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dReport: October 2019

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Motivational Programmes: What to Bear in Mind

We have been recently encountering an increasing number of situations where as part of the sale of products and services companies provide their business partners not just with various discounts and turnover bonuses but also with all kinds of incentives targeting primarily the business partners' employees, who are essential in the sale of products. Let us focus our article on these "motivational programmes" from the tax perspective.

The backwater of established practice has been recently stirred up in particular by the ruling of the Supreme Administrative Court ("SAC") ref. no. 1 Afs 162/2018 Coll. The case handled by the SAC dealt with whether Československá obchodní banka, which provided the employees of Česká pošta with motivational contributions based on sales criteria, should increase the income paid out to Česká pošta's employees to so-called "super-gross salary" for the purposes of calculating the tax base. The conclusion of the Supreme Administrative Court was favourable for the bank, since the SAC concluded that it had not been demonstrated that Česká pošta's employees performed the activities directly for the bank, rather, the contents of the file indicated that the remuneration was for the performance of activities directly for Česká pošta.

However, we know from experience that not all motivational programmes are set up in a similar way as the case described above. We often come across situations where employees of business partners directly perform activities for the provider of the motivational programmes, while the business partner (their employer) often remains unaware. In such cases, the referenced conclusion of the Supreme Administrative Court about not increasing the tax base with the super-gross salary would probably not apply. At first glance, the payment of the 15% tax on dependent activities from the super-gross salary should not be a major problem for the organisers of the motivational programmes. However, what would be significantly more painful for them would be the fact that in addition to the obligation to pay tax on dependent activities from the income of the business partner's employee, the motivational programme organiser would also become an "employer" in terms of the definition of insurance regulations, with the obligation to pay social security and health insurance contributions from the remuneration paid to the business partner's employees. On the one hand, the provider includes the motivational bonuses in its tax-deductible expenses; on the other hand, the contributions related to the fiction of dependent activities would represent a more substantial burden for the motivational bonus provider in terms of costs.

Detailed assessment of tax implications pays off

Another thing that follows from the aforementioned ruling of the Supreme Administrative Court is that there was no indication of doubt that if the activities were performed for Československá obchodní banka, this company would be a payer of tax on dependent activities with the obligation to make personal income tax prepayments for the employees of Česká pošta. Therefore, if you organise any motivational plans and reward the employees of your business partner as part of these plans, we recommend conducting their detailed revision and careful assessment of the possible tax impact. We see a possible solution either in the adjustment of the conditions of the plan so that the obligation to pay contributions from salaries would be shifted to the business partner, or in the scope of the performance provided to the employees of the business partner and the transfer of this performance to performance exempt from tax.

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News round up

CJEU Case Law

In case C-329/18 Altic, the CJEU assessed the circumstances that may indicate the involvement of a taxable person in a fraudulent activity of a different person. The tax administrator refused the right of Altic to deduct VAT as it had not verified the entries about the supplier in a certain publically available register. In our opinion, the considerations of the CJEU regarding the duties of taxable persons are in partial disagreement with the approach taken by the Czech Tax Administration and the rulings of Czech courts. The CJEU takes a more tolerant approach to the good faith of the taxable persons. Thus, the given judgement could modify to a certain extent the approach taken by tax inspections in the Czech Republic or strengthen the position of taxable persons in a situation when they already are in a dispute with the Tax Administrator.

Case C-42/18 Cardpoint summarised the rules for the exemption of services related to transactions concerning transfers or payments. According to the CJEU, services consisting in operating and maintaining ATMs, replenishing them, installing computer hardware and software in them, sending a withdrawal authorisation request to the bank that issued the bank card used, dispensing money and registering withdrawal transactions, do not fall into the category exempt from VAT. the decisive criterion for the CJEU was the fact that Cardpoint did not have the right to authorise the given transactions. The question is whether the scope of contractual obligations of the companies providing services of ATMs in the Czech Republic corresponds to the above-stated criterion. The relevant persons should indisputably verify the regime of the relevant services in light of case C-42/18 Cardpoint, as the existing rules for VAT exemption have not been formulated clearly.

In judgement C-573/18 "C", the CJEU highlighted the principles for including subsidies from public sources in the tax base for a supply provided to the purchaser/customer by the taxable person. Subsidies that cover price reduction in the ratio 1:1 is to be included in the tax base. The given judgement comes as no surprise and in our opinion, it should not have any significant implications for the common practice in the Czech Republic.

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International Taxes in Brief

Belgian participation exemption infringed on the EU parent-subsidiary directive

In a 5 September 2019 opinion, an Advocate General (AG) to the Court of Justice of the European Union (CJEU) opined that the application of Belgium's dividends received deduction (DRD) in conjunction with the notional interest deduction (NID), infringed the EU parent-subsidiary directive (PSD). Belgium implemented article 4(1) of the PSD through the DRD regime, which provides for an exemption for 95% of qualifying dividends received by a Belgian parent company, via a tax deduction, which may be carried forward for an indefinite period provided the parent company is in a loss-making position. The DRD regime, therefore, does not qualify as a plain tax exemption of dividends but instead functions as an "inclusion-deduction" regime. The Belgian NID provides for a domestic deduction from the tax base equal to a certain percentage of the equity of a company. The AG then determined that the DRD regime applied in conjunction with other tax deductions results in a less favourable position for the parent company, since in certain situations unused NID may be lost after seven years because the DRD must be applied first, whereas this would not be the case if Belgium applied a tax exemption. The AG compared the tax burden imposed under the inclusion-deduction regime with that of a tax exemption regime and found that the former regime resulted in a higher tax burden for the company. According to the AG, the loss of the unused NID results in the indirect taxation of the dividends and thus infringes the PSD.

Commission on taxation of multinationals in the Netherlands

The commission was set up on 1 August 2019 with a broad remit and is expected to publish a final report by the end of 2019. The following points shall be evaluated in the final report: the classification of corporate income tax (CIT) revenues according to different types of companies and sectors, an inventory of the types of companies currently mainly paying CIT and a determination to which extent such companies are multinationals or nationally oriented, and whether they are large or small companies; in which areas the Dutch CIT (for multinationals) differs materially from the income tax in surrounding countries and economically comparable countries and in which of these areas systems are becoming more alike; the importance of multinationals and head offices for the Dutch economy; and whether there is increased tax competition and/or evasion and what that means for the taxation of multinationals.

