

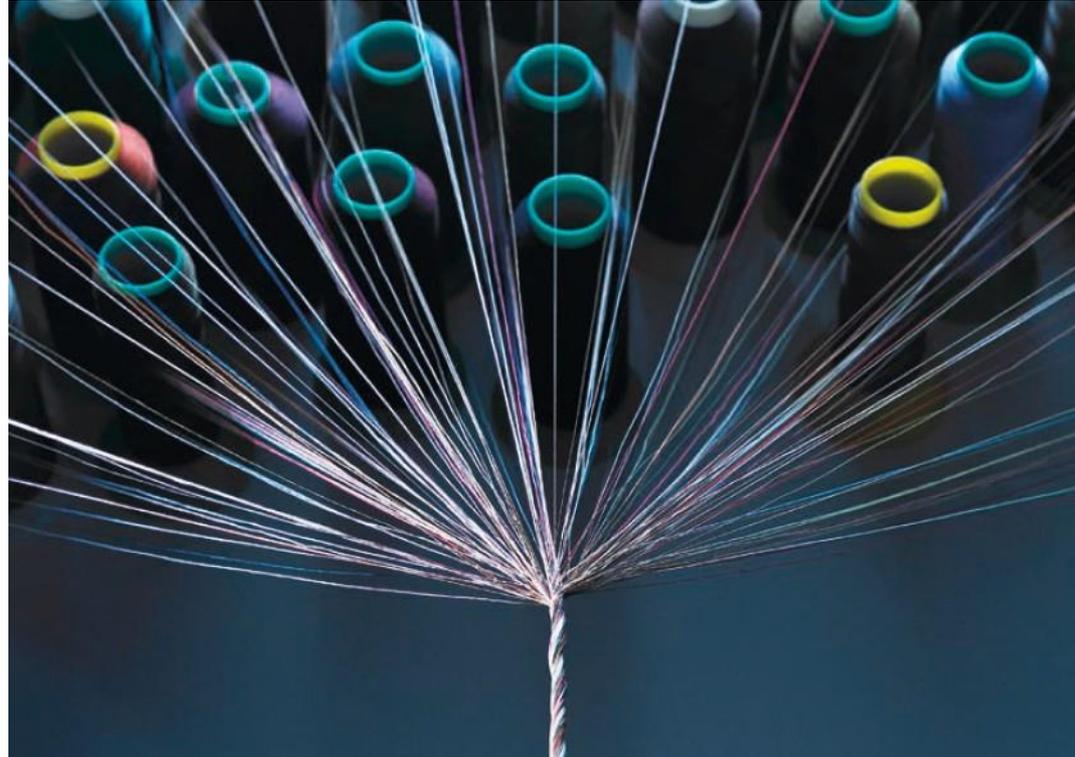


Tax Certainty in the Czech Republic

Deloitte Survey in the EMEA Region

December 2014

4th Edition



Presentation Contents

Presentation of the Survey

- Companies' experience with taxes and tax administration
- Perception comparison between Czech and foreign companies
- The development between 2013 and 2014

Areas of Focus

- Relationship to the tax authorities
- Tax audits
- Tax certainty perception

Summary

About the Survey

- This is the **4th regional survey** conducted in the countries of the EMEA region, **including the Czech Republic**
- The collection of data took place from **September to October 2014**
- Over **800 respondents took part**, from 25 countries **of the EMEA region**
- Participating companies by industry (largest share):
 - Consumer goods and retail (**11.3%**)
 - Financial services and insurance (**10.93%**)
 - Manufacturing (**10.81%**)
 - Technologies, media and telecommunications (**7.99%**)
 - Energy & resources (**6.27%**)
 - Engineering / construction (**6.27%**)
 - Health care & biomedicine (**4.55%**)
 - Other (**21.5%**)

