the status and purpose of the Conceptual Framework, eight chapters, and a glossary:

Chapter	Topic
	Status and purpose of the Conceptual Framework
1	The objective of general purpose financial reporting
2	Qualitative characteristics of useful financial information
3	Financial statements and the reporting entity
4	The elements of financial statements
5	Recognition and derecognition
6	Measurement
7	Presentation and disclosure
8	Concepts of capital and capital maintenance
Appendix A	Glossary

Five of the chapters (marked bold in the table above) are new, or have been revised substantially. The revised Framework is about three times the length of the version it replaces.

Status and purpose of the Conceptual Framework

The first section notes that the Conceptual Framework's purpose is to assist the IASB in developing and revising IFRSs that are based on consistent concepts, to help preparers to develop consistent accounting policies for areas that are not covered by a standard or where there is choice of accounting policy, and to assist all parties in understanding and interpreting IFRS.

It maintains that the framework does not override any specific IFRS. If there is a conflict, or inconsistency, between the Framework and a Standard, the requirements in the Standard take precedence. The IASB has decided not to automatically change existing Standards as a result of the changes it has made to the Framework. The IASB will expose any proposed amendments to an existing Standard just as it would do with any other proposed amendment.

Chapter 1 - the objective of general purpose financial reporting

This is the first of the two chapters that were finalised as part of the joint project with the FASB in 2010, so there are only limited changes. The chapter notes that the objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. This is identified as information about the entity's economic resources and the claims against the reporting entity as well as information about the effects of transactions and other events that change a reporting entity's economic resources and claims. The chapter newly stresses that information can also help users to assess management's stewardship of the entity's economic resources.

Chapter 2 - Qualitative characteristics of useful financial information

This is the second of the two chapters that were finalised as part of the joint project with the FASB in 2010 (published as Chapter 3 in the 2010 Conceptual Framework). Again, changes are limited. The chapter explains the fundamental qualitative characteristics (relevance and faithful representation) and the enhancing qualitative characteristics (comparability, verifiability, timeliness, and understandability) of useful financial information and notes the cost constraint. Materiality is noted as an entity-specific aspect of relevance. The chapter reintroduces an explicit reference to the notion of prudence and states that the exercise of prudence supports neutrality. Prudence is defined as the exercise of caution when making judgements under conditions of uncertainty. New is also a clarification that faithful



representation means representation of the substance of an economic phenomenon instead of representation of its legal form only.

Chapter 3 - Financial Statements and the reporting entity

The material in this chapter is new to the Framework.

The chapter states the **objective of financial statements**: to provide information about an entity's assets, liabilities, equity, income and expenses that is useful to financial statements users in assessing the prospects for future net cash inflows to the entity and in assessing management's stewardship of the entity's resources. It only mentions two statements explicitly: the statement of financial position and the statement(s) of financial performance (the latter being the former statement of comprehensive income); the rest are "other statements and notes".

The new Framework states that financial statements are prepared **from the perspective of the entity as a whole**, rather than from the perspective of any particular group of investors, lenders or other creditors (the entity-perspective). It is important for matters such as non-controlling interests (NCI) in a group.

This chapter also includes the statement (brought forward from the 2010 Framework) that the financial statements are prepared on the assumption that the reporting entity is a **going concern** and will continue in operation for the foreseeable future.

New to the framework is the definition of a **reporting entity**: an entity that chooses, or is required, to prepare financial statements. The new Framework describes the financial statements of a parent entity as **unconsolidated financial statements**, which is a new term. IAS 27 *Separate Financial Statements* and other Standards use the term separate financial statements. The financial statements of a group are defined as **consolidated financial statements**. The IASB is convinced that, generally, consolidated financial statements are more likely to provide useful information to users of financial statements than unconsolidated financial statements.

Chapter 4 - the elements of financial statements

This chapter discusses the definitions of the elements of financial statements, i.e. assets, liabilities, equity, income and expenses. The IASB has changed the definitions of an asset and a liability. The definitions of the other elements remain largely unchanged.

	2010 Framework definition	New Framework definition
Asset	A resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.	A present economic resource controlled by the entity as a result of past events. (An economic resource is a right that has the potential to produce economic benefits.)
Liability	A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.	A present obligation of the entity to transfer an economic resource as a result of past events.

The most significant change to the asset and liability definitions is the removal of the reference to the expected flow of economic benefits.

