

The flip side of tax planning

State taxation options - direct taxes

The question - is the Czech Republic able to significantly influence the amount of corporate income tax collected in transactions with an international dimension by means of tax instruments?

1. Source :
2. Residence
3. CFC

1. Taxation at source

- ♣ Interest - 0% (I/R, DTT)
- ♣ Dividends - 0% (P/S, DTT)
- ♣ Licence fees - 0%, in case of inappropriate structure
- 5%(I/R) ♣ Services - 0% (DTT)
- ♣ Artists/athletes **15 %**
- ♣ Employment - 0% or **full rate**
- ♣ Permanent establishment - technically full rate, allocation / special method of taxation

2. Taxation based on residence

1. Types of income that are difficult to tax
2. Tax planning strategy
 1. Profit migration strategies, TESCM
 2. Jurisdiction strategies
3. Practical example - intangible assets
4. Practical example - sales method

4.1 Types of income that are difficult to tax

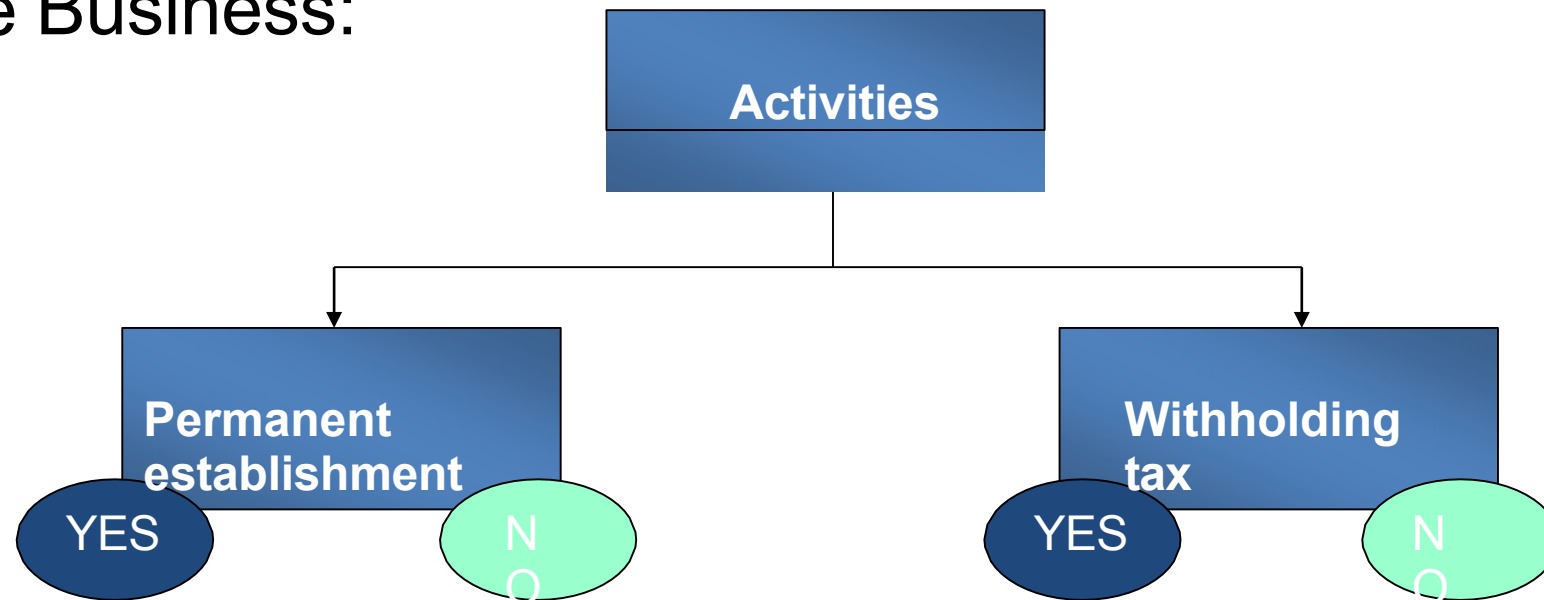
- Tax planning applied mainly in the following areas:
 - International trade in goods
 - Royalties, patents, know-how and other rights
 - Provision of cross-border services, brokerage and consultancy services
Services
 - **Capital gains - sale of shares in subsidiaries (participation exemption)**
 - Inventory trading, accounts receivable
 - IT services
 - Employee remuneration / bonuses