Germany allows a tax-free repayment of capital by a non-EU subsidiary

In a decision dated 10 April 2019 and published on 12 September 2019, Germany's federal tax court considered the possibility of a tax-free repayment of capital by a non-EU subsidiary and ruled that the payment received by the German corporate shareholder could be treated as 100% tax-exempt repayment of capital. Under German domestic tax law, dividends and liquidation proceeds received from a domestic or foreign subsidiary generally are 95% tax-exempt at the level of the German corporate shareholder, with the remaining 5% being subject to the general corporate tax rate of approximately 30% (including the solidarity surcharge and trade tax, resulting in an effective tax rate of approximately 1.5%). The 5% that is taxable is deemed to represent non-deductible business expenses under the "5% addback rule." To the extent dividends or liquidation proceeds qualify as a repayment of capital, the payment is considered non-taxable and, therefore, 100% tax exempt at the level of the corporate shareholder. To qualify for a 100% tax exemption, it is necessary to provide proof that the payment is not funded from current and/or prior-year profits (retained earnings, earnings and profits (E&P)), but rather is funded from the tax "contribution account". However, German domestic tax law does not specifically address the treatment of a repayment of capital by a non-EU subsidiary to a German corporate shareholder. In light of the court's decision, it is possible that the tax law could be amended, and that a formal approval procedure also could be introduced for non-EU cases. Affected taxpayers that were subject to a 5% add-back in connection with a repayment of capital made by a non-EU subsidiary should carefully revise the facts of their case and consider filing an objection against the relevant assessments and claim a 100% tax exemption for any repayment of capital, based on the BFH's decision.

The investigation of EC on Belgian excess profit rulings

On 16 September 2019, the European Commission announced that it had opened separate in-depth investigations to assess whether rulings granted by Belgium under its excess profit rulings regime to 39 Belgian companies belonging to multinational groups gave those companies an unfair advantage over their competitors, in breach of EU state aid rules. The intention for such investigation has arisen from the recent European General Court's decision (T-131/16 and T-263/16) annulling the Commission decision form 2016, since according to the court, the compatibility of the tax ruling with EU state aid rules must be assessed individually. The opened investigations concern rulings issued by Belgium between 2005 and 2014.

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Tax liabilities – November 2019

November		
Monday, 11	Excise tax	Tax maturity for September 2019 (excluding excise tax on alcohol)
Thursday, 14	Intrastat	Submission of statements for intrastat for October 2019, paper form
Monday, 18	Intrastat	Submission of statements for intrastat for October 2019, electronic form
Wednesday, 20	Income tax	Monthly payment of deducted advance payments on personal income tax from employment
Monday, 25	Value added tax	Tax return and tax for October 2019
		EC Sales List for October 2019
		VAT control statement for October 2019
	Energy taxes	Tax return and tax maturity on gas, solid fuels and electricity for October 2019
	Excise tax	Tax maturity for September 2019 (only the excise tax on alcohol)
		Tax return for October 2019
		Tax return for claiming of refund of excise tax, for example on fuel oil, other petrol (benzine) for October 2019 (if applicable)

Tax liabilities – December 2019

December		
Monday, 2	Real estate tax	Tax maturity of 2nd tax payment (all tax payers with tax duty above CZK 5,000)
	Income tax	Payment of special-rate withholding tax for October 2019
Tuesday, 10	Excise tax	Tax maturity for October 2019 (excluding excise tax on alcohol)
Friday, 13	Intrastat	Submission of statements for intrastat for November 2019, paper form
Monday, 16	Road tax	Advance payment on tax for October and November 2019, possibly the maturity of one advance payment of tax (minimally in amount of 70 % of the annual tax obligation) - in a case of taxpayer, who is an operator of trucks, trailers and semitrailers with maximum allowed weight of 12 tonnes and more, to whom the tax is decreased by 48 % according to § 6 paragraph 10 based on Act on Road Tax
	Income tax	Quarter or half-year tax advance payment
Tuesday, 17	Intrastat	Submission of statements for intrastat for November 2019, electronic form
Friday, 20	Income tax	Monthly payment of deducted advance payments on personal income tax from employment
Friday, 27	Value added tax	Tax return and tax for November 2019
		EC Sales List for November 2019
		VAT control statement for November 2019
	Energy taxes	Tax return and tax maturity on gas, solid fuels and electricity for November 2019
	Excise tax	Tax maturity for October 2019 (only the excise tax on alcohol)
		Tax return for November 2019
		Tax return for claiming of refund of excise tax, for example on fuel oil, other petrol (benzine) for November 2019 (if applicable)
Tuesday, 31	Income tax	Payment of special-rate withholding tax for November 2019

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Announcement of New Calls and Beginning of Receipt of Applications for Support in the Operational Programme Enterprise and Innovations for Competitiveness

Several new calls in the Operational Programme Enterprise and Innovations for Competitiveness 2014-2020 were announced in late September, with the starting date for the receipt of applications for support in early or mid-October. More details are provided below.

Programme Application

Call VII of programme Application supports projects focused on the realisation of activities of industrial research and experimental development leading to specific outputs in the form of prototypes, industrial or utility models, verified technology or software.

Who can request the grant:

- Small, medium-sized and large enterprises. However, large enterprises only under the condition that the project has a positive impact on the environment or if the primary intention of the project is the cooperation of a large enterprise with a small or medium-sized enterprise on a specific project.

What the grant can be used for:

- Staff costs (costs of salaries and insurance of researchers, technicians etc.).
- Costs of tools, devices and equipment in the form of depreciation of tangible movable fixed assets during the time of work on the project.
- Costs of contractual research.
- Non-investment costs of licences purchased or acquired from third parties during the time of work on the project.
- Costs of research and development (hereinafter R&D) advisory services used exclusively for the purposes of the project.
- Additional overheads and other operating expenses.

Grant amount per project:

- CZK 1 million – CZK 40 million for projects without effective cooperation.
- CZK 1 million – CZK 80 million for projects within effective cooperation or within intervention code 063 or 065 (project with a positive impact on the environment or with the primary intention of cooperation of a large enterprise with a small or medium-sized enterprise).

Aid intensity per project:

- Maximum of 70% of eligible costs per entire project depending on the type of activity and size of enterprise.

Receipt of applications:

- 16 October 2019 – 15 January 2020.

