



Ministry of Finance
CZECH REPUBLIC

Projects and plans of the Czech Ministry of finance

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Regional Tax Conference
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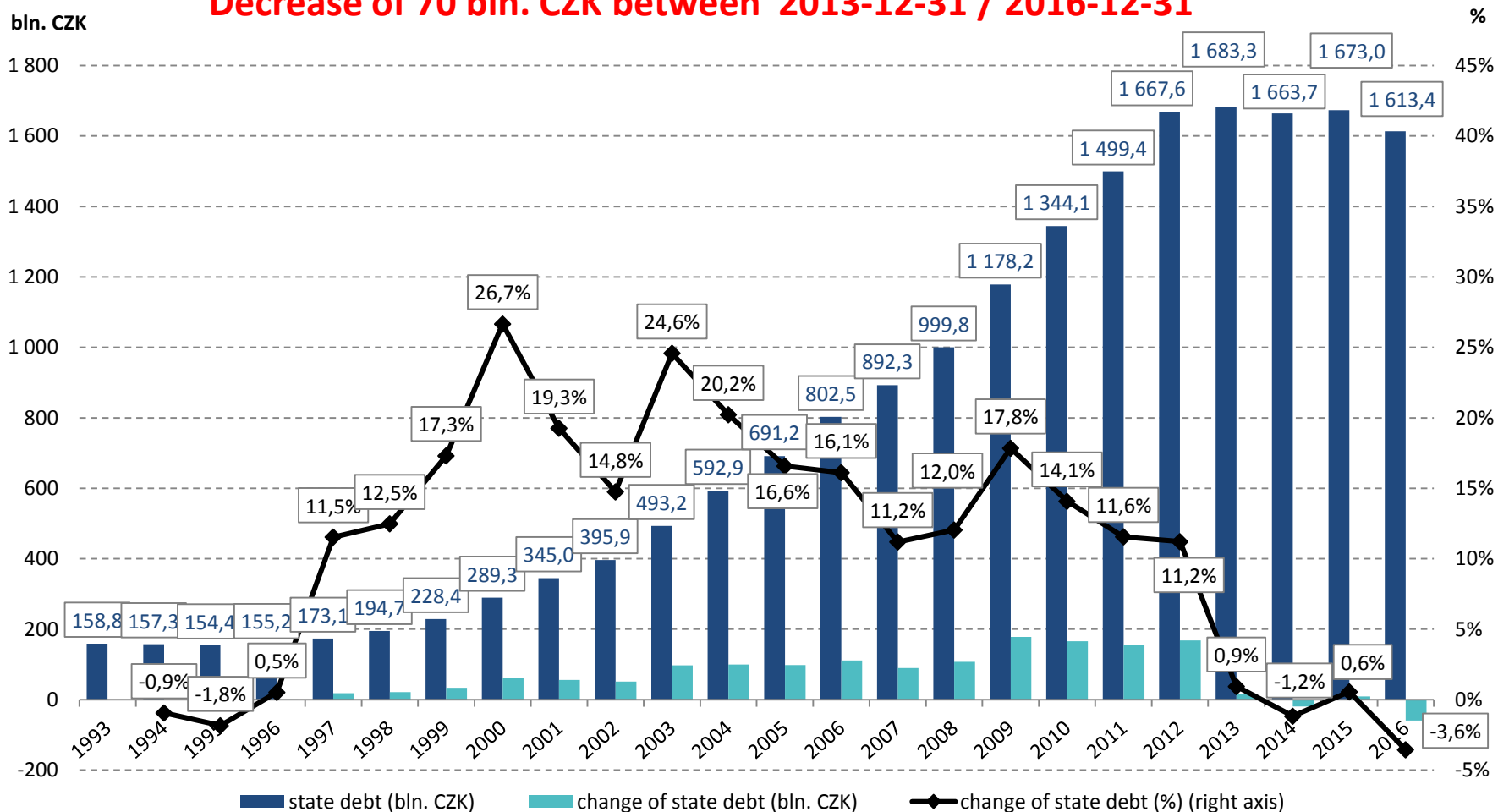
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Dynamics of the state debt of the Czech Republic

