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Accounting news

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Grants & Incentives news

dReport: June 2019

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

Contents

A New Transfer Pricing Guidance and the Czech Translation of the OECD Guidelines

The General Financial Directorate (the "GFD") issued new Guidance D-34 on the application of international standards to the taxation of related party transactions. This guidance replaces existing Guidance D-332. Together with the new guidance, the Czech translation of the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (2017 Edition) was published in the Financial Bulletin of the Ministry of Finance no. 5/2019.

The purpose of Guidance D-34 is to ensure that a uniform approach to determining a tax base impacted by related party transactions is applied by both the Tax Administration of the Czech Republic and taxable entities. As opposed to the previous guidance, the update provides more detailed information on, for example, the following topics:

- Actual actions of the parties versus contractual arrangements;
- A functional and risk analysis, including typology of functional profiles, discussion on the key role of industry value drivers, the issue of legal versus economic ownership of intangible assets, or explanation of the difference between a function and an activity;
- Recommendations on how to prepare a benchmarking analysis, including a list of the most frequent quantitative criteria, or recommendations on the approach to updating the analysis; and
- Overview of the methods to identify transfer prices, including comments on their practical application.

What situations may occur or practical considerations

The new guidance also contains some of the GFD's own considerations which are, in our experience, often applied by tax administrators in conducting tax audits. Such considerations relate to, for example, the possible existence of related party transactions *that are not explicitly referred to in contractual arrangements and accounted for but do exist in reality*. This may involve a so-called "order of the parent company", which refers to a control of an independent transaction by a related party, such as when a parent company orders a subsidiary to execute a sale of goods to external customers for a lower than an arm's length price (and substantiate it by claiming that the transaction will generate a certain benefit for the group as a whole).

If the transaction constitutes a sale of goods to related parties, the tax administrator will try to arrive at a conclusion in the tax audit, by applying Section 23 (7) of the Income Taxes Act, on the difference between the referential price calculated by it and the identified price and subsequently adjust (increase) the entity's tax base by the identified difference.

However, if the sale of goods involves external entities, the situation will be seemingly more difficult for the tax administrator as it is an independent transaction (it is impossible to directly apply the approach under Section 23 (7) of the Income Taxes Act). Nevertheless, in such a case, the tax administrator can use the institute of the parent's company order as disclosed above and attribute the difference between the referential price and the identified price to that transaction. The tax administrator will subsequently conclude that the price in that transaction (in the form of a compensation to the subsidiary) shall be determined in an amount corresponding to the identified difference, increasing the entity's tax base as appropriate.

The above-specified example of the Tax Administrator's approach as well as the issuance of new Guidance D-34 as such demonstrate that the Czech Tax Administration closely monitors the international developments in the area of transfer pricing and does not hesitate to apply a highly sophisticated approach to its audit activities.

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Investment Incentives Will Have New Rules

On 7 June 2019, the Chamber of Deputies approved the government proposal of an amendment to the Act on Investment Incentives, Bulletin of the Chamber of Deputies no. 298 of 8 October 2018. The amendment can be expected to come into force approximately in September 2019. The approved amendment will represent the basic framework of conditions for awarding investment incentives. Most of the general conditions for granting investment incentives will be flexibly regulated by a governmental decree based on the economic situation and the needs of the labour market.

Following the amendment to the Act on Investment Incentives, support will be directed primarily to projects with higher added value, which should be ensured in particular by the condition of a higher ratio of employees with higher salaries and university education, by cooperation with universities and research organisations, or investments in research and development projects. These conditions should not apply to projects realised in the "supported regions" with higher unemployment.

Government approval will be needed

An important new aspect of the system of awarding investment incentives is the condition of the government's approval of all the applications with respect to the benefit brought to the region by the investment. A positive change concerns the cancellation of the condition of creating job openings for investments in manufacturing, and the halving of the limits of general conditions for small and medium-sized enterprises. Technological centres and centres for strategic services will attract more intensive support in the form of cash support of job openings in all regions or by decreasing the limits for new job openings for strategic investments.

Investment plans submitted before the effective date will be subject to the existing conditions for obtaining an investment incentive.

