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Czech Republic: Significant toughening of the approach of tax authorities

Overview

The Czech Finance Administration has been significantly toughening its approach to individual taxpayers as well as employers. While the audits of payroll files or requests from the authorities were rather rare in the past, in the recent year the authorities have increased their attention and strictness.

Specifically in relation to the taxation of foreign nationals, the authorities tend to restrict all potential tax allowances and deductions. They also challenge international assignment structures, e.g., credits for any tax paid abroad, calculation of the Czech payroll tax advances, or refund of the tax overpayments. We have also experienced several disputes about the determination of tax residency, especially if the conclusion applied by the taxpayer results in lower taxation.

Even though there has not been any formal legislative amendment, the taxpayers' overall tax burden may increase, not speaking about their additional administrative burden, solely as a result of the change in the authorities' approach.

In addition to the personal income tax area, this also concerns transfer pricing and corporate taxation.

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Deloitte's view

It is becoming even more important to set up assignment structures and all related processed properly and in advance. Otherwise, there might be extensive implications on the side of the company as well as the individual. Individual taxpayers shall prepare for additional requirements regarding documentation with respect to tax allowances and deductions.

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India:
Budget proposals on personal taxation

Overview

The India Finance Minister presented the Finance Bill (the "Bill") before Parliament on 29 February 2016.

This alert lays out the key proposals that impact individual income earners.

These proposals will acquire legal status once approved by both the Houses of Parliament and upon receiving the assent of the President of India. Once approved, the provisions will apply to the India tax year 2016-2017 (1 April 2016 to 31 March 2017) unless otherwise stated.

Highlights

No change in progressive tax rates and slabs: The tax slabs and rates remain unchanged. The progressive rates of tax and the slabs will continue at the present levels. These are:

Slab of Income (INR)	Rate of Tax (%)
Up to 250,000*	Nil
250,001 – 500,000	10
500,001 – 1,000,000	20
Above 1,000,000	30
*The basic exemption limit for resident individual of 60 years or more but less than 80 years of age is INR 300,000 and for a resident individual of 80 years or more is INR 500,000.	

Education Cess payable at the rate of 3% of total tax.

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The rebate available for resident individuals having total income up to INR 5 lakhs is proposed to be marginally increased to INR 5,000 from existing INR 2,000.

Surcharge on the "super rich": The rate of surcharge payable on income tax is proposed to be enhanced to 15% from the existing 12% for taxpayers with taxable income exceeding INR 10 million (approximately US$154,000). Consequently, the marginal tax rate will increase to 35.535% (from existing 34.608%) for such persons.

Tax on dividend: Presently, dividend on which Dividend Distribution Tax has been paid at the time of distribution by a domestic company is exempt in the hands of taxpayers. The budget proposes to levy tax @ 10% on the dividends received by a resident from a domestic company in excess of INR 1 million (approximately US$15,400).

Additional deduction for interest on housing loan: First-time home buyers will be entitled to an additional deduction of INR 50,000 with respect to interest payable on a housing loan of up to INR 3.5 million (approximately US$53,800). To avail this benefit, the loan should be sanctioned during India tax year 2016-17 for a residential house property whose value does not exceed INR 5 million (approximately US$76,900).

Increased limit for deduction in respect of house rent: Individuals who are not in receipt of House Rent Allowance but staying in a rented accommodation are eligible for a deduction of INR 2,000 per month in respect of rent paid by them. The maximum deduction for house rent paid by such individuals is proposed to be increased to INR 5,000 per month from existing limit of INR 2,000 per month.

New Pension Scheme (NPS): NPS is a long-term retirement saving scheme. Contributions can be made by the employer as well as by the employee. Under this scheme, the individual can receive a lump sum payment on attaining retirement age (60 years) and an annuity thereafter. Presently, the entire receipt from NPS is taxable.

The Bill proposes to exempt:

- 40% of the amount withdrawn by individual on retirement and
- Full amount received by a nominee on death of the individual.

Advance Tax Payment: Individuals need to pay advance tax if there is no or short tax withholding on any income. Presently, advance tax is required to be paid in three instalments viz. by 15 September (30%), 15 December (30%), and 15 March (40%).

The advance tax payments are now proposed to be in four instalments. The proposed dates for payment of advance tax are 15 June (15%), 15 September (45%), 15 December (75%), and 15 March (100%). This is in line with the advance tax schedule for corporates.