This is a call in rounds. The project has to be realised in the Czech Republic, outside of the Capital City of Prague, depending on the actual place where the project is realised. Project realised in districts with a share of unemployed persons higher than the Czech Republic average receive a bonus points.

Programme Innovation

Call VII of programme Innovation (Innovation Projects) focuses on the support of projects introducing new or innovated products, technologies or services in production or on the market. Supported activities include product innovation activities such as strengthening the technical or utility values of products, technologies and services, process innovation activities such as efficiency increase of the production process or provision of services.

Who can request the grant:

- Small, medium-sized and large enterprises. However, large enterprises only under the condition that the project has a positive impact on the environment.

What the grant can be used for:

- Costs of project documentation, including engineering activities.
- Costs of construction.
- Costs of production technology, machinery and equipment.
- Costs of software and data.
- Costs of rights to use intellectual property.
- Costs of product certification.
- Costs of marketing innovation.

Grant amount per project:

- CZK 1 million – CZK 75 million.

Aid intensity per project:
- Maximum of 45% of eligible costs for small enterprises.
- Maximum of 35% of eligible costs for medium-sized enterprises.
- Maximum of 25% of eligible costs for large enterprises.

Receipt of applications:
- 15 October 2019 – 15 January 2020.

This is a continuous call. The project has to be realised in the Czech Republic, outside of the Capital City of Prague, depending on the actual place where the project is realised. Project realised in districts with a share of unemployed persons higher than the Czech Republic average receive a bonus points.

Programme Potential

Call VI of programme Potential supports projects focused on building centres of industrial research, development and innovation. Support is provided for the purchase of land, buildings, machinery/devices and other equipment of the research and development centre.

Who can request the grant:
- Small, medium-sized and large enterprises. However, large enterprises only under the condition that the project has a positive impact on the environment or if the primary intention of the project is the cooperation of a large enterprise with a small or medium-sized enterprise on a specific R&D project.

What the grant can be used for:
- Costs of tangible fixed assets necessary for performing the R&D activities and equipping the R&D centre such as purchase of land, buildings, machinery and other equipment. These assets have to be subject to depreciation (except for land).
- Intangible fixed assets meeting the conditions of the call, up to 50% of total eligible investment costs per project.

Grant amount per project:
- CZK 2 million – CZK 30 million.

Aid intensity per project:
- Maximum of 50% of eligible costs for all enterprise sizes.

Receipt of applications:
- 1 October 2019 – 16 December 2019.

This is a call in rounds. The project has to be realised in the Czech Republic, outside of the Capital City of Prague, depending on the actual place where the project is realised. Project realised in districts with a share of unemployed persons higher than the Czech Republic average receive a bonus points.

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News in the Area of Research and Development Tax Deductions in Slovakia

Is the research and development cost deduction about to become more attractive for companies?

A newly adopted amendment to the Income Taxes Act increases the deduction of R&D costs from the original 100% to 150% for the 2019 taxation period and to 200% for the following taxation periods. The period for the preparation of the R&D project also changes and the project no longer has to be prepared before the beginning of its realisation. The taxpayer is newly required to prepare it within the period for filing the tax return for the period where the deduction was utilised. Companies will also surely appreciate the transfer of the entitlement to deduction, which can now be applied for an additional year longer, i.e. over five years. The objective of these measures is to make the deduction more attractive and to support more extensive realisation of R&D activities.

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Announcement of New Calls and Public Tenders of the Technology Agency of the Czech Republic for the Support of Applied Research and Innovation

The Technology Agency of the Czech Republic announces several new calls and public tenders this autumn focused on the support of applied research and development. They primarily include the following calls/tenders, a more detailed description of some of them is provided below.

- Programme ETA – social sciences and humanities.
- BiodivClim - biodiversity and climate changes.
- Programme ZETA – young research generation and gender.
- CHIST-ERA IV Call 2019 – information and communication technology.
- Programme THETA – power industry.
- Programme KAPPA – international cooperation.
- Programme Environment for Living (Ministry of the Environment) – the environment and climate.

Fourth public tender of programme Zeta

The support from this programme is intended for projects of cooperation of enterprises with the academic sphere via the involvement of students and young researchers up to 35 years of age.

The objective is involving students and young researchers in research and development activities leading to the use of the results in practice, increasing their interest in projects with a practical impact and supporting academic projects with a connection to the economic sphere. A necessary requirement of the projects is achieving a certain type of result, such as prototype, functional sample, software, industrial or utility model etc.

Who can request the grant:

- The tender applicant may be an enterprise or organisation for research and spreading knowledge, but the project has to contain at least one application guarantor.

What the grant can be used for:

- Staff costs, costs of tools and equipment, costs of contractual research, findings and patents, advisory services used for the purposes of the project, additional overheads and other operating expenses directly related to the project.

Grant amount per project:

- Maximum aid amount per project is CZK 5 million.

Aid intensity per project:

- Aid intensity will be calculated separately for each project as well as for each recipient and each participant. Maximum aid intensity per project is 85% of total eligible costs.

Receipt of project proposals:

- 10 October 2019 – 21 December 2019.

International call CHIST-ERA IV Call 2019

This call is part of the EPSILON programme for the support of applied research and experimental development, which will provide funding for successful Czech applicants. The call focuses on the support of research in the area of information and communication technology in two areas:

- Explainable Machine Learning-based Artificial Intelligence.
- Novel Computational Approaches for Environmental Sustainability.

Support will be provided to projects which anticipate achieving at least one of the results supported by the EPSILON programme, which include industrial or utility model, prototype, software or verified technology.

Who can request the grant:

- Applicants in this tender may be enterprises and research organisations. However, the project has to involve international partners. This international consortium has to be composed of at least three partners, each of which has to be from a different country. Each partner in the consortium has to meet the conditions of its national provider.

Grant amount per project:

- Maximum aid amount per project is EUR 1,000,000.

Aid intensity per project:

- Maximum aid intensity per project within one country is 60% of total aid.
- One partner can request no more than 40% of total aid.

Receipt of project proposals:

- 31 October 2019 - 16 December 2019.

Third public tender of programme Theta

Aid from the THETA programme for the support of applied research, experimental development and innovation is intended for projects in the area of the power industry. Support will be provided primarily for improving management in the power industry, new technologies and system elements with a high potential for quick utilisation in practice and long-term technological perspective.