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News round up

Opinion of the European Commission on Changes Effective from 1 January 2020

With regard to the changes in the conditions of cross-border trading with goods in the EU from January 2020, the European Commission published material with a description of selected aspects of the new rules. The material focuses on the terms for using the call-off stock simplification (losses of goods, creating a fixed establishment for VAT purposes), allocating transport in intra-Community supplies (use of triangulation for multiple entities in a row, the role of a customer's registration for VAT), or the question of determining persons that can produce evidence on such transportation. The European Commission seeks to provide a rather liberal interpretation of the highly-stringent criteria of European legislation; nevertheless, to which extent the unambiguous legislative text may be adapted to specific circumstances still remains unclear. In this context, we would like to note that the Ministry of Finance of the Czech Republic is preparing the respective amendment to the VAT Act with proposed effectiveness from January 2020; the external comment procedure is already terminated at present.

Information of the General Financial Directorate

The General Financial Directorate (the "GFD") is already finishing its work on the methodological note concerning the VAT treatment of the issuance and distribution of vouchers. Some opinions included in this note are likely to be considered controversial (refunding cash when handling a complaint about goods paid with a voucher, obligation to return VAT deduction with regard to unused vouchers) while some other ones will be welcome in practice (reverse charge regime, non-taxation of the amounts paid with vouchers above the respective price etc.). Other comments of the stakeholders are still being incorporated.

As part of the debates at the level of the Coordination Committee, the General Financial Directorate took a negative stance regarding the operation of associations in which individual income and expenses (costs and revenues) are not distributed evenly among participants. Pursuant to the GFD, a mere distribution of income is insufficient for the elements of a contract on association to be met. This opinion could have far-reaching implications on the functioning of associations in the Czech Republic.

CJEU Case Law

In C-185/18 Oro Efectivo, the CJEU admitted that other sales taxes may also apply if they do not meet fundamental VAT elements (system of deductions, generality). The digital sales tax, the introduction of which is being considered by the Ministry of Finance, does not seem to contravene VAT legislation in any respect.

The opinion of the Advocate General as to case C-42/18 Cardpoint confirms that the VAT exemption for transactions concerning payments and transfers cannot be extended to include ATM operation services, even though they are of vital significance to cash withdrawals. It is, however, possible that in practice, some entities may exempt such service from VAT as they believe that they constitute the key element in money transfers. The ultimate decision in the matter will be taken by the CJEU. Nevertheless, considering the analysis performed by the Advocate General, a different conclusion is hardly to be expected.

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International taxes in brief

Austria: Introduction of digital taxation

On 4 April 2019, the Austrian Federal Ministry of Finance (MOF) released a draft bill on the taxation of the digital economy. The digital service tax (DST) is expected to apply as from 1 January 2020. Companies providing covered services would be subject to the DST only if their worldwide revenues exceed EUR 750 million and their revenues from Austrian-source covered services exceed EUR 25 million. For multinational groups, these thresholds would apply to consolidated revenues. As a covered service will be classified online advertising services (e.g. The placement of advertisements on search engines and online banner advertisements). A covered service would be deemed to be provided in Austria if the advertisement is displayed on the device of a user with an Austrian IP address.

CJEU: No national assessment of compatibility with TFEU

On 2 May 2019 the CJEU issued a decision concluding that national courts do not have jurisdiction to determine whether certain requirements associated with a state aid regime are compatible with the fundamental freedoms in the Treaty on the Functioning of the European Union (TFEU). The CJEU acknowledged that the assessment of the compatibility of domestic rules in the EU member states with state aid measures falls within the exclusive competence of the European Commission. The CJEU's decision is clear in its effect: where the refund of dividend withholding tax to (domestic) public entities is considered state aid, national tax courts cannot grant a refund to foreign public entities based on application of the fundamental EU freedoms.

EU: update of list of non-cooperative jurisdictions

On 17 May 2019, the European Council announced updates to the EU list of non-cooperative jurisdictions for tax purposes. Aruba, Barbados and Bermuda each have made the required changes to their laws and/or political commitments to get them removed from the main list. Barbados has made commitments at a high political level to remedy EU concerns regarding the replacement of its harmful preferential regimes by a measure of similar effect, whilst Aruba and Bermuda now have implemented their commitments. As a result, only 12 jurisdictions remain on the list: American Samoa, Belize, Dominica, Fiji, Guam, Marshall Islands, Oman, Samoa, Trinidad & Tobago, United Arab Emirates, the US Virgin Islands, and Vanuatu. The Council has indicated that it will continue to regularly review and update the list in 2019, but has requested that updates are limited to a maximum of two per year as from 2020.