The focus of the definitions is now on the existence of a right (or an obligation) that has the *potential* to produce (or require an entity to transfer) economic benefits. For that potential to exist it does not need to be certain, or even likely, that the right will produce (or require an entity to transfer) economic benefits.

The expression "economic resource" instead of simply "resource" stresses that the IASB no longer thinks of assets as physical objects but as sets of rights.

Distinguishing between liabilities and equity is not part of the new framework but has been transferred to the IASB's research project on financial instruments with the characteristics of equity.

Chapters 5, 6, 7 and 8 of the new Conceptual Framework will be covered in the next issue of our Accounting news.

Sources: www.iasplus.com
www.ifrs.org

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IFRS EU Endorsement Process

The European Financial Reporting Advisory Group (EFRAG) updated its report showing the status of endorsement of each IFRS, including standards, interpretations, and amendments, most recently on 24 April 2018.

As of 24 May 2018, the following IASB pronouncements are awaiting European Commission endorsement for use in the EU:

Standards

- IFRS 14 *Regulatory Deferral Accounts* (issued in January 2014) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard
- IFRS 17 *Insurance contracts* (issued in May 2017)

Amendments

- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (issued in September 2014)
- Amendments to IAS 19 *Plan Amendment, Curtailment or Settlement* (issued in February 2018)
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* (issued in October 2017)
- *Annual Improvements to IFRS Standards 2015–2017 Cycle* (issued in December 2017)
- *Amendments to References to the Conceptual Framework in IFRS Standards* (issued in March 2018)

Interpretation

- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued in June 2017)

Click here for the [Endorsement Status Report](#)



Potential Areas of Difference between U.S. GAAP and IFRS in Accounting for Uncertainty in Income Taxes

Nowadays there are an increasing number of companies for which the accounting for Uncertainty in Income taxes is relevant and applied, but there are still gaps in knowledge and experience in these accounting treatments.

We have prepared a practical comparison between U.S.GAAP and IFRS in the accounting, measurement and recognition in the area of Uncertainty in Income Taxes.

U.S. GAAP Accounting

ASC 740 requires a two-step approach for determining the amount, if any, of a tax benefit that should be recognized in an enterprise's financial statements.

The first step is **recognition**: the enterprise determines whether it is more likely than not (more than 50%) that a tax position will be sustained upon examination. This includes resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the enterprise should presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information.

The second step is **measurement**: a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely to be realized upon ultimate settlement.

IFRS Accounting

IAS 37, Provisions, Contingent Liabilities and Contingent Assets, is a one-step approach requiring the recognition of a provision when "(a) an entity has a present obligation . . . As a result of a past event; (b) it is probable . . . that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation."

The term "probable" is defined in IAS 37 as "more-likely-than-not." If these conditions are not met, no provision is recognized. According to par. 39 of IAS 37, "...Uncertainties surrounding the amount to be recognized as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

The name for this statistical method of estimation is 'expected value...' IAS 37 goes on to explain that where "... there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used." Furthermore, IAS 37 states that where "... a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount..."

Difference Between U.S. GAAP and IFRSs — Recognition

Under ASC 740, a tax position must meet the more-likely-than-not (more than 50%) recognition threshold in order for the associated tax benefit to be recognized in an enterprise's financial statements. If a tax position does not meet the recognition threshold, a liability or other adjustment would be recognized for the full amount of the tax benefit.

IAS 37 does not include a separate recognition threshold; rather, it provides a single threshold for the recognition and measurement of the provision. Therefore, the liability recognized under IAS 37 may or may not be the same amount as that recognized under ASC 740.

Example: assume an enterprise takes a deduction of \$100 on its tax return (resulting in a \$40 tax benefit) and concludes that it is not more likely than not that the deduction would be sustained upon examination by the taxing authority. Under ASC 740, the enterprise would recognize a liability or other adjustment for an unrecognized tax benefit for the full amount of the tax benefit (\$40) in its financial statements. Under IAS 37, the enterprise would recognize the most reliable estimate that can be made of the amount of the obligation. This amount likely would be less than the full amount.

Difference Between U.S. GAAP and IFRSs — Measurement

Under ASC 740, a tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely to be realized upon ultimate settlement (cumulative-probability approach). The enterprise would recognize a liability for an unrecognized tax benefit for the difference between the full amount of the benefit and the largest amount of the benefit that is greater than 50 percent likely to be realized.



