



EVROPSKÁ UNIE
Evropské strukturální a investiční fondy
Operační program Výzkum, vývoj a vzdělávání



Corporate Income Tax II

Tax Reserves = Provisions (1)

- The purpose of tax reserves is to prepare for future costs (expenses) and future loss. Tax reserves decrease tax base – tax reserves are considered as a tax costs.
- Types of tax reserves:
 - Bank reserves
 - Insurance reserves
 - Reserves for repairs of tangible property
 - Other special reserves

Tax Reserves (2)

- The most common tax reserves in the CZ are reserves for **future repairs of tangible property**.
- There are several legal conditions for creation:
 - We may create tax reserve for the **tangible property** only which belongs to 2nd - 6th depreciation group
 - The reserve has to be created for **two consecutive tax periods** and more up to the limit
 - The reserve is mostly created by the **owner**
 - We have to respect the **maximal limits** for creation (it depends on the depreciation group)

Tax Reserves (3)

Depreciation group	Years of depreciation	The maximal limit of creation
2	5	3
3	10	6
4	20	8
5	30	10
6	50	10

Tax Reserves (4)

- Repair works have to begin at least in 2 years after the last year of tax reserve creation
- If we do not fulfill this condition we have to increase the tax base by the whole amount of tax reserve = additional item
- Another obligation is to prove the real amount of repair costs to the tax office (calculation of budget)
- We have to keep tax reserves in a special bank account

Receivable and Liabilities

- We can create a special tax **adjusting entries**
- Adjusting entries reduce the asset value to real value comply with prudence principle and true and fair view of accounting unit.
- Adjusting entries – taxpayers who issued the invoice (first owner):
 - 18+ months – 50 %
 - 30+ months – 100 %
 - 100 % (many restrictive limitations, up to CZK 30 000, +12 months after due period)

Adjusting Entries Creation after Due Date

Time period after maturity (in months)	Amount of adjusting entries (in %)
18+	50
30+	100

source: author

100 % Adjusting Entries

- Conditions of creation:
 - Amount of claim is up to CZK 30 000
 - Time period after maturity is more than 12 months
 - The whole amount of claims to the same debtor is not up to CZK 30 000 per tax period

Liabilities

- After more than 30 months after due date we have to increase the tax base by outstanding liability/liabilities.

Contract Penalty/ Administrative Penalty

- Contract penalties rise from business relations among business partners
 - They are tax approved after the payment is made
- Administrative penalties from business relations among companies and offices (tax administrator, administrator of social contributions, health insurance administrators etc.)
 - These penalties are not tax approved

Financial Property (1)

- Separate tax bases are:
 - Dividends (exemption: treasury stock)
 - Shares in profit (limited liability company, cooperative company)
 - Settlement amount
 - Remaining balance

Financial Property (2)

- Part of the tax base are:
 - Interests from deposits
 - Interests from loans
 - Interests from obligations
 - Interests from bills of exchange