Germany: Court rejection of the MOF's position on anti-treaty shopping rules

The Lower Tax Court of Cologne, in a 23 January 2019 decision (which recently has been made public, but has not yet been officially published by the court), rejected the German tax authorities' (MOF's) interpretation of a Court of Justice of the European Union (CJEU) decision on the domestic anti-treaty shopping rules. The MOF set forth its interpretation of the CJEU decision in a decree dated 4 April 2018, in which the MOF limited the application of the ruling to claims for a reduced dividend withholding tax rate that are based on the EU parent-subsidiary directive (PSD). However, the MOF's decree is limited in its scope and, due to its unclear wording, created a high level of uncertainty for affected taxpayers relating to the MOF's interpretation of the CJEU decisions. The decision of the Lower Tax Court of Cologne is noteworthy for several reasons. It sets out the court's position on several different issues that are relevant for inbound investors and for withholding tax payments in general. It rejects views of the tax authorities that have been heavily criticised by tax commentators as not being in line with EU law and the CJEU decisions, and hopefully will pave the way for a federal tax court decision on these matters. Even though the tax authorities have not yet officially filed an appeal of the lower tax court's decision, it is expected that they will do so and that the case will be decided by the federal tax court.

Netherland: rejection of TP adjustment to hybrid loan

A Dutch appellate court has held that deductions on a hybrid debt instrument were not prohibited by transfer pricing or financial instrument characterisation rules, but that the deductions could be denied as an abusive avoidance arrangement. The court concluded that the instruments should be respected as debt for Dutch tax purposes and that the 13 percent interest rate was not excessive under the transfer pricing rules. Despite persuading the court that no specific provisions on transfer pricing or debt-equity classification disallow the deductions, the court agreed with the government that the arrangement was an abusive tax avoidance transaction subject to the Dutch doctrine of "fraus legis". The use of the convertible instruments had no purpose other than to create significant tax deductions that eroded the Dutch tax base, the decision says.

Poland: New definition of beneficial owner

The new definition of a beneficial owner (BO) in Poland's corporate income tax and personal income tax acts, which became effective on 1 January 2019, has made the requirements to qualify as a BO more stringent, thus limiting

the scope of beneficial ownership. The new definition may be applied even in cases where an applicable tax treaty does not contain a beneficial ownership clause. As a result, the scope of tax treaty withholding tax exemptions may be limited and qualification for treaty benefits for intercompany payments may be in question. According to the new definition in Polish tax law, a BO is an entity that meets the following criteria: it receives a payment for its own benefit, it can decide how to use the payment and it bears the economic risk of loss for all or part of the payment; it is neither an intermediary, or a representative, trustee or other entity that is obligated to transfer the amount to another person, in whole or in part; and it carries out actual economic activities in its state of residence if the amounts it receives are related to these economic activities.

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Tax liabilities – July 2019

July

Monday, 1	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 2018, 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 2019
Wednesday, 10	Excise tax	Tax maturity for May 2019 (excluding excise tax on alcohol)
Monday, 15	Road tax	Advance payment of tax for 2nd quarter 2019
	Intrastat	Submission of statements for intrastat for June 2019, paper form
Wednesday, 17	Intrastat	Submission of statements for intrastat for June 2019, electronic form
Saturday, 20	Value added tax	Tax return and maturity of the MOSS VAT
Monday, 22	Income tax	Monthly payment of deducted advance payments on personal income tax from employment
Thursday, 25	Gambling tax	Submission of statement for advanced payment on deduction from lotteries and other similar games and payment of advanced for 2nd quarter 2019
	Value added tax	Tax return and tax for 2nd quarter and for June 2019
		EC Sales List for 2nd quarter and June 2019
		VAT control statement for 2nd quarter and for June 2019
	Energy taxes	Tax return and tax maturity on gas, solid fuels and electricity for June 2019
	Excise tax	Tax maturity for May 2019 (only the excise tax on alcohol)
		Tax return for June 2019
		Tax return for claiming of refund of excise tax, for example on fuel oil, other petrol (benzine) for June 2019 (if applicable)
Tuesday, 30	Energy taxes	Submitting a notification about meeting the obligation to ensure minimum amount of biofuels and maturity of the related security
Wednesday, 31	Income tax	Payment of special-rate withholding tax for June 2019