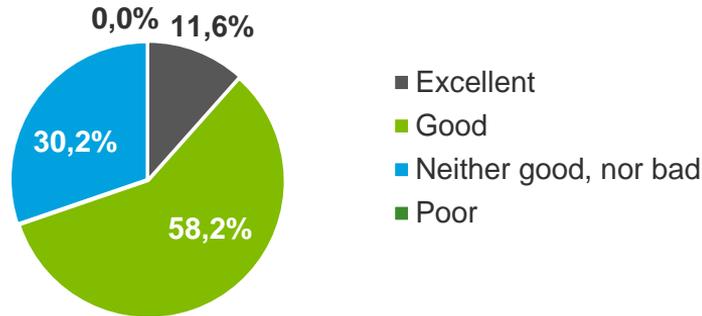
Relationship to the Tax Authorities

Relationship to the Tax Authorities in the Czech Republic

2013/2014 Comparison

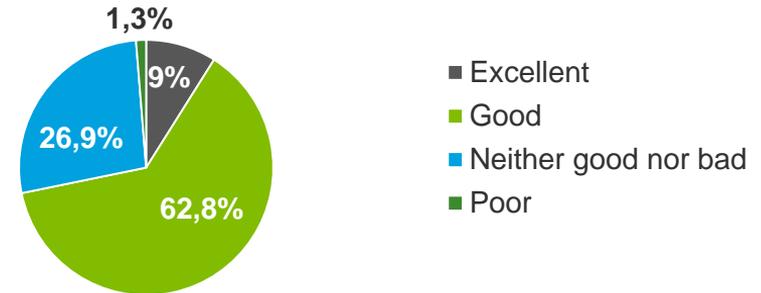
2013

How would you describe your company's relationship to the tax authority?



2014

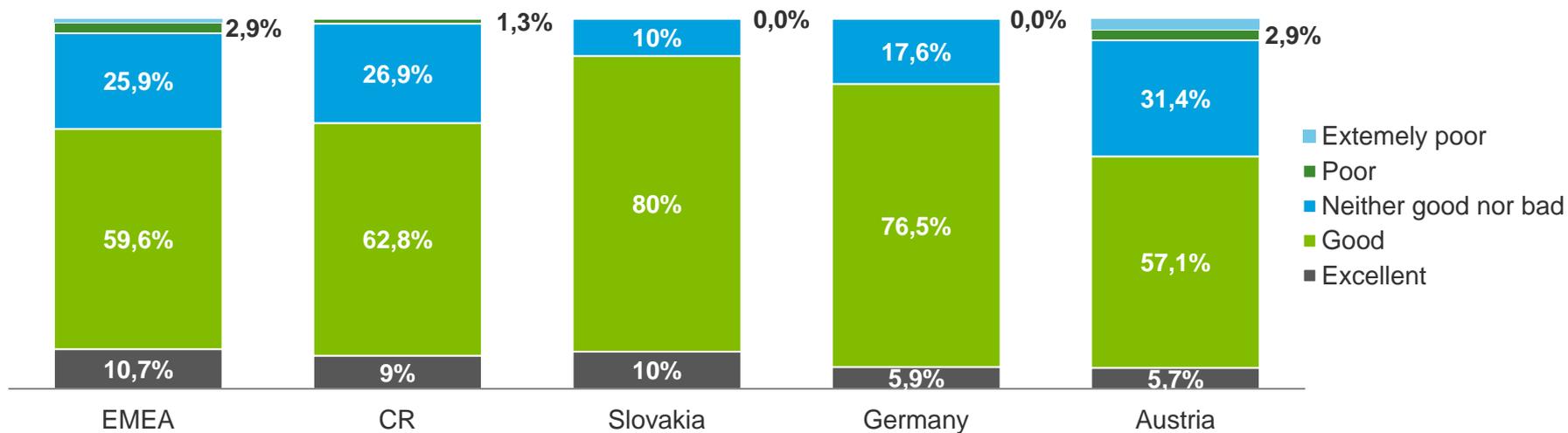
How would you describe your company's relationship to the tax authority?



- According to the survey, taxpayers in the Czech Republic have a good relationship with the tax authorities (almost two thirds of the respondents claimed it was good).
- We may conclude that the impact of the ongoing wave of tax audits has not been reflected in our survey yet.

