

News Release

Audits focusing on the correctness of transfer prices are less frequent, but more detailed

Prague, 5 April 2016 – During audits of entrepreneurs and companies, tax authorities focus on the traditional areas of previous years – VAT and corporate income tax. However, compared to 2014 the number of audits focusing on the setting of correct transfer prices decreased in 2015. This is the result of Deloitte’s new survey called Tax Certainty, based on the answers of more than 800 respondents from 21 European countries. The survey focused primarily on three areas: relationships with tax authorities, tax audits and perception of tax certainty.

“The survey shows that the number of audits focusing on transfer prices has decreased year-on-year. In practice, however, it seems that while the audits may be less frequent, they are more sophisticated and thus also more time-consuming and professionally challenging. In terms of audits of transfer prices, we can expect a more active approach from the General Financial Directorate, which is planning to collect up to CZK 5 billion a year thanks to better audits of transfer prices,” said Marek Romancov, a partner in Deloitte’s tax function.

Relationships with tax authorities

Once again in 2015, most tax payers in the Czech Republic reported a positive relationship with tax authorities. According to the survey, every tenth respondent has excellent experience with tax authorities, more than one third of respondents (38.5%) found their relationships very good. A good relationship was reported by half of the companies questioned. The survey shows that the surge of in-depth tax audits did not have a significant negative effect on the relationship with tax authorities.

“Individual European companies have relatively good relationships with tax authorities. The perception Czechs have of their relationship with tax authorities is the same as that of the Germans and similar to the Austrians and Belgians. The best relationships with tax authorities are felt in the United Kingdom and the worst in France. One of the factors that could improve the relationships with tax authorities are clear and unified instructions from the tax office. The results of the survey show that what worsens the relationships with the tax authorities are not the selected tax strategies, but unclear instructions as to how tax should be properly applied,” specified Radka Mašková, director in Deloitte’s tax function.

Tax audits

A traditional area that the survey focused on was the perception of tax uncertainty. Overall, European countries experienced no change in the number of respondents who feel that the level of tax uncertainty in their company’s country of residence is high.

“What is positive is the fact that in a year-on-year comparison, Czechs are a little more optimistic. A high level of tax uncertainty is perceived by 61% of respondents, which is ten percent less than last year. The highest tax uncertainty is perceived in France, Greece, Sweden or Ukraine. On the other end of the spectrum, the lowest level of tax uncertainty is felt in the Netherlands, Switzerland or Luxemburg,” Radka Mašková added.

Perception of tax uncertainty

Overall, the number of respondents who believe that there is a high degree of tax uncertainty in the country where their company is based has not changed. Year-on-year comparison suggests that Czech respondents are a bit more optimistic. A high degree of tax uncertainty is perceived by 61% of Czech respondents, which is 10% less than last year. The highest degree of uncertainty is perceived in France, Greece, Sweden or Ukraine. In contrast, the lowest degree of tax uncertainty is perceived in the Netherlands, Switzerland or Luxembourg.

Principal causes of tax uncertainty

Like in other European countries, Czech respondents agreed that the main causes of tax uncertainty are the frequent changes of tax legislation and deficiencies and ambiguities in the advance clearance or ruling system. Tax uncertainty represents an essential factor for tax payers when making decisions about business and investments.

“Companies would especially welcome a simplification of the tax system and greater certainty about its future. Czech respondents have been calling for these changes to a greater extent than respondents from other countries. Respondents find that lower taxes and a lower number of tax audits do not have a very significant impact on the competitiveness of their companies,” Radka Mašková said in conclusion.

Brief results of the survey about the perception of tax certainty can be found at: <http://www.deloitte.com/cz/danova-ijistota>.

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