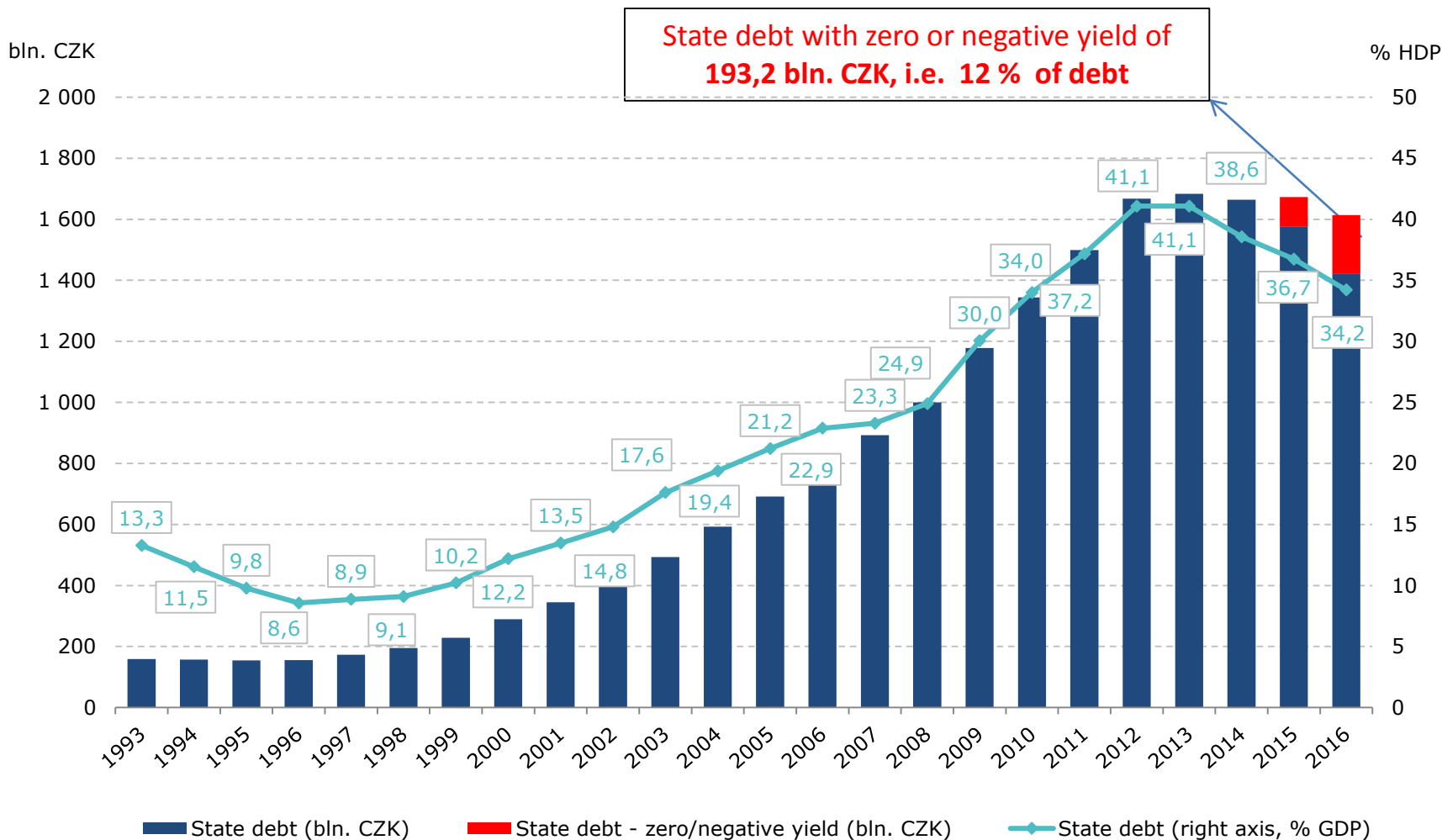
Decrease of 70 bln. CZK between 2013-12-31 / 2016-12-31