Relationship to Tax Authorities in Selected Countries

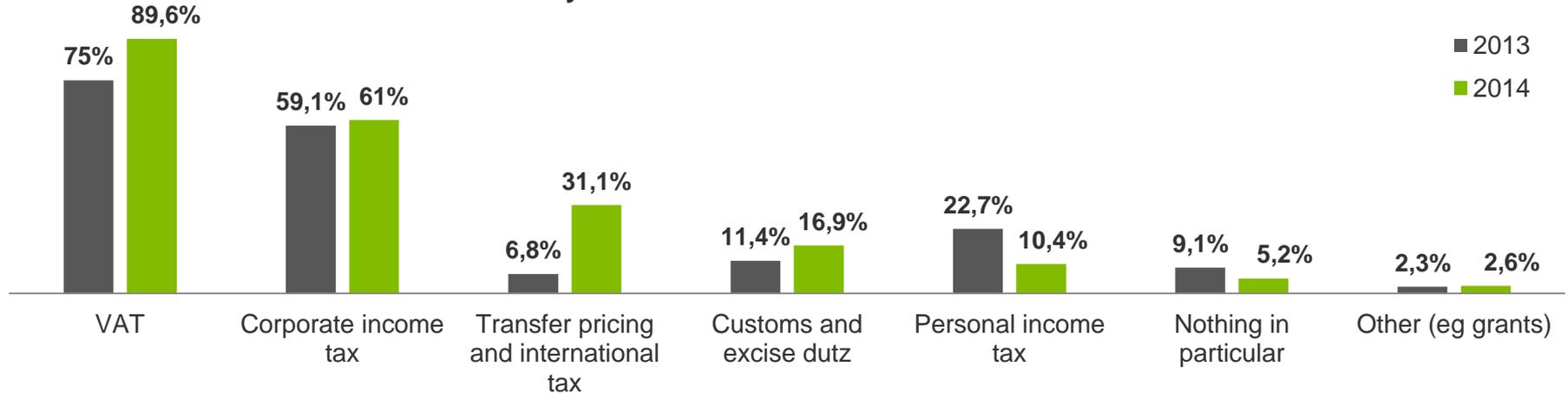
How would you describe your company's relationship to the tax authority?



- Individual companies have relatively good relationships with the tax authorities within the EMEA region.
- Czechs consider their relationship to the tax authorities to be slightly better, when compared with the rest of the countries in the EMEA region.
- Out of the neighboring countries, Austria had the worst results in this respect, while Slovakia had the best.

Relationship to the Tax Authorities in the Czech Republic

What field does your tax administration focus on the most?

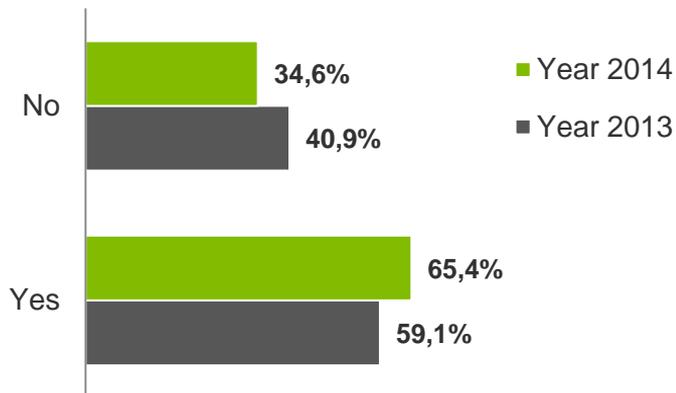


- As was the case in previous years, tax authorities continue to focus on the traditional fields. The number of VAT-focused tax audits is increasing.
- The most significant increase was seen in the number of transfer pricing inspections. According to respondents, five times more companies experienced a transfer pricing inspection than last year.

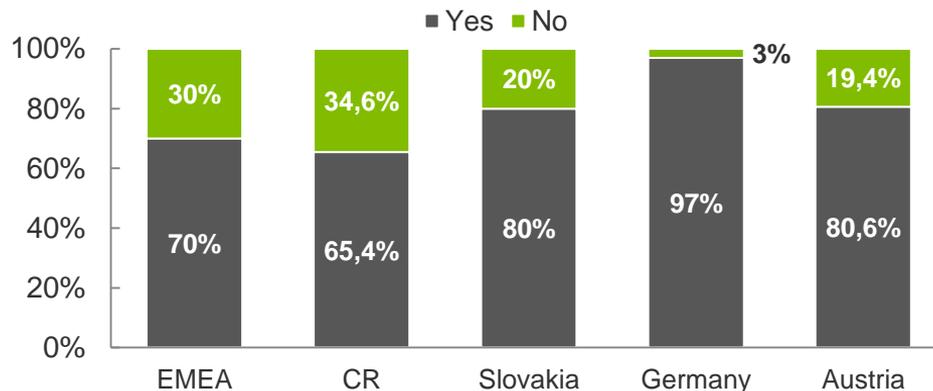
Tax Audits

Tax Audits (the Czech Republic versus EMEA)

Has your company been inspected by the tax administration in the past three years?