Tax liabilities – August 2019

August

Friday, 9	Excise tax	Tax maturity for June 2019 (excluding excise tax on alcohol)
Wednesday, 14	Intrastat	Submission of statements for intrastat for July 2019, paper form
Friday, 16	Intrastat	Submission of statements for intrastat for July 2019, electronic form
Tuesday, 20	Income tax	Monthly payment of deducted advance payments on personal income tax from employment
Monday, 26	Value added tax	Tax return and tax for July 2019
		EC Sales List for July 2019
		Tax control statement for July 2019
	Energy taxes	Tax return and tax maturity on gas, solid fuels and electricity for July 2019
	Excise tax	Tax maturity for June 2019 (only the excise tax on alcohol)
		Tax return for July 2019
		Tax return for claiming of refund of excise tax, for example on fuel oil, other petrol (benzine) for July 2019 (if applicable)

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The Latest Schedule of the OP PIK Calls

The table below presents the latest schedule of the calls under the Business and Innovations for Competitiveness Operational Programme ("OP PIK") that has already been announced, or will be announced in the near future, including the deadlines for submitting subsidy applications in individual programmes.

Programme name	Programme focus	Type of call	Types of recipients*	Planned date for accepting grant applications
Real Estate Call II– Integrated Territorial Investment Hradec-Pardubice	Subsidy for modernising manufacturing premises and reconstructing the existing obsolete business infrastructure and brownfield structures	Ongoing	SME	From 2 May 2019 To 2 May 2020
Energy Savings in Heat Supply Systems Call IV	Subsidy for reconstructing and developing heat supply systems, and increasing the efficiency of cogeneration	Ongoing	SME, LE	From 1 Oct 2019 To 1 June 2020
Technology – Integrated Territorial Investment Ostrava Call II	Subsidy for start-up businesses for the acquisition of new machinery, technology devices and equipment	Ongoing	SME	From 30 Aug 2019 To 30 June 2020
Technology – Integrated Territorial Investment Olomouc Call II	Subsidy for start-up businesses for the acquisition of new machinery, technology devices and equipment	Ongoing	SME	From 1 Oct 2019 To 1 Oct 2020
Technology – Industry 4.0 Call XI	Subsidy for non-production technologies and their connection to the production process	Ongoing	SME	From 1 Aug 2019 To 1 Nov 2019
ICT in Enterprises Call VI	Subsidy for acquiring new technologies and services in the area of IS/ICT solutions	Ongoing	SME, LE	From 1 Nov 2019 To 1 April 2020
Real Estate Call IV – Tourism	Subsidy for modernising outdated buildings for the development of business activities in the area of tourism	Ongoing	SME	From 3 Oct 2019 To 3 March 2020
Real Estate Call IV – Coal Regions	Subsidy for modernising outdated buildings for the development of business activities in the area of coal regions	Ongoing	SME	From 3 Oct 2019 To 3 March 2020
Energy Savings Call V	Subsidy for activities related to final energy consumption savings	Ongoing	SME, LE	From 16 Sept 2019 Do 30 April 2020
ICT in Enterprises Call VI	Subsidy for acquiring new technologies and services in IS/ICT solutions	Ongoing	SME, LE	From 1 Nov 2019 To 1 April 2020
Real Estate Call II – Integrated Territorial Investment Hradec-Pardubice	Subsidy for modernising manufacturing premises and reconstructing the existing obsolete business infrastructure and brownfield structures	Ongoing	SME	From 2 May 2019 To 2 May 2020

** SME – small and medium-sized enterprise, LE – large enterprise*

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Energy Savings and Renewable Energy

In early July, the Ministry of Industry and Trade of the Czech Republic is going to publish several calls focusing on the treatment of energy resources. Specifically, this will involve the Energy Savings and Renewable Energy programmes.

Energy Savings

Call V in the Energy Savings programme will support projects focusing on decreasing the energy intensity of enterprises. The subsidy applies, *inter alia*, to the reconstruction and modernisation of facilities producing energy for own needs and the electricity, gas and heat distribution systems with the aim of increasing the efficiency of or modernising the lighting systems of buildings and industrial parks.

Eligible applicants include small and medium-sized enterprises. The subsidy relates to tangible fixed assets, intangible fixed assets necessary for the operation of tangible fixed assets, energy assessment report and project documentation.

The maximum subsidy provided to a single project amounts to 50%, 40% and 30% of eligible expenses for small, medium-sized and large enterprises, respectively. The amount of subsidy for the energy assessment report and project documentation is 60-80% of eligible expenses, based on the size of enterprise.

According to the current schedule, applications will be accepted from 16 September 2019 to 30 April 2020. This is an ongoing call. Projects must be realised in the Czech Republic outside the Capital of Prague, whereby the deciding factor is the actual place of the project implementation.