Reduction of the state debt to every citizen is 6.621 CZK



Development of the state debt of the Czech Republic



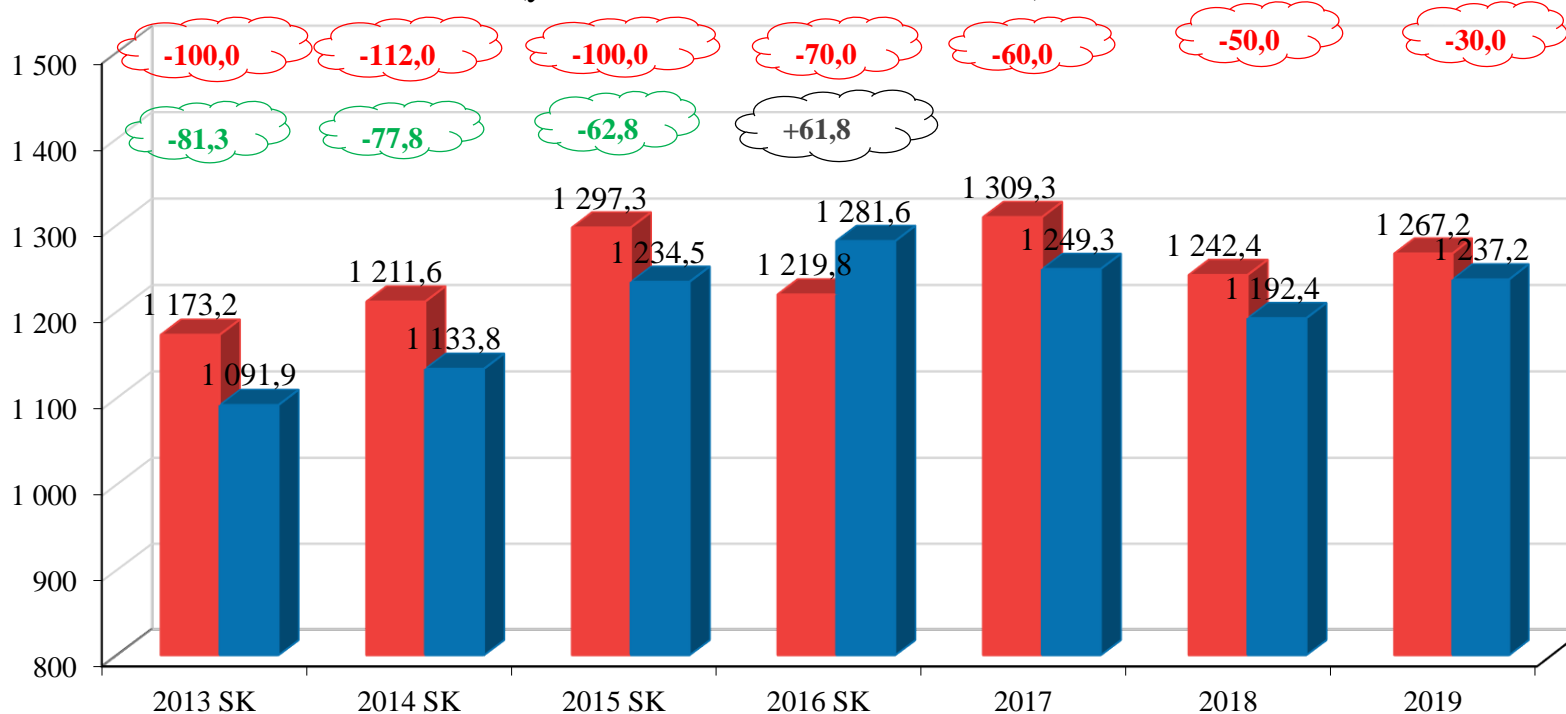


Results vs. budget

Development of the basic parameters of the state budget in years 2013 to 2019

(bln. CZK)

(years 2018 and 2019 without EU)