Who can request the grant:

- The tender applicants may be enterprises and research organisations.

What the grant can be used for:

- Staff costs, costs of sub-contracts, other direct costs and scholarships.

Grant amount per project:

- Maximum aid amount per project is CZK 10 million or unlimited, depending on the type of activity and applicant.

Aid intensity per project:

- Maximum aid intensity per project is 60 – 90% depending on the type of activity and applicant.

Receipt of project proposals:

- 24 October 2019 - 19 December 2019.

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Discounts in Czech Accounting

Discounts, prompt payment discounts, percentage discounts and bulk discounts are business tools used by both small and large companies in marketing in various industry sectors. We have become used to discounted prices and encounter discounts in stores on a daily basis.

We could argue whether the use of a discount relates to the quality of provided products and services and whether it is reflected in customer psychology. However, we will leave this very interesting topic aside for now and focus purely on the accounting perspective, which is not as straightforward after an in-depth analysis as it might appear at first glance. In a figurative sense, even here "discount is not for free". An accounting professional needs to train his/her judgement in how to recognise the discount correctly, whether it has an impact on valuation, what its tax implications are, etc.

What types of discounts can be used, what legal regulations stipulate the issues of discounts and how to correctly account for discounts from the perspective of a provider and recipient of the discount – we will focus on this topic in the following paragraphs of the article. The article discusses purely the accounting perspective in terms of the presentation and valuation of selected types of discounts, it does not address the requirements of tax regulations for documentation and tax treatment of discounts.

Where we can read about discounts in Czech legal regulations

Even though there are so many discounts around us, do not bother trying to find comprehensive and exhaustive legal guidance on accounting for discounts in Czech regulations. Actually, the only regulation which at least mentions discounts is Czech Accounting Standard for Businessmen No. 019 "Expenses and income". More precisely, this standard offers a very general definition of the discount, in paragraph 4.1.1. as "*all items regardless of whether a customer was entitled to the discount in advance, or whether it is an additionally granted discount, for example due to poor quality*". At the same time, it provides a vague guideline on how to connect discounts to a specific accounting transaction: *"Discounts and deductions are part of sales for a supplier, however separate sub-ledger accounts may be established for them."* It is possible to say that this definition does not reflect a large range of discounts that are currently available on the market, it is also one-sided – based on the attitude of the supplier, i.e. the one who generates income from performed supplies and then provides a discount from that income.

For this reason, we will have to do with generally applicable accounting principles and experience with their application in practice. We mean primarily the prudence principle, i.e. is the customer actually entitled to receive a discount, or what is the likelihood of meeting the criteria for recognition of turnover bonus, as well as the accruals principle, i.e. recognise discounts in accounts in which the primary transaction was recognised to which the discount relates, and in the period in which the primary discount was made.

Discount, percentage discount, bulk discount or prompt payment discount?

- When we say discount, any price reduction comes in mind which is provided by a supplier to a customer, or a seller to customers.
- Percentage discount is a deduction from the selling price, but unlike a discount, it is usually expressed in percentage terms.
- Bulk discount is perceived as a price reduction for the purchase of a larger than standard quantity in one or several supplies, typically for a certain time period or on a cumulative basis for a historical period.
- Prompt payment discount is a financial benefit based on the condition of early or timely payment.

For all the above terms, there is no clearly defined link of the discount type to the manner of its recognition. Each of the above discussed type of price reduction must be assessed based on specific circumstances when an entitlement for the discount originated. A very important issue in determining the correct accounting entry is the reason for which the price was reduced, link to the primary transaction from which the price is adjusted, and the period in which the transaction was made.

In general, we can assume that it is appropriate to account for all types of discounts in the same manner as the item, to which the relevant discount relates, was accounted for. If the discount relates to an item that was accounted for through the profit and loss account, in certain expense or income accounts, then it is necessary to account for the discount as a decrease in certain expense or income items. If the discount relates to the acquired asset which has not yet been "used" (usually inventory or assets), it is necessary to recognise the discount as reduction in the value of a particular asset. Situations may also occur where the discount is not simply included in expenses or income but instead it is for example accrued.

Let us discuss the most frequent types of transactions that generate an entitlement for discount, from the perspective of the provider and the recipient of the discount.

Methods of accounting

The most common method of price reduction is a **discount** from the originally announced price. For example, a discount from the price stated in a price list of sold material based on an agreement between a supplier and a customer that resulted from poor quality of the supply or late supply. It is recognised in income of a customer, or in expenses of a supplier, to which it relates and in the period in which the transaction was made.

In the event of a purchase of a larger quantity of material, a bulk discount is provided. The costs of the purchase of material are recognised by the customer, i.e. recipient of the discount to the debit side of account 501 and therefore the provision of the discount decrease these costs to which the discount relates, i.e. The discount is recognised in debit 321/credit 501. If the discount related to items of material in stock, the value of material is directly decreased - debit 321/credit 112. Or there can be a potential concurrence when the discount relates partially to the already used material and partially unused material (in stock) – then it is necessary to divide the discount. The supplier, i.e. the provider of the discount, makes an accounting entry debit 60x / credit 311 due to the provided discount.

The second case may be the provision of a bulk discount for exceeded the purchased quantity for a certain time period, in practice referred to as turnover bonus. Upon the meeting of defined conditions that are known to the seller and the buyer at the time of the transaction, but the likelihood that they will be met is assessed for a certain time period, the accounting treatment as in the previous case, follows the accounting treatment of the primary transaction.

In practice, there are situations when the turnover bonus can be determined only after the end of the reporting period and according to the fulfilment of the criteria, the bonus is either granted or not. In this case, it is necessary to note the necessity of accounting for estimated payables or reserves pursuant to the likelihood of the discount, upon the meeting of the conditions for such bonuses.

A typical example is a turnover bonus for purchased quantity in a certain time period which exceeds the current reporting period of the company and is consequently assessed only in the following reporting period. In such a situation, if it is likely that the company will meet the condition for being granted the bonus, an accounting estimate is recognised for the anticipated amount of the bonus relating to the current reporting period. For the provider of the discount, it is an outflow of funds, i.e. recognised in debit 60x/credit 389 (or through reserves debit 554/credit 459). For the recipient of the discount, it is an anticipated inflow of funds, i.e. recognised in debit 388/credit 50x (or credit 112). We apply the accrual principle and the prudence principle in order to reflect the impact of the provided bonus in the relevant period, i.e. The current reporting period in which the primary transaction was made to which the bonus relates. If we are unsure about the entitlement for the bonus, we estimate only an adequate part. Or, if we know that we did not meet the limit and we will not be entitled to the bonus, we do not account for an estimated amount. In any event, a company must have its assumption and likelihood of achieving the discount appropriately documented by way of arguments and calculations.