Renewable Energy

Call V in the Renewable Energy programme will support projects using renewable energy resources for energy production and distribution. The subsidy applies, for example, to the construction, reconstruction and modernisation of small hydroelectric power stations, distribution of heat from the existing biogas stations, construction and reconstruction of combined heat and power generation from biomass, construction and reconstruction of wind power plants or solar collectors etc.

Eligible applicants include small and medium-sized enterprises. The subsidy related to tangible fixed assets, intangible fixed assets necessary for the operation of tangible fixed assets, energy assessment report and project documentation.

The maximum subsidy provided to a single project amounts to 40-80% of eligible expenses, based on the size of enterprise and type of supported activity.

According to the current schedule, applications will be accepted from 2 September 2019 to 31 March 2020. This is an ongoing call. Projects must be realised in the Czech Republic outside the Capital of Prague, whereby the deciding factor is the actual place of the project implementation.

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Amended Interpretation of the National Accounting Council for Stock-count Differences on Inventories and Fixed Assets

In this issue of the Accounting News, we will briefly summarise the main features of Interpretation I-39 of the National Accounting Council entitled "Stock-count Differences on Inventories and Fixed Assets".

About the National Accounting Council

The National Accounting Council (the "NAC") is an independent professional institution promoting professional competencies and ethics in the development of accounting professions and in respect of accounting and financing policies. Its members include the representatives of significant professional organisations (the Czech Chamber of Auditors, the Czech Chamber of Tax Advisors, the Accountants' Union) and academia (University of Economics).

The National Accounting Council's primary mission is to cooperate with the Ministry of Finance, and other governmental, legislative and other institutions in drafting legislation and the related norms on accounting. Also, the Council's task is to create, update, publish and distribute the Czech Accounting Standards and interpretations of the National Accounting Council.

Interpretations of the National Accounting Council

The interpretations express the expert opinions of the National Accounting Council on hands-on application of Czech accounting rules. The interpretations are not legally binding. Their aim is to contribute to the formation of optimal and unified accounting and financial reporting procedures. They namely focus on issues that are either not addressed by Czech accounting regulations or that are not tackled sufficiently. Also, the focus is on areas for which no unified treatment is applied in day-to-day accounting practice.

Interpretation I-39 – Stock-count Differences on Inventories and Fixed Assets

Interpretation I-39 (hereinafter the "Interpretation") was issued in April 2019 with the aim of defining a uniform accounting treatment of selected contentious cases of stock-count differences on inventories and fixed assets.

This area of accounting is governed by two accounting regulations – Regulation No. 500/2002 Coll. for businesses (hereinafter the "Regulation") and Czech Accounting Standard for Businesses No. 007 "Stock-count differences and losses as part of the standards for inherent inventory disposals" (hereinafter "CAS"), dealing with the accounting for stock-count differences on fixed assets as well. A closer look at those accounting standards will reveal that both regulations stipulate the same requirements as regards accounting for a shortfall or deficit – these have to be recognised under operating or financial expenses based on the underlying activity. However, the regulations differ in terms of accounting for surpluses. While the Regulation requires recognising surpluses under operating income, a correction of expenses (i.e. crediting surpluses to expenses) is required by CAS.

The Interpretation only addresses selected issues relating to stock-count differences.

The fundamental conclusions of the Interpretation are as follows.

Initially, it is necessary to assess whether the stock-count differences are caused by a prior year error or whether they arose in the current period:

- If the stock-count difference is assessed as a **prior year error**, it will be important to identify whether the error arose solely in the prior period or in multiple prior periods. In such a case, Interpretation I-29 has to be applied, stipulating that an error must be reported in the comparable period to which it relates, or as part of equity presented in the most recent financial statements. According to the Regulation, correction of this error, if material, will be recognised in the item "A.IV.2. Other profit or loss from prior years". Immaterial errors are charged to expenses or income of the current reporting period.
- If the stock-count difference is due to an **error arising in the current reporting period**, a standard correction corresponding to the specific accounting case will be made.

Accounting for inventory surpluses

The Interpretation prefers for inventory surpluses to be accounted for as a correction of expenses, i.e. crediting surpluses to expenses instead of to income. This is a correction of the value of inventory released from the warehouse rather than additional income from the entity's activity.

Accounting for fixed assets deficits and surpluses

The Interpretation specifies that accounting for stock-count differences on fixed assets depends on whether the fixed assets are or are not depreciated/amortised and to which reporting period they relate.