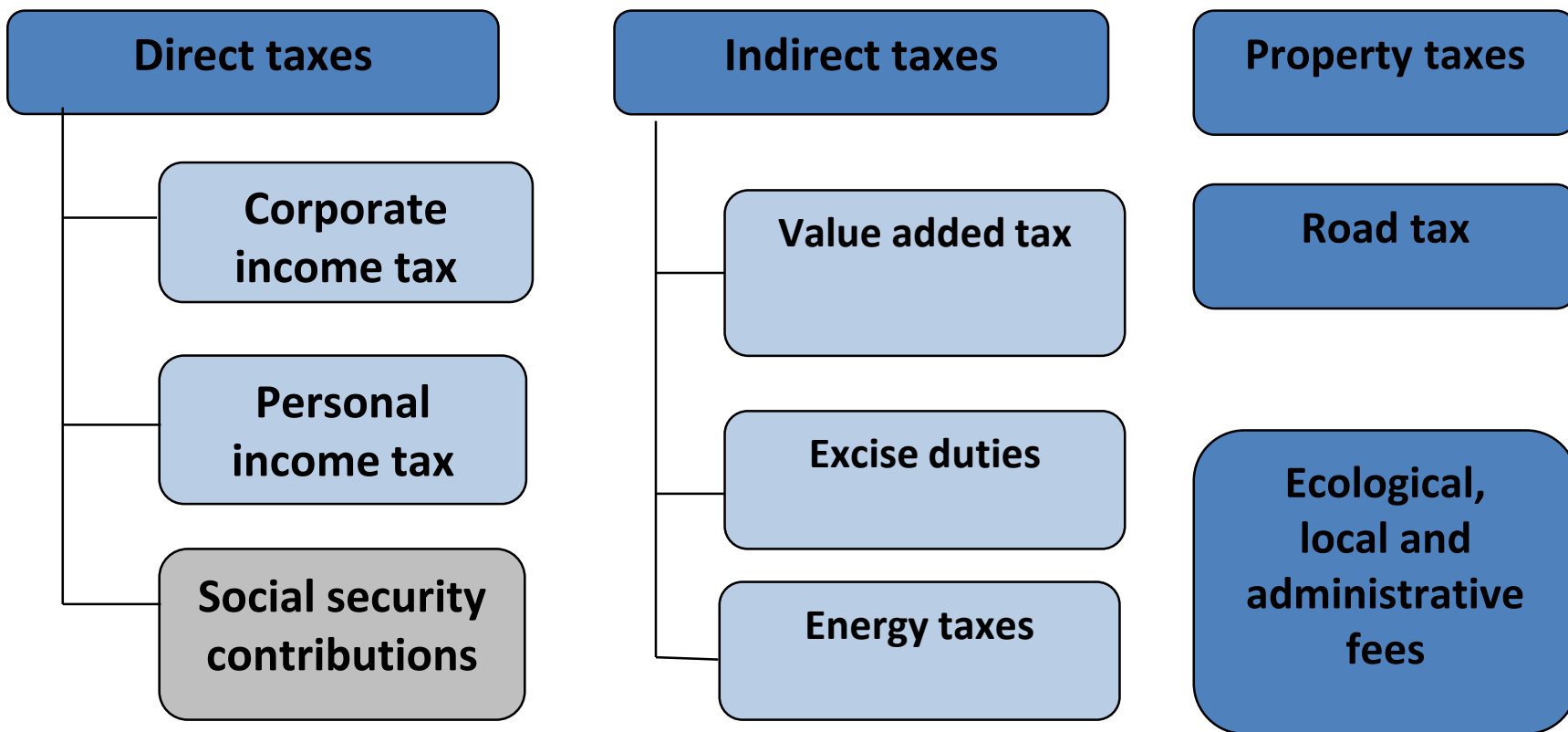


■ výdaje celkem ■ příjmy celkem

	Budget 2016	Results 2016
Total revenue	1 181	1 281,6
Total expenditure	1 251	1 219,8
Surplus/deficit	- 70	+61,8