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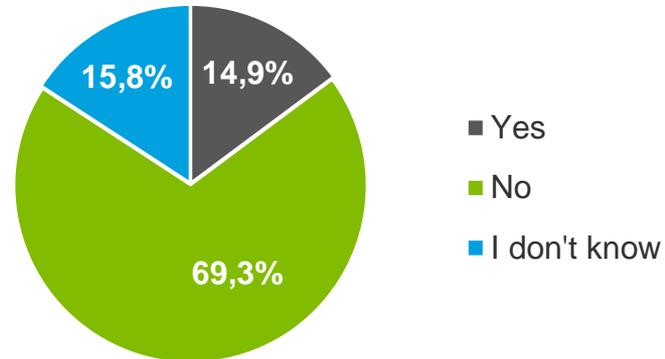


- Just like last year, the Czech Republic is among those countries in which the respondents stated the lowest frequency of tax audits. More than a third of the companies questioned have not been inspected by the tax authorities at all in the past three years.
- In Slovakia and Austria, on the contrary, more than 80% of respondents have been inspected; in Germany, it was 97% of companies.

Tax Audits

Do you believe that a larger number of tax audits can represent greater tax certainty for the taxpayers?

Czech Republic (2014)

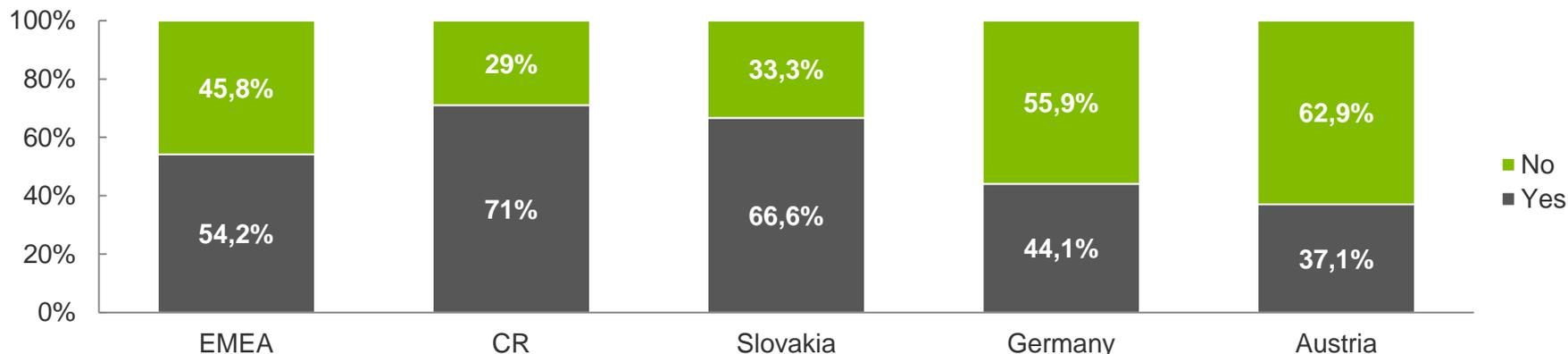


According to the survey, the respondents believe that a larger number of tax audit would not increase their tax certainty.