1. Deficits relating to the current period

a. Depreciated/amortised assets – the carrying amount of these assets is recognised (and the assets are disposed of):

DR Other operating expenses
CR Accumulated depreciation/amortisation

b. Assets that are not depreciated/amortised – the assets being disposed of are recognised (and disposed of):
DR Other operating expenses
CR Tangible fixed assets that are not depreciated

2. Deficits relating to the prior period

The entity should consider an alternative accounting treatment giving a true and fair view, including an adjustment (if any) to comparative data in the financial statements.

3. Surpluses relating to the current or prior periods

The Interpretation stipulates that asset surpluses should not be recognised under operating income (as required by the Regulation); however, where asset surpluses relate to the current period, they should be treated as an adjustment to the original accounting treatment. Asset surpluses relating to prior periods should be usually accounted for and recognised as a prior year error.

a. Depreciated/amortised assets
DR Tangible/intangible fixed assets
CR Accumulated depreciation/amortisation

In this case, the surplus of depreciated/amortised assets are reported in the zero carrying amount. This accounting treatment is recommended by the Interpretation in the event that the respective assets have already been fully depreciated/amortised. However, if the surplus arose from an inappropriate recognition or valuation of assets in the current reporting period, the Interpretation stipulates that "the entity must determine an accounting treatment giving a true and fair view of the economic use of the asset, its carrying amount and reflecting the surplus in the period to which it relates."

b. Assets that are not depreciated
DR Tangible fixed assets
CR Registered capital and capital funds

This accounting treatment may be used when the asset surplus relates to the current period. However, if the surplus relates to one of the prior periods, this may be a prior year error. In this event, it will also be necessary to adjust comparative data in the financial statements.

The Act on Accounting requires that assets newly reported in the accounting records (such as a stock-count surplus) be measured at replacement cost. In line with the Interpretation, if, however, the surplus arises from an incorrect accounting treatment or measurement in prior periods, its measurement will have to correspond to the measurement which would be applied upon the origination of the surplus as if the assets were accounted for correctly.

The full wording of the Interpretation can be found on the National Accounting Council's website.

Zdroj: www.nur.cz

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All Listed Companies in the EU Will Submit Their Annual Financial Statements Digitally from 1 January 2020

On 3 June 2019, the European Commission put forward new rules to support the digitalisation of corporate reporting and to achieve greater transparency of the yearly information disclosed by companies listed in the EU capital markets.

The new European Single Electronic Format (ESEF) proposed will make companies' financial records more readable and accessible. Under the new rules, from January 2020 all listed companies will need to finalise their annual financial reports using up-to-date digitalised business reporting systems (XHTML and iXBRL) which improve accessibility, and make the information much more user-friendly. The move will also facilitate the availability of key financial information in all EU official languages.

XHMTL (eXtensible HyperText Markup Language) can be opened with standard web browsers and can be prepared and displayed depending on the preferences of an individual issuer. Where the annual financial report contains IFRS consolidated financial statements, these shall be labelled with XBRL tags. XBRL (eXtensible Business Reporting Language) is a freely available and global framework for exchanging business information. XBRL tags make the labelled disclosures structured and machine-readable. This facilitates software supported analysis and comparison of different reports, granting investors a key tool to support their investment decisions. Furthermore, as XBRL taxonomies can contain labels in several languages, users can compare numerical information in the financial statements across issuers even though the issuers prepare their financial statements in different languages. In addition to that, for individual users of financial data, the machine-readable XBRL information is easily transformable to other formats such as SQL or Excel, avoiding onerous manual rekeying.

In support of these new rules, the European Securities and Markets Authority (ESMA) has prepared an ESEF Reporting Manual and ESEF taxonomy files to help companies in their preparation. The new provisions will be updated on a yearly basis to reflect possible updates to the International Financial Reporting Standards (IFRS) taxonomy, which aims to improve communication between preparers and users of financial statements. More information is available here.

Zdroj: www.IASPlus.com
http://europa.eu/rapid/midday-express-29-5-2019.htm?locale=en#10

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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 28 March 2019.

As of 26 June 2019, 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 3 *Definition of a Business* (issued in October 2018)
- 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 1 and IAS 8 *Definition of Material* (issued in October 2018)
- *Amendments to References to the Conceptual Framework in IFRS Standards* (issued in March 2018)

Click here for the Endorsement Status Report

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US GAAP

FASB issued targeted transition relief for entities adopting ASU 2016-13

In May 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2019-05 which provides transition relief for entities adopting ASU 2016-13 *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*.