2.2 Tax planning strategy

- Main strategies used: profit
 - migration strategies
 - jurisdiction strategies

2.2.1 Profit migration strategies I.

Type Business:

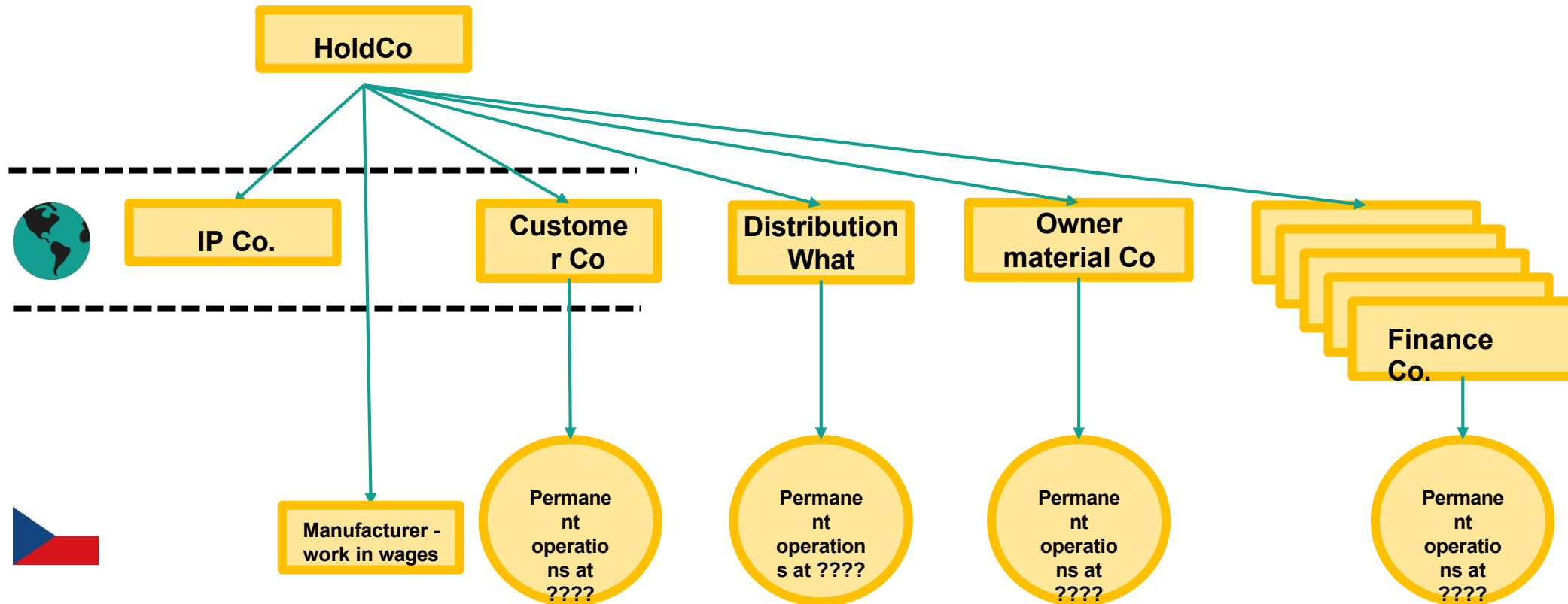


- withholding tax according to domestic legislation
- double tax treaties

2.2.1 Profit migration strategies II.

- Transfer of profits generated in countries with high tax burden to countries with low tax burden, e.g.:
 - Shifting functions and risks to low-tax countries
 - Moving assets and intellectual property rights to low-tax countries
 - Shifting finance to low-tax countries

2.2.1 Tax effective supply chain management



2.2.2 Jurisdiction strategies

- Strategies focused on the use of local tax law: ●
 - change of tax residence of the parent company (e.g. through cross-border merger/relocation/splitting by spin-off by merger)
 - ECJ and Exit tax
 - R&D (deductible R&D item) ● investment incentives