Tax Certainty Perception

Tax Certainty Perception

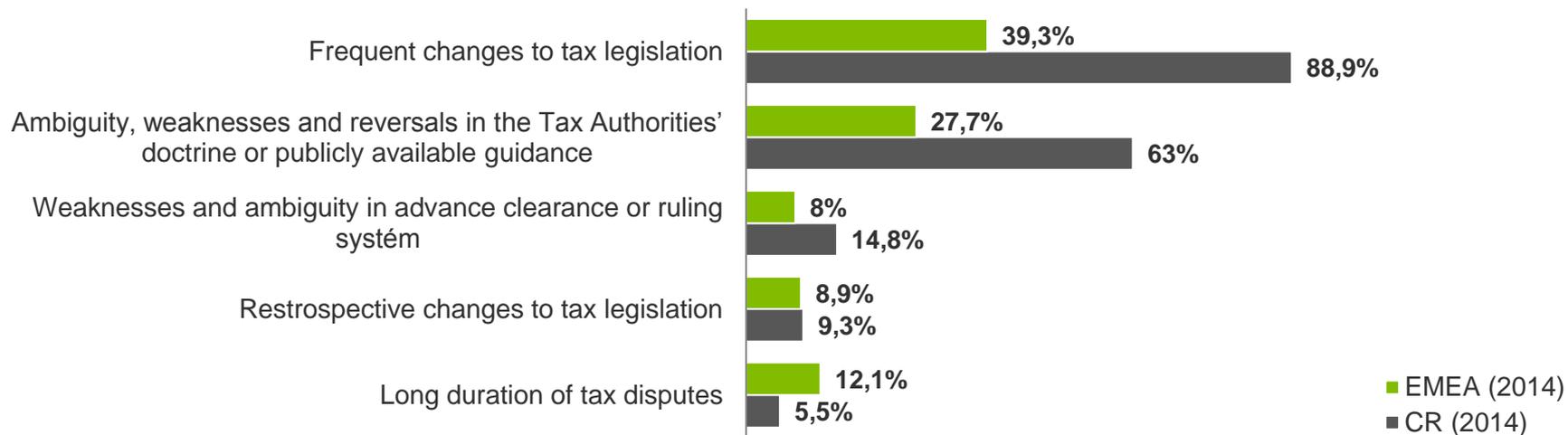
Do you think there is a high degree of tax uncertainty in your country (in which you are based)?



- In EMEA countries, the number of respondents who believe that there is a high degree of tax uncertainty in the country, where their company is based, has slightly dropped - from 60% last year to 54.2% this year.
- Respondents from the Czech Republic are still among the most pessimistic in this respect, with 71% perceiving a high degree of tax uncertainty, which is almost the same number as last year (70.5%).

Tax Certainty Perception in the Czech Republic and EMEA (2014)

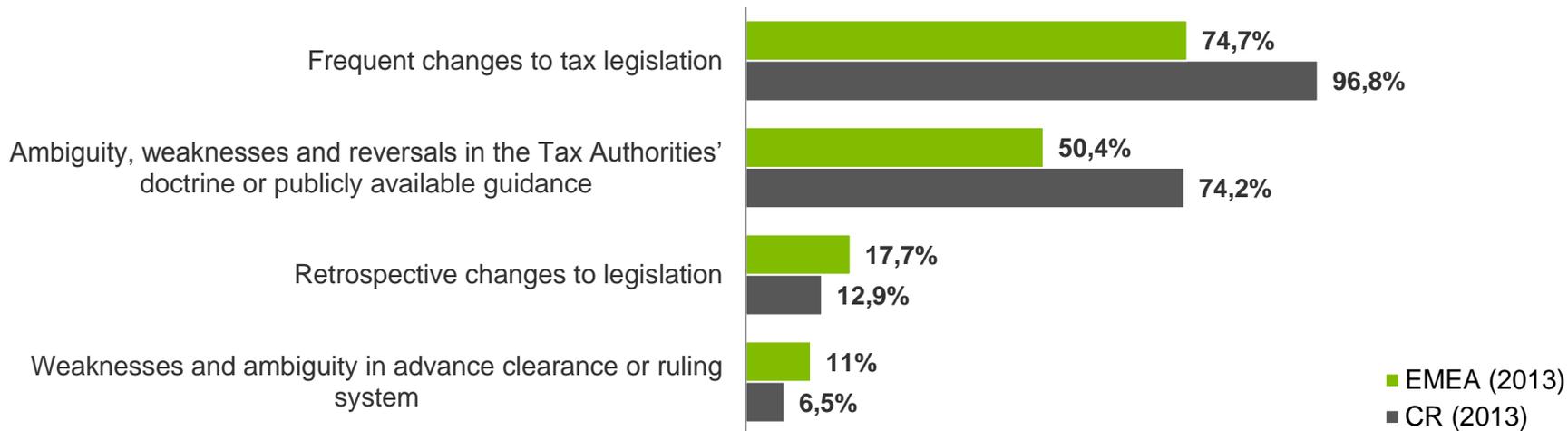
What are the two most significant causes of tax uncertainty in your country?