Another case is the price reduction when the payment condition is met, prompt payment discount for a timely payment. If I pay an invoice, as a customer, before the due date, and it is agreed with the supplier, I can reduce the original price by a certain percentage, or an amount known in advance. In this case, we know about the condition for the discount in advance and we use the discount if we meet the conditions for the discount. In practice, these discounts are often accounted for as a financial expense or financial income. An alternative perspective says that prompt payment discounts are neither financial expense nor financial income, they are simply a manner of determining the total amount of supplies on which the buyer agreed with the seller depending on certain contractual conditions determined in a variable manner and then prompt payment discounts are accounted for as other discounts in the operating part of the profit and loss account, as discussed above (or by a decrease in the valuation of fixed assets or inventory). Where is the boundary regarding which procedure should be used? the purchase/selling practice in various industry sectors currently works with discounts in a targeted manner, discounts are reflected in calculations, and systematic interest in discounts is noticeable, rather than an ad-hoc use upon payments. Increased systematic interest evokes work as with other discounts, if it is an ad-hoc use of a prompt payment discount, the presentation of prompt payment discounts in the financial section of the profit and loss account may be appropriate.

Another case when a presentation in the financial section of the profit and loss account is apparently more appropriate may be a situation when a contract between the seller and the buyer sets out a due date which is rather long (e.g. 90 days or more) and concurrently determines the entitlement to the prompt payment discount. In such a case, given the significant length of the time period for which the discount is provided, it is a tool of financial nature and the discount would therefore be a financial expense or income.

In addition to the aforementioned cases of discounts provided, in practice we can come across the provision of discounts such as “every tenth product free”. The customer purchases and recognises ten products at the same reduced cost and the discount is distributed across all the ten pieces received. As for the supplier, the tenth product is issued out of stock at internal expenses just like the preceding nine products and the discount on the provision of the tenth product is reflected in the decreased revenue from the sale, i.e. a lower sales margin.

Not every price reduction can be considered a discount. Another situation concerns the “nomination fee”, which is also sometimes referred to as “pay to play” etc. It consists in the liability of the supplier (usually the producer) to pay a specific amount to its customer for the opportunity to obtain some kind of future order (often not entirely precisely defined), at a specific time, without having already produced let alone supplied anything. For the supplier, the payment represents an additional expense reported in the current period or accrued over the duration of the project or the contract term. The accounting professional has to

consider, among other things, whether the "nomination fee" can be considered a "marketing" expense with the objective of maintaining the position on the market or increasing turnover, and assess whether it is possible to identify the benefit provided in relation to individual deliveries, especially if such a direct connection is not defined by the supplier. Then the payment received from the supplier is recognised in other operating income.

In any case, we recommend including the selected method of recognising and reporting the individual discounts in an internal policy or directive to ensure a consistent approach in similar cases in the future. The notes to the financial statements should describe the methodology for the users.

Conclusion

We acknowledge that the current system of using discounts has become part of our lives and it is a very effective tool used to influence customer consumer behaviour. It is necessary to keep correct accounting records of discounts. Understanding the reasons for price reduction in relation to the primary transaction to which the discount relates is helpful in presenting true and fair accounting records. The notes should also describe types of discounts and their accounting treatment for users of the financial statements.

Let us add that other interesting marketing tools containing elements of discount that are widely used and have very specific features include various forms of loyalty programmes. These should always be addressed on an individual basis, which places considerable demands on accounting professionals, not to mention the potential increased variability caused by reporting under IFRS (especially with respect to IFRS 15 *Revenue from Contracts with Customers*).

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Invitation to Seminars

News in Czech Accounting

Prague, Brno, Ostrava, Pilsen and Hradec Kralove

We would like to invite you to Deloitte's traditional autumn seminar focusing on financial statements and accounting in the Czech Republic. The seminar will comprise practical examples and tips in the areas where, as advisors and auditors, we come across the most findings. Furthermore, we will introduce to you the concept of new accounting legislation for the period 2020 -2030, which is in the process of preparation. We will also discuss the planned changes to the Czech accounting legislation related to the forthcoming amendment of the Act on Business Corporations. The programme will also include new tax developments and their impact on companies' financial statements.

The seminar is predominantly intended for accountants, economists and financial managers preparing or involved in the preparation of financial statements under Czech accounting legislation and the related tax and legal regulations, and for all of you who want to learn more about Czech accounting and the most recent tax and legal developments.

Seminars will be held in Czech and will be delivered by our professionals.

The seminar is not intended for consultants or employees of companies engaged in providing advisory services.

Dates

Prague:	12 November 2019 and 10 December 2019
Ostrava:	21 November 2019
Pilsen:	5 December 2019
Hradec Kralove:	11 December 2019
Brno:	12 December 2019

More information and registration on: akce.deloitte.cz

Cash Flow

We invite you to a seminar focused on the cash flow statement. We will address which reporting entities have to prepare the cash flow statement and what preparation methods exist. We will use practical examples to see what sources of data can be used when preparing the cash flow statement, what the information value of the individual parts of the statement is and how to approach the preparation of the cash flow statement effectively.

The seminar focuses on the preparation of the cash flow statement using the indirect method for the purposes of the annual financial statements. It does not include cash flow management as part of corporate planning.

The seminar is intended primarily for accountants, economists and finance managers who prepare financial statements under Czech accounting legislation or who are otherwise involved in their preparation.

Seminars will be held in Czech and will be delivered by our professionals.

Dates

Ostrava:	3 December 2019
Prague:	4 December 2019
Brno:	20 May 2020

More information and registration on: akce.deloitte.cz

IASB Amended IFRS 9, IAS 39 and IFRS 7 in Response to the IBOR Reform

On 26 September 2019, the International Accounting Standards Board (IASB) published 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects the IBOR reform could have on financial reporting. The amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.