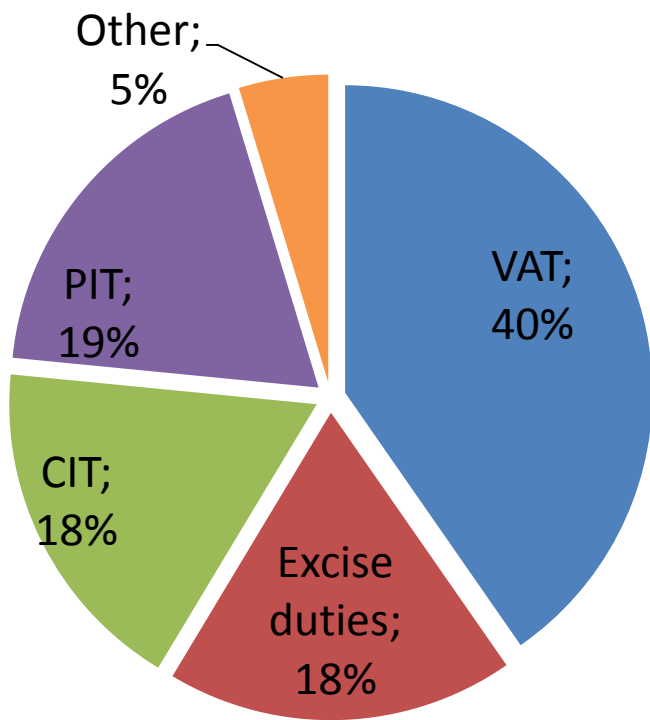
Overview of the Czech Tax System



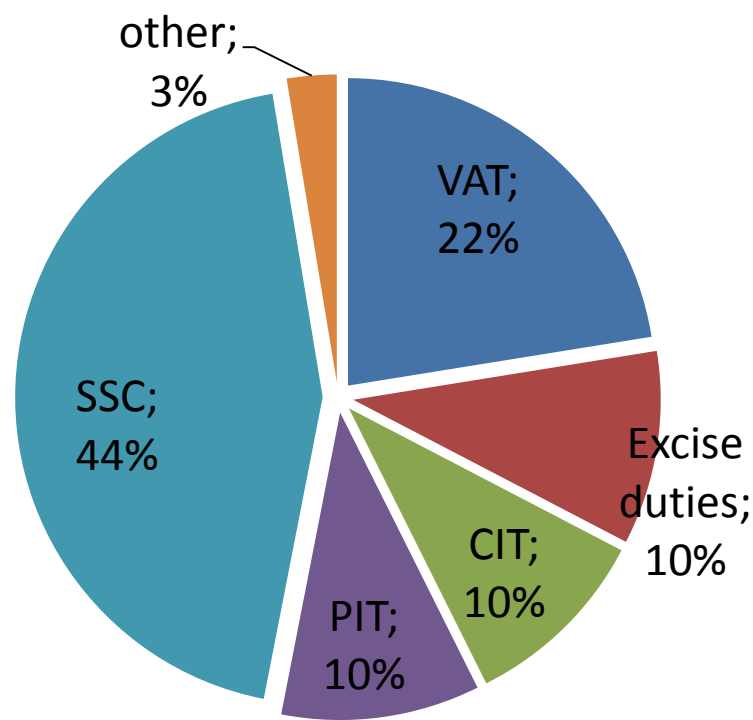


Tax Revenues as % of Total

Without SSC



With SSC





Czech corporate tax system

- **Corporate tax rate = 19 %**
 - Competing by low tax rate and – if possible – by few exceptions/special regimes
- **Dividend taxation**
 - Withholding tax = 15 % (DTT = 0 %, no DTT/TIEA/Convention = 35 %)
- **Capital gains taxation**
 - Corporations = 19 %, individuals = 0 % (after 3 years time test)
- **Interest expenses deduction**
 - Thin capitalization rules (interest 1 : 4 equity)
- **R&D expenses deductability**
 - 100 % R&D expenses + 10 % of difference compared to the previous year
- **Rulings practise**
 - No general rule
- **Investment incentives**
 - In form of tax credit



Initial situation for the government in 2014

UNDECLARED SALES

Estimated more than 160 bln. CZK.