IAS 37 does not include a separate measurement threshold; rather, it provides a threshold for the recognition and measurement of the provision. Under IAS 37, the enterprise would recognize the most reliable estimate that can be made of the amount of the obligation.

For example, assume an enterprise takes a deduction of \$100 on its tax return (resulting in a \$40 tax benefit) and concludes that it is more likely than not that the deduction would be sustained upon examination by the taxing authority. Under ASC 740, the enterprise would measure the associated tax benefit at the largest amount of benefit that is greater than 50 percent likely to be realized upon ultimate settlement. The enterprise concludes that the following table of values accounts for all possible outcomes and probabilities:

Possible Estimated Outcome	Individual Probability of Occurring (Percent)	Cumulative Probability of Occurring (Percent)
\$40	31	31
\$30	20	51
\$20	20	71
\$10	20	91
\$0	9	100

Under ASC 740, the enterprise should recognize a tax benefit of \$30 because this is the largest benefit with a cumulative probability of greater than 50 percent. Accordingly, the enterprise should record a \$10 income tax liability based on ASC 740 (assuming that the tax position does not affect deferred taxes).

IAS 37 does not provide explicit guidance on which method to use in determining the best estimate of the liability to recognize. There are many acceptable methods. Applying any of these methods may or may not result in a difference in the amount of recognized liability as compared with ASC 740. One acceptable method would be a weighted-average method that results in a \$16 liability in accordance with the example above, since the weighted average of all possible outcomes is \$24.

Other Differences

ASC 740 also provides guidance on subsequent recognition, derecognition, measurement, recognition of interest and penalties, classification, and disclosure. This guidance will probably create additional differences between U.S. GAAP and IFRSs.

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Topical comments on the distribution of profit in capital companies – an interpretation shift

As the deadline to complete financial statements is drawing closer (for most companies) it is time to recall the legislative conditions for possible considerations on the distribution of profit and other equity funds. From the tax perspective, most distributions of dividends among capital companies are exempt from income tax; however, the interpretation of the legal framework, which limited the deadline to make a decision on profit distribution, has shifted.

Recently, there has been a significant shift in the interpretation of the rules for the distribution of equity funds of capital companies. There was a change in the use of the regular financial statements for making a decision on the distribution of profit after the expiry of the six-month deadline for the approval of the financial statements by the General Meeting from the end of the reporting period as stipulated by law. There is a new interpretation that distribution based on regular financial statements may also take place after more than six months after the expiry of the reporting period.

The above-specified approach has never resulted from the wording of law; it was inferred in judicature in the period of the then-effective Commercial Code. The Supreme Court¹ inferred that the deadline to call the regular General Meeting to approve the regular financial statements is also the deadline within which the financial statements may give a true

and fair view of accounting and within which thus shareholders can make qualified decisions on profit distribution. This conclusion, albeit criticised, was enforced in practice.

After the effective date of the new Civil Code and the Act on Business Corporations, it was still unclear whether the above-mentioned court interpretation would be adopted in respect of the new law. Similarly as a number of other unclear issues, this matter was discussed for quite a long time, however, the professional legal public has come to the conclusion² that under the new law this approach will not be implemented. The key argument is the expansion of rules to pay out equity to include the insolvency test, which was not required by the Commercial Code.

In addition to the limits for the equity distribution contained in the provisions for a limited liability company and a joint-stock company³, the Act on Business Corporations also stipulated a “golden” rule with respect to the payment, which is fully within the competence of the statutory bodies. The rule is the above insolvency test. The Act refers to the definition of bankruptcy under the Insolvency Act. In practice, it means that a statutory body should make an economic consideration and a corresponding calculation before funds are provided to shareholders.

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¹ Decision file no. NS 29 Cdo 4284/2007 of 30 September 2009

² Štenglová, I., Havel, B., Čileček, F., Kuhn, P., Šuk, P.: Act on Business Corporations. Comments. 2nd issue. Prague: C. H. Beck, 2017, p. 688. “Under the Commercial Code regime, the Supreme Court has inferred that the deadline to call the General Meeting... is logically... the deadline within which the results of the financial statements to be used for the discussion of the regular General Meeting may be considered to be those that may give shareholders a true and fair view of accounting of a joint-stock company based on which they may make a qualified decision on profit distribution” (NS 29 Cdo 4284/2007). Although the Act on Business Corporations also determines that “a profit share is determined based on regular or extraordinary financial statements approved by the highest body of the business corporation” (Section 34 (1)) and, at the same time, it provides for the deadline to discuss regular financial statements of a joint-stock company we believe that the above-mentioned conclusions will no longer be implemented. It is because that the new Act – as opposed to the