Background

Interbank offered rates (IBORs) are interest reference rates, such as LIBOR, EURIBOR and TIBOR, that represent the cost of obtaining unsecured funding, in a particular combination of currency and maturity and in a particular interbank term lending market. Recent market developments have brought into question the long-term viability of those benchmarks. Therefore, work is underway in multiple jurisdictions to transition to alternative risk free rates (RFRs) as soon as 2020. Such rates will be based on liquid underlying market transactions, and not dependent on submissions based on expert judgement. This will result in rates that are more reliable and provide a robust alternative for products and transactions that do not need to incorporate the credit risk premium embedded in the IBORs.

The IASB followed a phased response to the reform of interest-rate benchmarks. Phase 1 culminates with the amendments issued on 26 September 2019 and focuses on the accounting effects of uncertainty before IBOR is replaced with an alternative RFR, i.e. The pre-replacement issues. In September 2019, the IASB also started work on Phase 2, which considers the potential consequences on financial reporting of replacing an existing benchmark with an alternative. The first output from this phase of the project will be an exposure draft expected in the first half of 2020.

The recent amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*, which require forward-looking analysis. (IAS 39 is amended as well as IFRS 9 because entities have an accounting policy choice when first applying IFRS 9, which allows them to continue to apply the hedge accounting requirements of IAS 39.) There are also amendments to IFRS 7 *Financial Instruments: Disclosures* regarding additional disclosures around uncertainty arising from the interest rate benchmark reform.

Changes

The changes in *Interest Rate Benchmark Reform* (Amendments to IFRS 9, IAS 39 and IFRS 7)

- modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;
- are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;
- are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and
- require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

Effective date

The amendments are effective for annual periods beginning on or after 1 January 2020, with early application permitted. The amendments are applied retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies the amendments or were designated thereafter, and to the gain or loss recognised in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies the amendments.

More information about these amendments is available in IFRS in Focus from September 2019.

Sources: IFRS in Focus (September 2019)

www.ifrs.org

www.iasplus.com

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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 16 October 2019.

As of 23 October 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* (in October 2018)
- Amendments to IFRS 9, IAS 39 and IFRS 7 *Interest Rate Benchmark Reform* (issued in September 2019)
- 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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Invitation to Autumn Seminars

IFRS News 2019

We would like to invite you to Deloitte's traditional autumn webinar on International Financial Reporting Standards (IFRS).

From the comfort of your office, you will gain a full and lightning-quick overview of new and amended standards. We will give you a short summary of the nature of the changes to enable you to identify whether the changes affect your company. You will also learn how much time is left for their potential implementation.

Date:

- Webcast took place on 16 October 2019. Its record in Czech is available here.

The Pitfalls of Financial Statements under IFRS for 2019

We are pleased to invite you to Deloitte's autumn seminar on International Financial Reporting Standards (IFRS).

You will be provided with an overview of standards and interpretations, which have been mandatorily effective since 1 January 2019 or later. We will draw your attention to the major changes and their impact on financial statements prepared for the year 2019.

We will have a closer look at the new IFRS 16 *Leases*, which has been in effect since 1 January 2019. The standard brings along changes that are primarily critical from the lessee's perspective, as according to the amended rules, operating leases are now reported on the face of the balance sheet. We will primarily focus on how the adoption of this new standard should be reflected in the 2019 financial statements and what practical expedients may be used in the transition. We would like to note that we will focus on IFRS 16 in greater detail during a special seminar entitled "IFRS 16 *Leases* in Practice".

We will also draw your attention to the most common errors our auditors came across during audits of financial statements prepared in accordance with IFRS for 2018. Given that most frequently, the errors were related to the implementation of the new standards IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*, we will address these standards with appropriate care during the seminar.

We will also pay attention to missing disclosures in the notes to the financial statements.

And finally, we will also have a look at an overview of IFRS changes that are expected to come into effect in the near and later future.

The seminar is primarily intended for accountants, economists and financial managers of projects relating to IFRS and for all who want to know more about IFRS.

The whole day's seminar will be held in Czech in Prague, Brno and Ostrava and will be hosted by Deloitte experts.

Date:

Prague	6 November 2019, 9 a.m. – 3 p.m.
Ostrava	12 November 2019, 9 a.m. – 3 p.m.
Brno	19 November 2019, 9 a.m. – 3 p.m.

For more information and to register, please go to:
akce.deloitte.cz

IFRS 16 – *Leases* in Practice

We are pleased to invite you to the autumn seminar on International Financial Reporting Standards (IFRS), which will be held in our new office premises in Prague Vinohrady. We will scrutinise the new IFRS 16 *Leases*, which has replaced IAS 17 *Leases* and which has been effective for reporting periods starting on 1 January 2019. Also, we will address in detail the relating interpretations. The new standard brings along significant changes, primarily those from the lessee's perspective. This is because operating leases are newly reported on the face of the balance sheet.

At the seminar, we will focus on challenging areas that require applying greater judgement in implementing the new standard. We will provide practical examples on how individual requirements placed by the standard shall be implemented. We will also pay detailed attention to various practical expedients that may be used in the transition to the new standard. You will also find out about new disclosures to be provided in the notes.

Certainly there will be time to answer your questions during the seminar.

The seminar is primarily intended for accountants, economists and financial managers of projects relating to IFRS and for all who want to know more about IFRS.

The whole day's seminar will be held in Czech in Prague and it will be hosted by our professionals.

Date:

- Prague: 26 November 2019, 9 a.m. – 4 p.m.

For more information and to register, please go to:
akce.deloitte.cz

US GAAP

Revenue Recognition Standard: New Publication

We would like to share with you information about a recently-issued publication by Deloitte that you may find useful in considering how to account for revenue related transactions under US GAAP.

It is a comprehensive guide to revenue recognition standard ASC 606 called "A Roadmap to Applying the New Revenue Recognition Standard (2019)" reflecting all subsequent updates of the standard made at a later stage. It can be accessed on iasplus.com.

The publication contains in extensive detail chapters on each of the five steps of the revenue recognition assessment:

Step 1: Identify the Contract

Step 2: Identify the Performance Obligations

Step 3: Determine the Transaction Price

Step 4: Allocate the Transaction Price to the Performance Obligations

Step 5: Determine When to Recognize Revenue

Also, it covers the topics of contract modifications, principal vs. agent considerations, licensing, contract costs, presentation and disclosure, sales of non-financial assets within the scope of ASC 610-20 as well as tax considerations.