VAT GAP

According to accessible statistics more than 70 bln. CZK.

Previously unresolved problem of carousel frauds and fictitious invoices.

Illegal competitive advantage.

Unfair for payers who dully meet their tax obligations.

AGGRESSIVE TAX PLANNING

Tax evasion ranging from 6 to 15 bln. CZK.

One of the objectives of the tax strategy prior to the economic crisis was to attract foreign investors on the basis of low corporate tax rates, investment incentives (including tax breaks), tax incentives for research and development.

PREASSURE ON INCREASE OF TAX RATES

Replacement of better collection of taxes by increase of tax rates is no systemic solution.

It affects notably tax payers who duly meet their tax obligations.

Non-payments of taxes cannot result in gaining of competitive advantage.

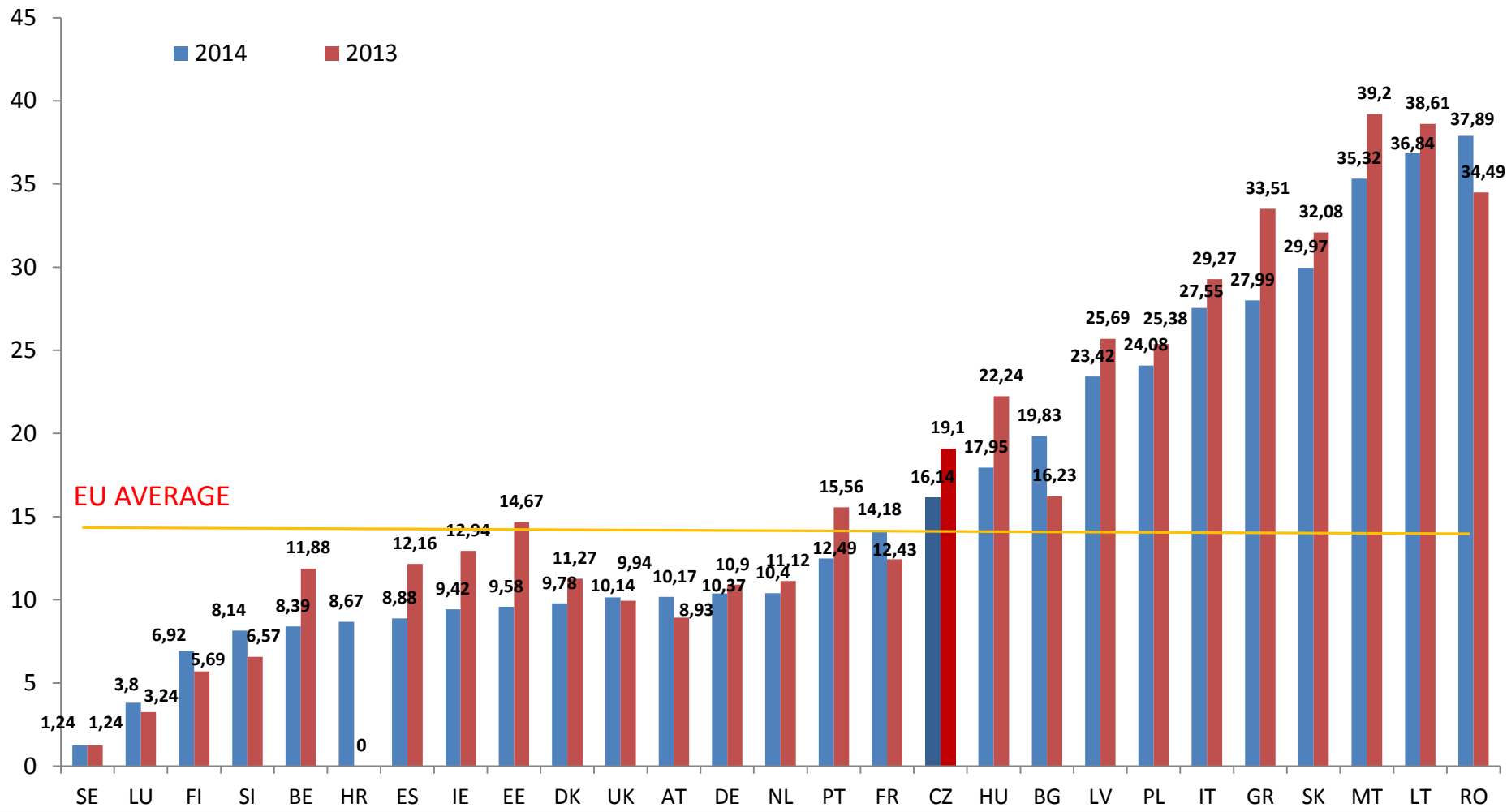


VAT gap

	2010	2011	2012	2013	2014
CZE, bln. EUR	2,941	2,377	2,932	2,761	2,233
CZE, bln. CZK	74,354	58,453	73,745	71,73	61,487
CZE, %	22,01%	17,45%	20,49%	19,10%	16,14%
Total EU 27, bln. EUR	134,806	152,237	162,537	161,442	159,46
EU 27 average, %	13,53%	14,41%	14,97%	14,75%	14,03%



Comparison of VAT gap 2013-2014 (%)





Targets of tax policy

FAIR AND EFFICIENT TAX COLLECTION

No increasing of rates and increasing of efficiency of tax administration.
Improvement of analytic work with gained information and targeted control activity.

STABLE ENVIRONMENT

Legal certainty and sufficient period before the law comes into force.
Foreseeable conduct of tax administration.
Changes have to be systemic and conceptual.

SETTLEMENT OF CONDITIONS OF ENTREPRENEURIAL ENVIRONMENT

Solution of illegal competitive advantage gained through tax evasion.
Base for increase of justice of tax system for tax payers who want to meet duly their tax obligations.

STABILIZATION OF REVENUES OF PUBLIC BUDGETS

Fiscally responsible policy providing space for future decrease of rates.



Fight against tax evasion

TAX COBRA

Cooperation among tax administration, customs administration and police.
Since the beginning of functioning in the year 2014 the asset over **7,8 bln. CZK**.