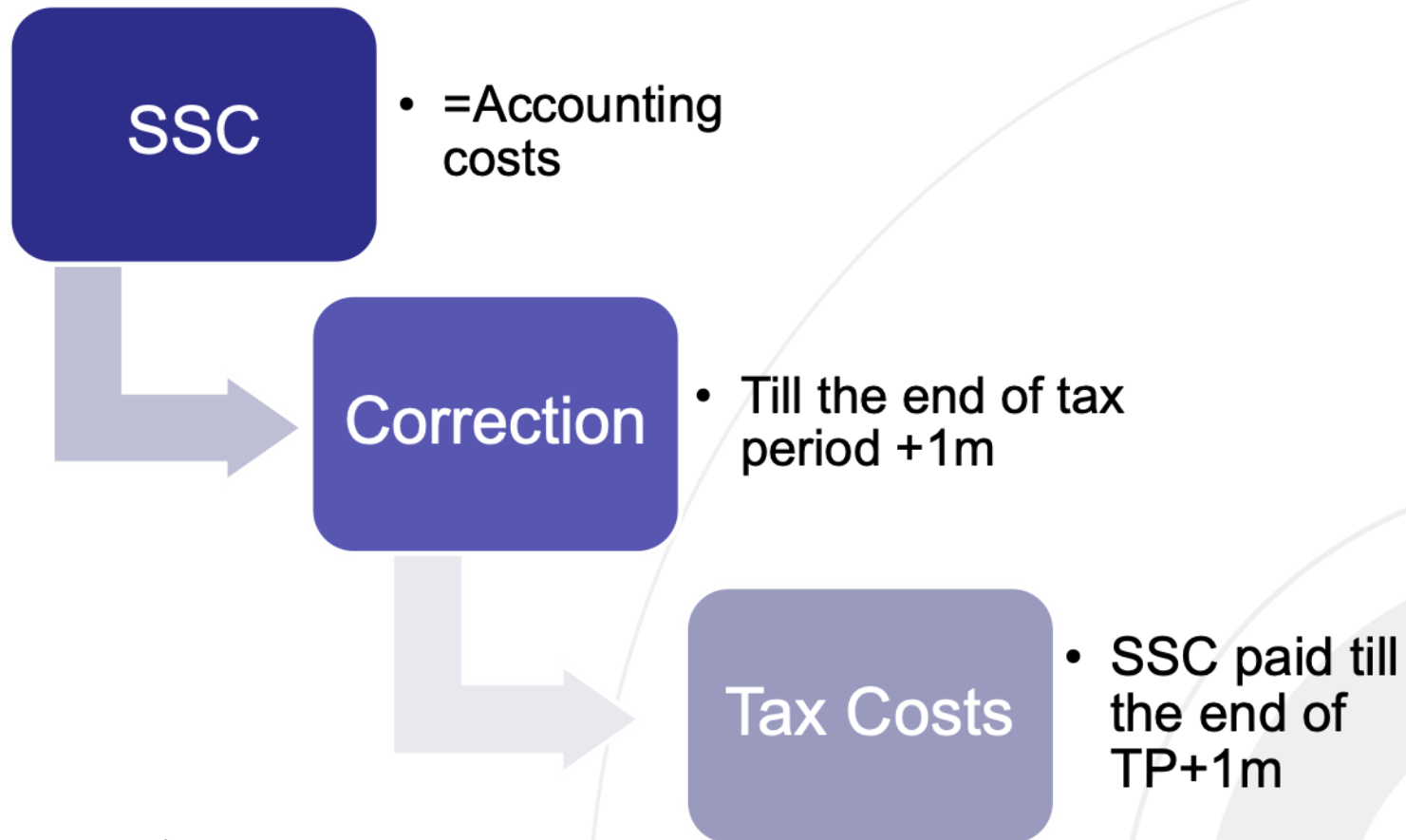
Financial Property – Typical Costs

- If we hold the shares (not our own) we can realize the tax loss from this activity.
- In other cases it is not allowed to realize the tax loss (in case of shares in profit).

Costs on Employees

- Gross wages
- Social contributions (just in case of payment till the end of the tax period + one month extra)
- Travelling expenses:
 - Table-money (are restricted)
 - Accommodation, travel costs (not restricted, but we have to accept the condition of approved cost – cost should be connected with our business activity)
 - Cost on traveling by own motorcar – in approved amount or there are some legal limits for depreciation
 - Other costs – in approved amount

Social Security Contributions paid by Employer



Taxes in the Tax Base

- Real estate tax (if it is paid) = tax cost
- Real estate acquisition tax (if it is paid) = tax cost
- Road tax (in any case) = tax cost
- VAT:
 - In case we are non-taxpayer of VAT = tax cost
 - Other special cases = tax cost

Calculation of CIT

- Tax base
- (-) tax deductions
- (-) tax loss
- (-) expenses on R&D
- (-) expenses on professional education
- = half-sum
- (-) deductions on donations
- = tax base (round up to thousands of CZK)
- (x) tax rate
- (-) tax credits
- = total tax

Tax Rates (CIT)

- Basic tax rate is **19 %**
- Tax rate for separate tax base is **15 %**
- Different tax rates for some special taxpayers (pension funds, etc.)

Deductions (1)

- **Tax loss** – carry-forward for 5 years
- **Expenses on R&D** – if there is no public contribution (subsidy) – for following 3 tax periods, we can deduct 100 % (110 %) of expenses from the tax base
- **Deduction on professional education** – in case of some tangible (intangible - SW) property, which was bought as a brand new and is used for the purpose of professional education. Maximum is CZK 5 000 per hour. Extra deduction per student/one hour of professional education is CZK 200.

Tax Loss



Expenses on R&D

Year	Expenses R&D	Calculation of Deduction	Deduction
2019	CZK 900 000	100 %	CZK 900 000
2020	CZK 1 000 000	110 %	CZK 1 100 000

Deductions (2)

- **Public donations:**
 - at least CZK 2 000 per one donation
 - maximum 10 % of the tax base after reduction by tax loss, expenses on R&D and deduction on professional education

Tax Credits

- Employees with special disabilities:
 - Health disability:
 - **CZK/year 18 000**
 - Special health disability:
 - **CZK/year 60 000**
 - Dependens on worked hours (part-time or full-time job)