ASU 2016-13 Financial Instruments — Credit Losses

Accounting Standards Update No. 2016-13 *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* was issued in June 2016 and introduced the expected credit losses methodology for the measurement of credit losses on financial assets measured on an amortized cost basis, replacing the previous incurred loss methodology. Update 2016-13 also modified the accounting for available-for-sale debt securities, which must be individually assessed for credit losses when fair value is less than the amortized cost basis.

The amendments affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures and reinsurance receivables.

Effective Date

For public business entities that are U.S. Securities and Exchange Commission (SEC) filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. For all other public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. All entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

ASU 2019-05 Financial Instruments — Credit Losses — Targeted Transition Relief

Recent amendments in this ASU 2019-05 *Financial Instruments — Credit Losses —Targeted Transition Relief* provide targeted transition relief that is optional for, and will be available to, all reporting entities within the scope of Topic 326. The intention of these amendments is to increase comparability of financial statement information for some entities that otherwise would have measured similar financial instruments using different measurement methodologies.

ASU 2019-05 amends ASU 2016-13 to allow companies to irrevocably elect, upon adoption of ASU 2016-13, the fair value option on financial instruments that (1) were previously recorded at amortized cost and (2) are within the scope of ASC 326-20 *Financial Instruments — Credit Losses — Measured at Amortized Cost* if the instruments are eligible for the fair value option under ASC 825-10 *Fair Value Measurement — Overall*. The fair value option election does not apply to held-to-maturity debt securities. Entities are required to make this election on an instrument-by-instrument basis.

Effective Date and Transition Requirements

a. For entities that have already adopted the amendments in Update 2016-13
   The amendments in ASU 2019-05 are effective for fiscal years beginning after December 15, 2019, including interim periods therein. An entity may early adopt the ASU in any interim period after its issuance if the entity has adopted ASU 2016-13. ASU 2019-05's amendments should be applied "on a modified-retrospective basis by means of a cumulative-effect adjustment to the opening balance of retained earnings balance in the statement of financial position as of the date that an entity adopted the amendments in ASU 2016-13." Certain disclosures are required.

b. For entities that have not yet adopted the amendments in Update 2016-13

The effective date will be the same as the effective date in ASU 2016-13 (see above).

Sources: www.iasplus.com

ASU 2016-13

ASU 2019-05

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The Czech Republic is among the countries that have set a national definition of a family business. Deloitte Legal was involved in its preparation

Family businesses have to be considered a significant element of the Czech economy which is worth supporting. They often operate in regions, where they create additional jobs and maintain regional products, increase local employment rate and work as a prevention of depopulation of the countryside. They also show a relatively high stability and they can therefore support the economy even in times of recession. Until now, however, we have lacked a national regulation that would clearly define a family business as such.

This changed in mid-May, when the Government ruled to approve the definition of family business. The Czech Republic thus joined the ranks of countries having a national regulation of family business. This opens the way to better support for companies in the future, whether it involves obtaining grants or employing family members, although in the first stage the definition will be used primarily for a statistical tracking of family businesses. The authors of the definition included a team of lawyers from Deloitte Legal who helped with a survey of tried and tested foreign methods in this area and subsequently with the creation of the definition itself.

How did we look for the definition? We involved the international network Deloitte Legal – first of all we mapped whether family business is regulated in other European countries, and if so, how. This research showed that no EU country currently has a comprehensive regulation of family business, but in certain aspects family business is often taken into account in the laws of other countries. In Slovakia, an entire draft bill was prepared on family business, but it was ultimately not adopted. This proposed Slovak regulation became an inspiration for the Czech definition, given the similarity of the Czech and Slovak law.

The Czech Republic has so far not opted to define family business in a legal regulation (the definition was adopted by a Government resolution), but it is certainly not ruled out in the future.

A family business is a family business corporation or a family trade

The Association of Small and Medium-Sized Enterprises and Crafts of the Czech Republic, which has long been fighting for a better support of family business by the state, contacted Deloitte Legal lawyers with the objective of defining what exactly is meant by a family business. Bohumil Havel, the author of the Business Corporations Act, was also invited to cooperate.