VAT CONTROL STATEMENT

Communication of selected pieces of information from invoices in the system of VAT from the year 2016.
Mapping and detection of chain and carousel frauds.
Establishment of new analytical centre for identification of whole fraudulent chains.
Asset for public finances in the amount of **12 bln. CZK** for the year 2016.

ELEKTRONIC RECORD OF SALES

On-line record of sales with expected tax asset of **18 bln. CZK** per year.
Gradual introduction since December 2016.
Pilot running of robust system from November 2016.

REVERSE CHARGE

Change of VAT system which dramatically reduces risk of tax frauds.
Effort to obtain temporary derogation for the Czech Republic.

OTHER MEASURES



Fight against aggressive tax planning

DETECTION OF TRANSACTIONS WITHIN SUPRANATIONAL CORPORATIONS

Since 1.1.2015 enclosure of tax return of big corporations.

Obligatory pieces of information about transactions between related persons (transfer pricing)

- **PREVENTIVE IMPACT WITH POSITIVE INFLUENCE ON COLLECTION OF INCOME TAX OF LEGAL ENTITIES**
- **JUMP IMPROVEMENT OF RESULTS OF CONTROLS**
- Since 2014 based on controls subsequently assessed **1,4 bln. CZK.**

INTERNATIONAL COOPERATION IN THE AREA OF EXCHANGE OF INFORMATION

Implementation of EU directives introducing exchange of information among tax administrations.

Access of tax administrations to pieces of information gained for the purpose of fight against money laundering – DAC 5 – targeted at broader usage of already collected pieces of information.

COUNTRY-BY-COUNTRY REPORTING – DAC 4 – targeted at supranational groups of enterprises with consolidated turnover minimally 750 mil. EUR.

Exchange of information about tax rulings – DAC 3

Global standard (GATCA) – DAC 2 targeted at information about accounts of tax non-residents.

ATAD

Preparation of implementation of the Directive through which the EU reacts to Action Plan of OECD (BEPS).
Avoiding abuse of tax systems, non-deductibility of excessive interests, taxation of subsidiaries in offshore territories (CFC), exit tax, prohibition of abuse of law.