In the Czech Republic, similarly to EMEA countries, the respondents agreed that the main cause of tax uncertainty lies in the frequent changes to tax legislation, as well as the ambiguity, weaknesses and reversals in the tax authorities' doctrine. Tax uncertainty represents a high risk for taxpayers (last-minute changes in the VAT area or an ambiguous interpretation in the field of R&D tax deductions).

Tax Certainty Perception in the Czech Republic and EMEA (2013)

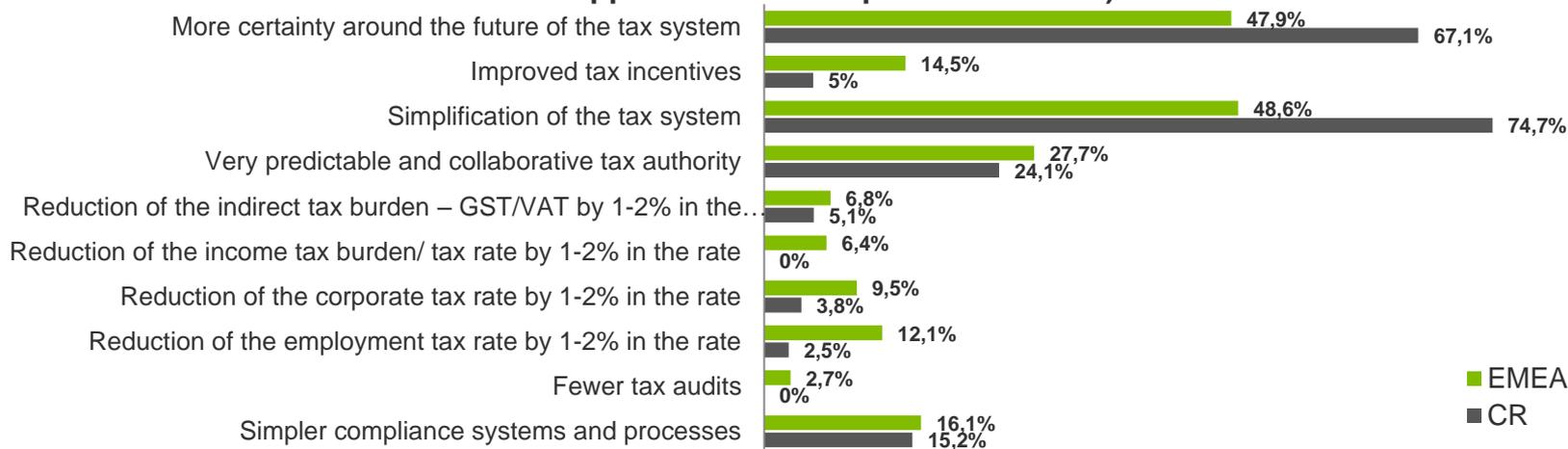
What are the two most significant causes of tax uncertainty in your country?



The comparison between the results from 2013 and those for 2014, shows that, while in 2013, the length of tax disputes did not increase tax uncertainty, in 2014, 5.5% of respondents stated it was an important factor.

Tax Certainty Perception in the Czech Republic and EMEA

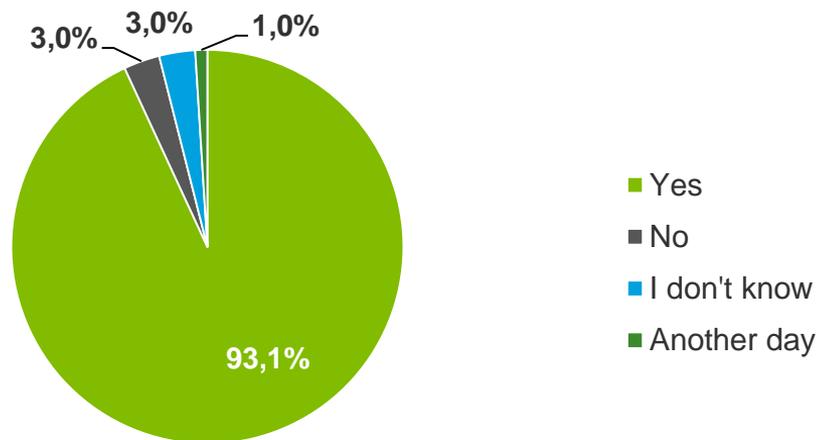
What change(s) to your country's tax legislation do you think would have the greatest positive impact on your country's commercial competitiveness? (The respondents were supposed to select up to two choices).