The Income Declaration Scheme 2016 (IDS): The Bill has proposed a one-time declaration scheme providing an opportunity to declare undisclosed income relating to years prior to FY 2016-17. The scheme does not cover income/assets covered under the Black Money Act. Upon voluntary disclosure, the taxpayer shall have to pay 45% of such income and assets

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constituting tax of 30%, surcharge of 7.5%, and penalty of 7.5%. The proposed window for income declaration is 1 June 2016 to 30 September 2016.

Additional benefits upon voluntary disclosure include:

- Exemption from payment of wealth tax, if applicable, on the disclosed assets;
- No further scrutiny/tax audit under the India Income Tax Act and Wealth Tax Act; and
- Immunity from prosecution proceedings under India Income Tax Act, Wealth Tax Act, and Benami Transactions Act.

The scheme provides a one-time opportunity to disclose the income or assets which have either intentionally or inadvertently missed to be reported.

Deloitte's view

The proposed increase in the surcharge rate and the tax on dividend will have an impact on the tax outflow for high-net-worth individuals while ensuring that there is no impact for average taxpayers. Companies having expatriate employees in India who are equalized would see a significant impact on the overall assignment costs. Individuals would be advised to review whether any income has escaped tax in past years and their entitlement for availing the opportunity provided under the scheme.

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United Kingdom:
Further update on the Immigration Skills Charge

Overview

The Immigration Bill discussed the week of March 21 at the House of Lords gave further insight into the Immigration Skills Charge (ISC).

The Migration Advisory Committee (MAC) recommended that the charge will incentivize employers to reduce their reliance on employing migrant workers and to invest in training and upskilling UK workers. The MAC modelled an upfront charge of £1,000 per worker per year, but recognised that the figure should be set by HM Treasury. Tier 2 (ICT) Skill Transfer and Graduate Trainee routes should be excluded from the charge.

At the House of Lords this week, the minister said the charge will be very likely set at £1,000 per migrant per year.

There will be some exemptions to the charge as outlined below:

- Graduates switching from the Tier 4 to Tier 2 category will also be exempt.
- Small businesses and charities will get a much reduced rate of £364 per annum.
- PhD graduates will be exempt from the levy.

It is likely that the Immigration Bill will not be passed before October 2016. Further response from the government on the wider MAC recommendations will be announced soon but no date has been set.

Deloitte's view

The ISC will add to the extra costs on businesses, which includes the apprenticeship levy, which was announced in our 2015 summer budget. The ISC will very likely remain at the original recommendation of £1,000 and not lower as we had hoped.

Deloitte is also speaking closely with the HMRC to see how the ISC will be interacting with other levies.

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United Kingdom:
Government response to Migration Advisory Committee Tier 2 report

Overview

A written statement by the Minister of State for Immigration was published March 24 in response to the Migration Advisory Committee (MAC) Tier 2 report that was published in January 2016. It is stated that the government intends to accept the majority of the MAC's recommendations, which we have summarised in this alert. The changes will be implemented in phases, with the first reforms taking place from Autumn 2016 and completing the implementation of reforms by April 2017.

Tier 2 Intra Company Transfer (ICT)

Reduction in number of ICT categories:

- Short-term ICT categories will be gradually closed:
  - In Autumn 2016, the skills transfer category will be closed;
  - Between Autumn 2016 and April 2017, the salary threshold for short-term transfer will be increased to £30,000; and
  - From April 2017, the short-term category will be closed for all new applications.
- Graduate trainee category will remain in place, and see a reduction in salary threshold from £24,800 to £23,000 and an increase in the number of trainees an employer can sponsor from 5 to 20.
- From April 2017, there will be one single ICT visa category, with a minimum salary threshold of £41,500

Other changes to the ICT category:

- ICT migrants will be required to pay the Immigration Health Surcharge from Autumn 2016.
- The 12-month experience requirement will be removed for workers paid £73,900 and above.
- The government will also lower the salary threshold for ICT migrants working in the UK between five to nine years, current salary threshold of £155,300 will be reduced to £120,000, allowing those migrants earning £120,000 or above to stay in the UK for up to nine years.
- Further reviews will be carried out on what allowances will be allowed to be counted as salary and how to take forward the MAC's proposal for a review of skills in the IT sector.