Commercial Code – explicitly determines the ‘insolvency test’ (Section 40 (1)), which should be sufficient to achieve the goal pursued by the above-quoted decision (ie to prevent from paying profit shares “at the expense” of a company’s creditors). Moreover, in companies that have issued shares with a fixed profit share (refer to Section 276 (3) and Section 348 (4) and comments thereon), an opposite conclusion would cause inequality between shareholders holding this type of shares and other shareholders; as the right for a fixed profit share for the previous reporting period arises as of the first day of the following reporting period (if profit was generated in the previous reporting period) whereby Section 348 (4) only provides for the due date, the shareholders (as opposed to other shareholders) would receive a fixed profit share even if the General Meeting fails to decide on profit distribution within six months.”

³ Sections 161 (4) and 361 (1) and (2) of Act no. 90/2012 Coll., on Business Corporations and Cooperatives (the Act on Business Corporations), as amended



The GDPR is Round the Corner.

Is your HR Prepared?

Do you collect or otherwise process personal data of employees? Do you know how you should protect information, which data may be disclosed and which sanctions may be imposed upon you if you are not compliant with the new General Data Protection Regulation ("GDPR")? Listed below are answers to five fundamental questions.

Which measures need to be taken to ensure accurate data protection?

It is especially important to set appropriate technical and organisational measures, such as preparation of an internal personal data protection policy, introducing appropriate security measures, ie a hierarchy of authorised employees' access to personal data, password-protected access to databases, automatic logout, lock-up premises etc.

It is also important to maintain records on personal data processing and assess impacts on personal data protection. Furthermore, it will be necessary to revise relationships with contractual partners processing personal data for the employer as part of the provision of services. Among other things, the GDPR places new requirements in terms of the content of processing agreements.

Main recommendation: What is the ideal manner of setting measures in line with the GDPR?

Make sure that personal data are processed by the HR department on a legitimate basis, ie based on determined legal bases, and that the rights of data subjects are observed as appropriate and exercised by employers if necessary.

What the date 25 May 2018 entails: certainly a nice spring day but predominantly the date on which the **General Data Protection Regulation (GDPR) becomes effective**, defining:

- Legal bases for personal data processing;
- Rights of data subjects;
- Duties of controllers and processors;
- Data protection officer (DPO).

Failure to comply with all statutory requirements may result in supervision by authorities and sanctions: the **Personal Data Protection Office** may impose a fine of up to EUR 20 million, or 4% of the total worldwide turnover. Aside from that, compliance with statutory duties may also be supervised by **labour inspectorates** controlling whether the employee's

privacy has not been invaded at workplace. This involves, for example, e-mail monitoring, use of CCTVs etc. Penalties of up to CZK 1 million may be imposed due to violation.

What is the major point of focus for HR departments?

With respect to the GDPR, employers must ensure that the HR department only processes personal data in the necessary scope in line with determined legal bases and for a specific purpose. Concurrently, we recommend that personal data processing primarily takes place on legal bases other than a consent.

How will the new regulation affect sharing personal contact information among colleagues, such as the date of birth because of a birthday party?

This will usually depend on how the information was obtained by the respective colleague. That is whether the date of birth was disclosed to the colleague for employment purposes and whether the relevant employee gave their consent to disclosing such data within the organisation, such as on the intranet.

Failure to comply with the rules is subject to potential sanctions. How will compliance with the GDPR be controlled?

The existing draft of the so-called "Adaptation Act" assumes that the Personal Data Protection Office (the "Office") will proceed under the existing Control Rules. We believe that after the GDPR and the Adaptation Act have taken effect, inspections by the Personal Data Protection Office should not substantially differ from the current practice. It may also be assumed that the Office will make inspections on a random basis as well as based on complaints, as has been the common practice so far.

Nevertheless, as the Office's restructuring is planned due to the GDPR as part of the Adaptation Act, it is now impossible to accurately determine how inspections will be realised. The current wording of the Adaptation Act no longer includes the function of inspectors. The Office's structure will newly include the Chairman and two Vice-chairmen. The current inspectors should complete their term of office under the existing legislation with subsequent inspections being realised by the Office's public servants with appropriate qualifications.

Contacts

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