Tax revenues in 2013, 2014, 2015 and 2016

(bln. CZK)

Tax	2013	Increase 2013/2014	Increase 2013/2015	Increase 2013/2016	Increase 4.2013/4.2017	Total increase
VAT	308,5	14,4	23,4	41,3	17,6	96,7
PIT	141,6	5,2	12,7	30,7	14,3	63,0
Excise duties	143,4	-2,1	7,1	14,8	2,2	22,0
Insurance	597,9	23,5	57,1	91,0	41,0	212,6
CIT	120,7	11,7	26,8	44,0	11,5	93,9
Other taxes	39,8	0,4	-1,2	7,5	4,1	10,8
Total	1351,9	53,1	125,9	229,3	90,7	499,0

+ annual growth of VAT revenue to the end of April 2017 was 10,9 %; i.e. 12 bln. CZK

		2014/2013	2015/2014	2016/2015
Tax revenues	Ann. growth (%)	3,9	5,2	7,0
GDP nominal	Ann. growth (%)	5,3	5,6	3,5



Tax revenues 2016 vs. 2015

(bln. CZK)

	2015	2016	Difference (bln. CZK)	Difference (%)
Insurance	655,0	688,9	+33,9	5,2 %
VAT	331,8	349,7	+17,9	5,4 %
PIT	154,4	172,4	+18	11,7 %
Excise duties**	150,5	158,2	+7,7	5,1 %
CIT	147,5	164,7	+17,2	11,7 %
Other taxes	38,6	47,3	+8,7	22,5 %
Total	1 477,8	1 581,2	103,4	7 %



Working methods of contemporary government

FEEDBACK FROM SUBJECTS IN QUESTION

We carry out consultation of newly prepared legislative and of its introduction into practice.
We organize seminars and conferences.

PILOT RUNNING AND SUFFICIENT PERIOD BEFORE THE LAW COMES INTO FORCE

We respect sufficient postponement of laws coming into force from their approval.
System of electronic record of sales had a month-long pilot running.

INSPIRATION ABROAD

Taking over of functional solutions introduced in other states.
Benchmarking (electronic record of sales, control statement, etc.)

MAXIMAL UTILIZATION OF ACCESIBLE DATA

Preparation of new system of financial administration.
Enhancement of quality of analytical work.
Targeted controls on subjects with increased degree of risk.

PROJEKCT MANAGEMENT AND SUPPORT OF COMPUTERIZATION

New system of tax administration and client-friendly systems.
Component of the project „My taxes“ (i.e. modern and simple taxes).



MY TAXES = modern and simple taxes for citizens and businessmen

PROJECT OF THE MINISTRY OF FINANCE PRESENTED IN THE YEAR 2016

After consolidation of public finances we work on modern and simple tax system.
It includes following partial projects:

SELF-ASSESSMENT

NEW INCOME TAX ACT

WEB PORTAL „MY TAXES“

NEW IT SYSTEM FOR TAX ADMINISTRATION



MY TAXES = modern and simple taxes for citizens and businessmen

SELF-ASSESSMENT

Relief for tax payers and better targeting of control and space for revision of system of sanctions.

Detention of only the disputed part of excess VAT deduction (not the whole amount).

In this context there is opened a space for discussion as to the introduction of system favouring taxpayers who meet duly their tax obligations possibly the introduction of system of „reliable taxpayers“ (discussions are currently being in the beginning).

NEW INCOME TAX ACT

Conceptual solutions and replacement of current Act (after nearly 200 amendments from the year 1993).

Easier and client-friendly Act connected with simplification of tax return.

Stress on stability and tax neutrality.

WEB PORTAL „MY TAXES“

Virtual tax authority – whoever will be able to solve the taxes from his home.

Complete overview of tax obligations, display of history, prepopulated tax returns.

One-entry accounting or interface for accounting programs.

NEW IT SYSTEM FOR TAX ADMINISTRATION

Replacement of current non-effective system.



Thank you for your attention.