Tier 2 General:

- There will be a rise in the minimum salary threshold for experienced workers to £30,000. This will be gradually phased in with minimum threshold increasing to £25,000 in Autumn 2016 and to £30,000 in April 2017.
- The minimum threshold for new entrants will remain at £20,800.

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- Employers will continue to be able to recruit non-EEA graduates of UK universities without first testing the resident labour market test and without being subject to the annual limit on Tier 2 (General) places.
- The government will also give extra weighting within the Tier 2 (General) limit to business-sponsoring overseas graduates from Autumn 2016.
- From Autumn 2016, graduates will be allowed to switch roles within a company once they have secured a permanent job at the end of their training programme.
- From April 2017, there will be extra weighting within the Tier 2 (General) limit, where the allocation of places is associated with the relocation of a high-value business to the UK, or potentially supports an inward investment. There will also be no requirement for the resident labour market test.
- Certain occupations, such as nurses and teachers, will be exempt from the new salary threshold. Where these occupations are not on the Shortage Occupation List, extra weighting within the Tier 2 (General) limit will be given to these occupations.

Dependants:

- Automatic work rights for dependents will continue.

Immigration Skills Charge (ISC):

- As mentioned in our previous newsflash, it has been stated that the charge will be set at £1,000 per migrant per year.
- There will be some exemptions to the charge as outlined below.
- Graduates switching from the Tier 4 to Tier 2 category will also be exempt.
- Small businesses and charities will get a much reduced rate of £364 per annum.
- PhD level occupations will be exempt from the levy.

For the full response, read *Migration Advisory Committee reviews of Tier 2* online.
URL: https://www.gov.uk/government/news/migration-advisory-committee-reviews-of-tier-2

Deloitte's view

It was expected for the government to accept most of the MAC recommendations, as it has previously done. It comes as no surprise to see the salary threshold being increased and the ICT category reduced to single visa category. All changes are being implemented in an attempt to reduce reliance on non-EEA skilled workers, and thus reducing net migration. On a positive note, there seems to be no change to the requirement to have 12-month experience to be able to use the Tier 2 ICT category.

Cost to employers will inevitably increase and it is yet to be seen how this will affect businesses hiring non-EEA workers. Both the skills levy and the IHS charge for ICT migrants will add significantly to the cost of sponsoring non-EEA workers. We can only hope that the government will be able to achieve the right balance and this will not reduce the competitiveness of the UK. We understand that the full operating model for the ISC is yet to be created.

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The government has allowed more time, in most cases a year, for businesses to plan and prepare before the full implementation of the changes, as no doubt this time is necessary for the business, but also for the government to be able to work through the details.

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Global Rewards Updates:
Romania: Changes to the taxation of restricted share units

Introduction

There have been changes to the tax treatment of Restricted Share Unit (RSU) type awards granted to employees in Romania effective from 1 January 2016 for awards vesting after that date. Previously, income tax and social security were due at vesting/delivery on the market value of the shares at that date. However, the changes introduced on 1 January 2016 will impact the tax treatment of some RSUs as set out below.

Changes to the tax treatment

Following the changes, RSUs with a vesting period of more than one year will now be taxable at the date of sale and subject to capital gains tax at this point. The sales proceeds are also subject to health insurance contributions (if the employee has not reached the cap with other income, e.g. salary).

Under the previous treatment for RSUs any income tax and social security due at vesting/delivery was subject to withholding by the employer where there was a recharge to the local entity in Romania. Under the new treatment there is no withholding requirement for the employer as the amount is not subject to tax until the point of sale. The employee will be required to report the sale of the shares and pay any tax due in their annual tax return.

In order to qualify for this treatment, RSUs must be share-settled and the vest date must be on or after 1 January 2016.

Cash-settled RSUs, and share-settled RSUs with a vesting period of less than one year, will remain taxable at the date of vesting/delivery and subject to employer withholding in line with the previous rules.

Deloitte's view

This change to the tax treatment of RSUs will now align with the existing position for stock options. This is a welcome change for employers as they will no longer be required to withhold or report for RSUs with a vesting period of more than one year (reducing their administrative burden) in many circumstances.

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Companies will need to consider when a withholding obligation may still be applicable with regards to cash-settled RSUs or share-settled RSUs with a vesting period of less than one year.

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