Those looking for the differences between US GAAP ASC 606 and IFRS 15 will appreciate Appendix a included (pages 787 to 793) as well as Deloitte's Q&A's with references to the relevant extracts from the guidance.

Should you need further support with the interpretation and application of US GAAP or IFRS, our specialists are available to provide assistance.

The publication has 932 pages and is available here.

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Legal Risks in Property Acquisition

In recent years, the Czech Republic has experienced a stable growth of real estate prices, especially with regard to apartments and buildings for commercial use, such as offices or business premises. As a result, the real estate market is offering ideal conditions for vendors at present. On the contrary, a weaker position stems in this situation for buyers, especially as to their negotiation strength and possibilities for affecting the form of transactions. To put it simply, buyers cannot dictate too much as there are not so many suitable offers. Contrarily, there are usually more interested parties. The above-mentioned circumstances then exert pressure on real estate investors to diminish their prudence regarding an appropriate treatment of potential legal risks related to the real estate acquired, in addition to other transaction parameters. However, we can by no means recommend such a concession from prudence in respect of legal risks.

Due to the lack of suitable properties on offer, real estate with an unresolved legal status is more often put on the market. Such real estate often represents a favourable investment as the existing owner, being aware of the flaws in the offered asset, is willing to sell it at a low price, whereby the unsatisfactory legal status can usually be resolved. Yet in a way demanding a considerable amount of time and money. If one handles this successfully, a risky investment immediately turns into a very good one. However, at first it is necessary to duly scrutinise the property on offer from a legal perspective so that the buyer is aware of the facts that should result in a decrease in the purchase price if they decide to proceed with the transaction.

Apparently, a thorough legal due diligence is currently essential in respect of real estate transactions, whereby it can often not only clarify the risks involved, but also reduce the purchase price of the selected real estate.

History of the property to acquire

A serious risk involved in purchasing property is a possibility that, in fact, this real estate is owned by a person other than the vendor, or that another person has justified claims thereon. There are a number of possibilities of how such a situation can arise. The property has usually existed for a long time (land has existed since time immemorial) and thus a number of various legal statuses and dispositions form its history, some of which – even those relatively old – always have an effect in these days. Typically, real estate has a long chain of owners, from the past ones to the current one. Each of these owners acquired an ownership right to the property based on a certain legal title.

However, if a legal title, based on which the property is to be acquired, is invalid for any reason, a person that was to acquire the property based on this invalid title does not become the beneficial owner. Accordingly, they are not entitled to transfer the relevant property to other persons. The affected persons do not have to be aware of this fact, which can give rise to substantial problems.

Principle of material publicity

Act No. 89/2012 Coll., the Civil Code, as amended, regulating the acquisition of property ownership strives to minimise the above-mentioned risk by the legal regulation of the so-called principle of material publicity. The principle of material publicity relies on a publicly accessible register of real estate, which is a land and property register in the Czech Republic. The land and property register lists plots of land and buildings, including registration of their owner according to the record in this land and property register.

Putting it very simply, the principle of material publicity means that legal protection pertains to the person who acts with reliance on the status registered in the land and property register. The Civil Code thus determines in Section 984 (1) that if the state registered in a public register is not in accordance with the actual legal status, the registered state is in favour of the person who has acquired the ownership right for consideration in good faith from the person authorised thereto according to the registered state. Accordingly, if a person acquires real estate from a person registered in the land and property register as the owner of the real estate for a consideration and in good faith that the transferor is the owner, he/she should acquire an ownership right independently of the fact whether the-above mentioned uninterrupted chain of legal titles is attached to this real estate.

The Supreme Court of the Czech Republic replied in its decision-making practice to the question when an acquirer can be in good faith as regards the state registered in the land and property register, ie when the principle of material publicity applies to the situation. In its ruling file no. 22 Cdo 4174/2017 the court expressed an opinion according to which it is necessary to investigate in the intended transaction not only the state of records in the land and property register, but also factual circumstances of the case and the actual legal state of the property. Thus, it is not possible to rely solely on the recorded state in the land and property register. This opinion corresponds to the existing decision-making practice before the effectiveness of the Civil Code and has also been confirmed by the Constitutional Court. The Constitutional Court, in its ruling file no. IV. ÚS 4115/17, evaluated a mere reliance on the accuracy of data registered in the land and property register to the detriment of complainants and refused that it would be possible in the given situation to admit positive effects of the principle of material publicity. At this point, it is necessary to state that Czech courts have construed the principle of material publicity too narrowly so far in order for it to represent the so much needed institute for real estate investors, bringing about the missing certainty in relation to the history of the property acquired.

Here the necessity to implement a thorough legal scrutiny of the real estate to be acquired turns out again, as only then the acquirer can determine whether justified doubts exist

or not regarding the accuracy of the state recorded in relation to the relevant real estate in the land and property register and thus whether he/she is or not in good faith, given the circumstances of the case.

Acquisitive prescription

Another possibility for remedying potential historical flaws concerning acquisition titles in relation to real estate is a traditional institute of acquisitive prescription. Simply, this institute presumes that if a person treats an immovable property as if it were its owner for 10 consecutive years with no interruption and at the same time presumes in good faith to be its owner for the entire period, such person will acquire the ownership right to this real estate. A record of the person's ownership right to the property in the land and property register is, obviously, the assumption of good faith.

However, the acquisitive prescription will probably newly find its application especially in transfers of real estate without consideration as the above-described principle of material publicity will be more useful for transfers of real estate for consideration, which also presumes good faith but does not require the lapse of ten years for the acquisition of the ownership right.

Extraordinary acquisitive prescription

The institute of extraordinary acquisitive prescription is a novelty introduced by the Civil Code. Extraordinary acquisitive prescription is defined in the Civil Code as follows: where a person treats an immovable property as if it were its owner for 20 consecutive years with no interruption, such person will acquire the ownership right on condition that their bad faith has not been proved. The Civil Code postponed the application of the extraordinary acquisitive prescription by five years. Accordingly, it has only been possible to apply new institute since 1 January 2019 (providing that 20 years have passed in the meantime).

Only time will tell to which extent this institute will be utilised. Nevertheless, a reasonable application by courts has, in theory, a potential to settle all historical flaws relating to acquisition titles in situations when the acquisition of real estate is not questioned but, due to formal deficiencies, the acquisition title may be considered invalid and, as a consequence, the acquirer cannot be in good faith.