2.3 Intangible assets I.

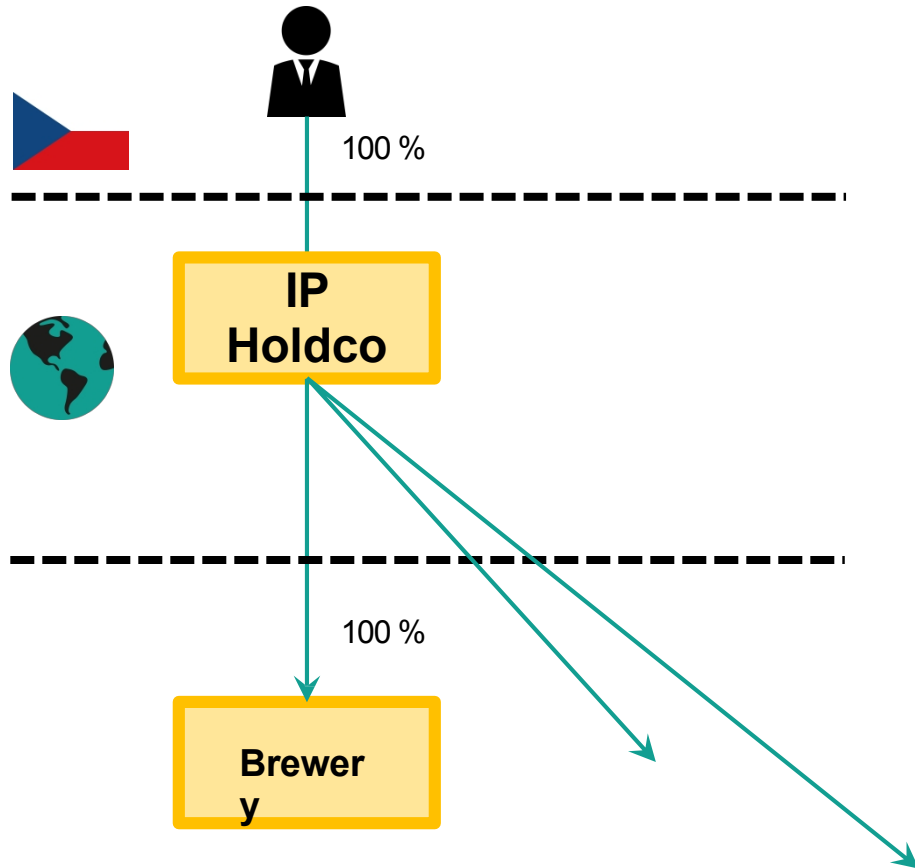
Simplified GTC		TEUR	
Cost	5,000	Revenue	10,000
Profit	5,000	→ Tax	950

- ♣ Czech company (brewery) has developed a special recipe for beer production

- ♣ Demerger by merger



2.3 Security and protection



- The intangible assets are contributed/divested by spin-off merger into IP Holdco (domiciled in a suitably selected country)
- Ideally an investment protection agreement / safe jurisdiction

2.3 Intangible assets II.



Can the Czech Republic prevent it ?



IPVZZ after reorganisation TEUR

		Reven	3,000
Prof	3,000	ue	Tax 180
it			

Czech company

VZZ after reorganisation TEUR

Cost	5,000	Revenue	10,000
License	1,000		
Profit	4,000		Tax 760

2.4 Method of sale I

Fully fledged manufacturer (CR)

- Cost of production of the product: 80
- Selling price - end customer: 120
- Selling price - distributor: 90



Business goal: a more efficient structure

Distribution centres (including warehouses) in various EU countries

2.4 Method of sale II

**CZ
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Production costs (4x80) 320
Sales - customer 1x120 120
Sales - distribution(3x90) 270 } Profit = 70

Total profit 120

19%
Rate

Tax - 13.3

Total tax base of the group 140
Total taxation 34.3

Effective tax rate 28.6%

**Cypr
us**



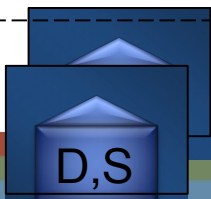
Purchase price 90
Sales - customer (1x90) 90 } Profit = 0