The final Czech definition of a family business includes a family business corporation and a family trade and its literal wording is as follows:

1. A family business corporation is a business corporation where more than a half of the owners are members of a family and at least one member of this family is the corporation's statutory body, or where the members of a family directly or indirectly perform most of the voting rights and at least one member of this family is a member of the business corporation's statutory body. A family business corporation is also a business corporation where the majority of voting rights are performed in favour of a family by a foundation or the trustee of a trust fund, provided that at least one member of this family is simultaneously a member of the statutory body of the foundation or the trustee of the trust fund.
2. A family trade is a business where at least two members of a family are involved through their work or assets and at least one of the members of this family holds a trade or similar licence or is authorised to perform business for another reason.
3. For the purposes of a family business, the members of a family refer to spouses or partners working together or at least one of the spouses or partners with their relatives up to the third degree, persons related by affinity to the spouses or partners up to the second degree, lineal relatives or siblings. If one of them is a person who is not fully legally competent, this person is represented in voting by a legal representative; if the person is underage, he or she is represented by a guardian.

Have a look at how our flagship Deloitte Private works with family businesses.

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Future challenges of fast growing businesses: What happens if you ignore red flags?

If you type "compliance" into your browser, you instantly get almost 1 billion search results. In the last few years, many corporate scandals went public and got us all thinking about compliance more than ever before. Especially if your company is among the fastest growing on the market. How to prevent complications that can lead to prosecution, huge financial losses, or even extinction of your company?

You probably had a great idea a few years back and a few motivated colleagues, an office or a garage where you spent all your day. Now, you may have hundreds of employees, you do not meet your old team mates that often, you are no longer a small company where a "gentlemen's agreement" was a way of doing business. You are realising that although you hated all those systems and policies of big corporations, you actually need some of them.

You are probably asking yourself a question: Is it sustainable to work and do business the same way as a couple years back or does something need to change the bigger and wealthier you get? You might not sleep well because the competition also does not sleep and you never know who could misuse, or leak your know-how, IP or other assets which are worth a fortune. And if you have not thought about it yet, well… Maybe this is the right time. Because if you do not prepare for current and future challenges, in the worst case, your business may not even be here in a couple of years.

Five benefits of being compliant

Thinking about compliance today may not only protect your company but also grow your company's value in the future.

Nowadays, being compliant is getting more and more important (as well as complicated) due to heavier regulation companies have to comply with. We know creating a compliant organisation might be a bit of a challenge. However, implementation of or enhancement into an effective compliance programme actually provides **attractive benefits and competitive edges such as:**

1. Creating a detailed in-house manual for everyday processes and regular internal controls – the **company works transparently with clearly defined duties and responsibilities**;
2. Supporting **respectful corporate culture**;
3. **Empowering trustworthiness and brand loyalty** towards the investors, business partners and customers;
4. **Reducing reputational risk and mitigating the damage** by protecting the company from criminal liability and other types of liability; and
5. **Increasing value of the company** in an acquisition process or when seeking an investor.

Looking for a needle in a BIG DATA haystack

We are often facing clients telling us: We never thought or expected this could happen to us. We never thought that our loyal employees would leave our company, take sensitive corporate information with them and start working for the competition building on our unique ideas. How come our whole customer database was lost or stolen? Who leaked our idea that we just wanted to get a patent on? Why do our employees collaborate with our suppliers and conclude contracts disadvantageous for our company? Why did the police raid our offices and take our computers and servers? and so on and so forth…

Poorly trained employees causing data breaches and white-collars participating in bid rigging or financial statement frauds are just a few examples of individuals' misconduct that may lead to severe damage to a company. Usually, a company detects misconduct after the damage is done and going public is just too risky.

In such situations, we can of course help you find out what happened, how it happened and who the perpetrator is. It may sound very simple, but finding a needle in a big data haystack may take some time, despite all the tools and technology we employ. The most challenging is the aftermath: Should I claim damages? Should I file a criminal complaint? How do I get rid of an unfaithful employee? Can I sue that person? Is the evidence strong enough to go to battle?

No effective compliance? Prosecution as the worst scenario

You can try to file a claim against the employee and you end up being told by the court that your company actually "enabled" your employee to cause damage to your company due to having insufficient precautions, lack of control mechanisms. You have ignored red flags and alerts that something is going on many times and you might have easily missed the statutory deadlines to dismiss the employee.

Companies with no effective compliance mechanism cannot simply step aside from its employees or management misconduct but in the worst case (which statistically happens quite often), the companies themselves end up being sued or prosecuted. Companies charged with criminal offence have a tough task proving such misconduct is a mere individual's failure, not the company's "best practice" and that the company has a sufficient compliance programme in place. Nevertheless, forensic investigations that we work on with our Deloitte forensic experts usually discover many "back doors" in corporate systems and a lack of control mechanisms, hence in real cases companies are lacking a proper compliance programme.

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