Tax reductions are not a principal issue for companies. What they consider important is a higher degree of certainty around the future of the tax system. Czech respondents, to a greater extent than respondents from other countries, would also welcome a simplification of the tax system.

Tax and Legislative Changes

Would you welcome if the effective dates of tax legislation changes were always set for one or two specific days in the year (for example 1 January or 1 July, like in the Netherlands or France)?

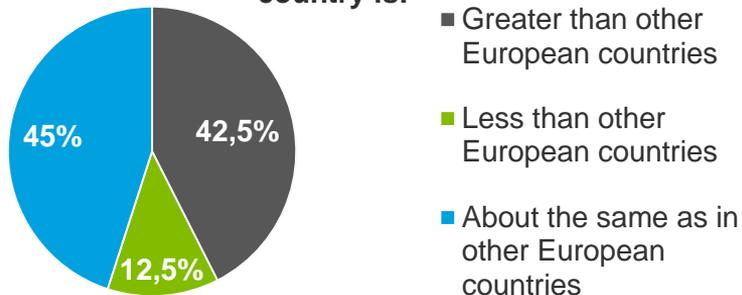


The respondents from the Czech Republic agreed, almost unanimously, that they would welcome a specific effective date for launching tax legislation changes – such as 1 January.

Tax Certainty/Uncertainty Perception

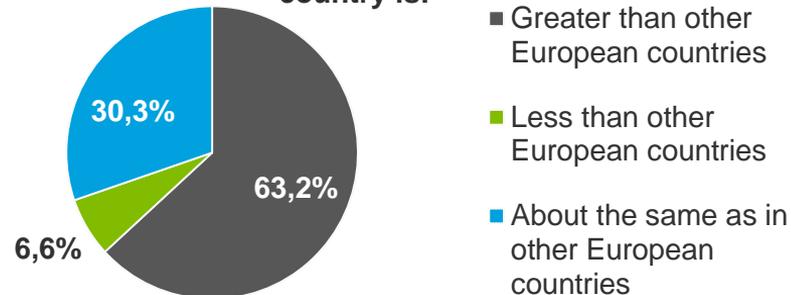
Czech Republic (2013)

Overall, do you believe tax uncertainty in your country is:



Czech Republic (2014)

Overall, do you believe tax uncertainty in your country is:



- In the Czech Republic, the number of companies, which assess the tax certainty in the Czech Republic as being greater than in other European countries, has increased year-on-year. While last year, it was 4 out of 10 Czech companies, this year, it was 6 out of 10.
- The share of respondents who perceived the degree of tax uncertainty in the Czech Republic as being the same or smaller than in other European countries has decreased significantly.

Summary – What the Survey has Shown

Taxpayers in the Czech Republic have a good relationship with the tax authorities (almost two thirds of the respondents stated it was good). The impact of the ongoing wave of tax audits has not been shown yet.

Compared to other countries in the region, Czech companies are still less often subject to audits by the tax authorities. However, audits focused on transfer pricing are becoming increasingly common in the Czech Republic.

Tax uncertainty represents a high risk for taxpayers. They would welcome more certainty with respect to the tax system, and also its overall simplification. Companies are not looking for tax reductions, but rather for clear and transparent tax legislation..

This year's survey shows that while last year, the length of tax disputes did not increase the degree of tax uncertainty; this year, 5.5% of the respondents stated it was an important factor.

Contacts



JAROSLAV ŠKVRNA

Partner in Charge, Deloitte Tax & Legal Function

Tel.: + 420 246 042 636

E-mail: jskvrna@deloitteCE.com



MAREK ROMANCOV

Partner, Deloitte Tax & Legal Function

Tel.: +420 246 042 655

E-mail: tseidl@deloitteCE.com



RADKA MAŠKOVÁ

Director, Deloitte Tax & Legal Function

Tel.: +420 246 042 752

E-mail: rmaskova@deloittece.com



PETR NEUSCHL

Senior Manager, Deloitte Tax & Legal Function

Tel.: +420 246 042 457

E-mail: pneuschl@deloittece.com

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