10%
Rate

Rate

27.5%
Rate

Spain



Italy

Purchase price 90
Sales - customer (1x160) 160

30%

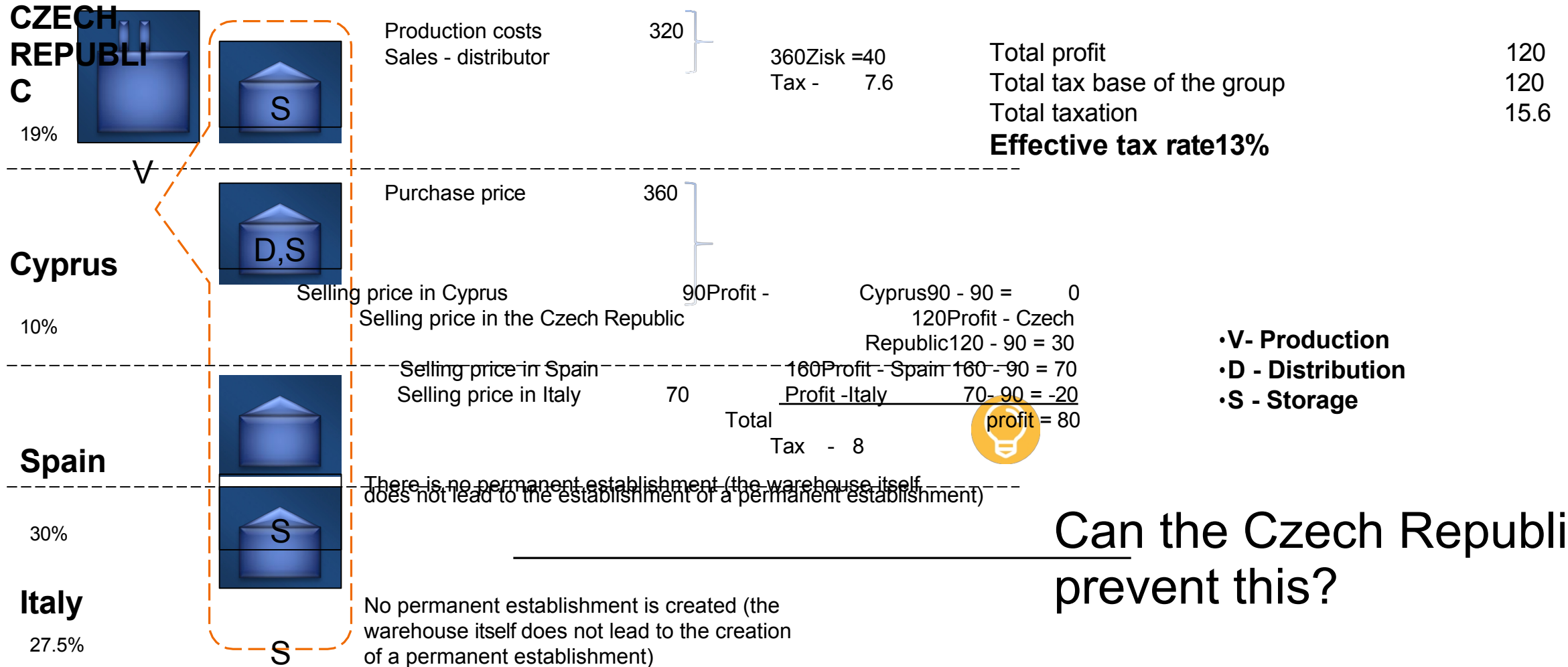
Purchase price
Sales -
Customer(1x70)

Profit = 70
Tax - 21
90
70
Profit = - 20



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2.4 Method of sale III



Can the Czech Republic prevent this?

3. CFC

- Do the tax benefits outweigh the costs of implementation and administration?

Working conclusions

- Will the increase in DPPO and DPFO lead to a long-term increase in the collection of all taxes?
- Will this increase affect small companies (sole traders, small s.r.o.), Czech-owned companies or international chains?
- What will be the overall impact on income tax (positive) and negative impact on overall tax collection from foreign workers, social and health insurance and VAT
- **From what level of the DPPO will the effects of the tax reduction exceed the effect of the increase in total revenue**
- What will be the effect on the salaries of Czech employees if the DPPO / DPFO is reduced?

Questions and opinions

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 Thank you