This article did not aim to provide an exhaustive list of legal risks pertaining to the acquisition of real estate. This would not be possible after all. Instead, by providing several examples (as repetition is the mother of wisdom), we wanted to emphasise the crucial fact: a **thorough due diligence is essential for making safe real estate investments!** At any time.

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Legal News in e-Commerce, Blockchain and FinTech

The latest news in the area of e-commerce includes the adoption of an EU regulation for multilateral platforms, a bill that may enable the utilisation of banking identities in online legal acts, new obligations concerning Strong Customer Authentication and progress achieved in the implementation of new consumer directives. As a matter of interest, we are also presenting a study focusing on appropriate forms of communicating legal information.

Proposed EU regulation for multilateral platforms

Regulation (EU) 2019/1150 of the European Parliament and the Council on promoting fairness and transparency for business users of online intermediation services was published on 20 June 2019. The new rules aim to safeguard a fair, transparent and predictable business environment for small businesses and traders using online platforms. The regulation applies to providers and intermediaries of online services used, for example, by hotels, traders selling online, app developers and all other companies that rely on search engines. While the rules define new duties for online services providers, traders using these services are placed in the position of a "pseudo-weaker" party, obtaining a wide range of rights and advantages.

The new rules primarily aim to **increase the transparency of online intermediation** services by formulating specific elements of business terms and conditions, such as defining a duty to publish rules and mechanisms under which providers order and publish offers of individual traders, generate and save user data or whether selected traders may be advantaged within an offer (premium accounts with highlighted offers, service providers preferring own offers etc).

The regulation also places a greater emphasis on **resolving disputes more effectively** as well as on the transparent

decision-making of online service providers. Among other things, the regulation aims to ensure that online service providers will be required to render an appropriate explanation of any service suspension or termination and, simultaneously, establish an internal system for handling complaints and disclose in their business terms and conditions qualified and independent mediators with whom it will be possible to resolve potential conflicts arising from the provider's services.

Although the regulation does not specify any particular sanctions, the EU member states will be obliged to seek a due and effective enforcement of the regulation. It is thus necessary to wait how the Czech legislators will tackle this challenge and which sanctions and coercive measures towards providers will be available for traders. The **regulation will come into force on 12 July 2020.**

Proposal for establishing a banking identity

On 12 July 2019, a group of Deputies presented an amendment to the Bank Act and the AML Act (Act on Selected Anti-Money Laundering Measures), introducing the so-called banking identity in Czech law. The goals of the banking identity is to provide simple but reliable forms of identification to the widest circle of addressees that may be used to access e-Government services as well as private sector platforms.

Banks will be able to access data from basic registers and selected agency information systems in order to fulfil their statutory duties, especially in the area of measures against money laundering and terrorism financing.

The amendment has currently received a concurring opinion from the government and will be referred to the first reading in the Chamber of Deputies.

New Strong Customer Authentication duties

Given that the effectiveness of the PDS2 directive will soon be terminated, Strong Customer Authentication (SCA) has been introduced, principally defining a duty for payment services providers (PSP) to perform two-factor authentication. This consists of verifying two of three mutually independent elements of users – knowledge (eg a password), possession (eg user's mobile phone) and the user's biometric data (usually a fingerprint). This duty must always apply when the account owner accesses their bank account, pays by payment card and makes a payment via online banking. Theoretically, the changes will not affect modern payment methods including, for example, Google Pay or Apple Pay services, which had already performed two-factor authentication before the statutory measure took effect.

The measure had to be launched by payment service providers by 14 September 2019.

Transposition of new directives affecting consumer contracts

An inter-ministry consultation is currently taking place with respect to a bill aimed at transposing two new EU directives regulating the sale of goods and provision of digital content and digital services in Czech law, as we informed you in the monitoring published in March and May. The above-specified directives will primarily affect **contractual relations.**

The directive regulating the sales of goods concentrates on contracts based on which the ownership right to a tangible movable asset is transferred in return for payment. The directive has newly introduced an extended period over which it is presumed that the goods were already faulty when taken over by the customer. This period, which is currently six months, will newly be extended to one year. The directive also newly defines the customer's right to withdraw from a contract without any undue delay if the nature of the product defect is so significant that it substantiates the immediate termination of a contractual relationship.

The bill has further introduced a definition of digital content in line with the respective EU directive. Digital content refers to **data produced and supplied in digital form**. This definition will comprise, for example, video files, audio files, music files, computer software, applications, digital games, e-books and other electronic publications. Furthermore, the bill also contains detailed legal regulation concerning the specifics of purchasing digital content, such as a new responsibility of the seller to supply updates of digital content in the necessary scope ensuring that the digital content has the same qualities as it had upon takeover and for a period that may reasonably expected by the purchaser. We will keep you informed on the particular wording of this bill.

Interesting study concerning appropriate forms of communicating mandatory legal information – BIT best practice guide

Behavioural Insights Team (BIT), a UK-based beneficiary association dealing with a possible application of behavioural psychology in various humanistic, including economic and legal, disciplines, which is jointly owned by the UK Cabinet Office, has recently issued a public study examining the methods of an effective disclosure of information to customers with a focus on business terms and privacy policies. What differentiates this study from other research of consumer rights is that it exclusively examines the form rather than the content of legal documents.

The study has a two-dimensional character. First of all, it explores the question of how the form of communication may help increase the level of understanding business terms on part of consumers and, subsequently, how consumers' pro-active approach to business terms may be achieved (i.e. increase the level of probability that consumers will read the business terms).

BIT recommendation

In the above-specified context, BIT tested 18 different methods concluding that six of them may be considered effective for the above purposes.

Based on BIT's findings, the comprehensibility of business terms may be increased primarily by **implementing the FAQ section with an explanation of key terms**, as well as by **making business terms more visual** (i.e. including icons, graphics and comics) and **displaying them in a scroll-down** window rather than via a hypertext link redirecting users outside the website being displayed. To increase the consumers' willingness to read business terms, BIT recommends informing consumers in advance about the **estimated time necessary for reading the business terms** and specifying that it is the **last possibility for consumers to read the content of the business terms prior to entering into the contract as such**.

The results of the study may be beneficial primarily with regard to increasingly more-demanding statutory requirements for transparent and comprehensible disclosures of mandatory legal information in various industries.

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