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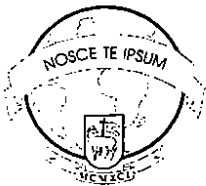
Study section: Finances and Taxes

**RESEARCH OF INFLUENCE OF TAXATION
ON ECONOMY OF SMALL AND MEDIUM
ENTREPRENEURS**

(Bachelor Thesis)

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Kunovice, May 2006



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Zadání bakalářské práce

Vážený studente, vážená studentko,

jako téma Vaší bakalářské práce ve studiu oboru Finance a daně Vám zadávám

Výzkum vlivu zdanění na ekonomiku malých a středních firem

- Osnova: 1. Pojetí malých a středních podniků a jejich místo v ekonomice EU a ČR
2. Situace podniků, zejména malých a středních podniků
3. Vytváření podmínek pro podnikatelské prostředí
4. Výzkum vlivu zdanění na ekonomiku malých a středních firem
5. Analýza výzkumu
6. Navržená strategie

Bakalářská práce bude zpracována pro: AKONT sdružení účetních poradců v
Hodonině

Tento dokument je součástí Vaší bakalářské práce

S pozdravem


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I confirm, that I am the sole author of this work under the supervision of MS.Jaroslav Zahradka and all its literary or special sources are mentioned in the List of references.

Kunovice, May 2006

A handwritten signature in black ink, consisting of a stylized initial 'R' followed by a horizontal line.

I would like to express my gratitude to Ing. Jaroslav Zahrádka for useful methodical help, which he gave me during the work on my bachelor thesis.

Kunovice, May 2006
Hana Harcová

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Introduction

In the past it was mainly large companies that were the main stay of the economy of most countries. However, to day this is no longer the case. The economy stands more and more on the small and medium sized entrepreneurs. This should not be a surprised. Small and medium entrepreneurs (SME) shape a healthy business environment, they enhance dynamics of the market. They also have ability to absorb the essential part of the labour force released from big firms. Therefore, conditions for their economic activity development are decisive. Economic milieu determines and influences largely demand after their products and services and it can so facilitate or contrariwise restrict their access to the markets that are important for their creation and further growth.

In May 2004, when the Czech Republic became a full-fledged member of the EU (European Union) of about half a billion of inhabitants. It is one of three decisive politic and economic grouping in present-day global world, together with the American continent led by the USA and with the Asian continent led by China and Japan.

Gradual integration of small and medium Czech entrepreneurs in the network economy of the EU brings both new business opportunities.

It's an extensive range of possibilities of mutually profitable collaboration, including so-called collaboration with competitors. Together with entry of the Czech Republic in the EU, the new law № 235/2004 Col. about value added tax came in to force. It is a new law with the ambition to reach compatibility of legal adjustment for assert of this tax in the Czech Republic with instructions valid in the EU. These are the directives released by the council of the European Community (EC), particularly co-called Sixth Instruction of Council of EC (77/388/EEC), furthermore the directives of ES 79/1072/EEC and 86/560/EEC, concerning reduction and refund of tax. Exceptions for the Czech Republic from application of instructions of EC Council are anchored in access agreements. In the new law about VAT there are complemented (beside other important changes) particularly rules for taxation of goods supply between tax subjects from different member countries of the EU, mode of tax exercitation in so-called intercommunity supply. The Czech Republic could introduce these rules of inner market of the EU only since its entry in the EU.

A target of my work is to find out, what conditions in an area of taxes the small and medium entrepreneurs have, how the whole amount of taxes influences development of these firms and situation of particularly small and medium entrepreneurs and creation of the conditions for the business milieu.

I will do my research in the basis of knowledge obtained in team study, in accordance with the individual study plan 3-2-1, in 2004/2005. Sources of a theoretical part of my work are active laws of the Czech republic, specialised literature and other books.

1. Concept of the small and medium entrepreneurs and their position in the economy of EU and Czech Republic

Continuous attention of executive of the EU and its economic and legislative assistance is dedicated to the development of small and medium entrepreneurs (SME). In economic grouping of the EU the SME play considerable social-economic and political role. It is not only because of their big quantity, but also because of their role in assurance of essential employment, social stability and dynamic innovative development.

1.1 Characteristic of SME

For Czech economic region during entry in the EU the decisive is concept and definition of SME in European Committee recommendations (2003/361/EC). Following categories are to differentiate between:



| | Employees | Turn-over* | Volume of active capital* |
|-----------------------|-----------|-----------------|---------------------------|
| Small and medium firm | Up to 250 | Up to 50 mil. € | Up to 43 mil. € |
| Small firm | Up to 50 | Up to 10 mil. € | Up to 10 mil. € |
| Tiny firm | Up to 10 | Up to 2 mil. € | Up to 2 mil. € |

Note: Criterion is turn-over or volume of active capital

1. Entrepreneur is considered to be the medium entrepreneur, if:

- he employs less than 250 employees
- His active capital¹/property² doesn't exceed the crown (CZK) equivalent of amount 43 mil. EUR
- His turn-over/receipts don't exceed the crown (CZK) equivalent of amount 50 mil. EUR

2. Entrepreneur is considered to be the small entrepreneur, if:

- he employs less than 50 employees
- His active capital/property or turn-over/receipts don't exceed the crown (CZK) equivalent of amount 10 mil. EUR

¹ From balance of the entrepreneur which keeps accounts

² From tax audit of the entrepreneur which doesn't keep accounts

3. Entrepreneur is considered to be the tiny entrepreneur, if:

- he employs less than 10 employees
- His active capital/property or turn-over/receipts don't exceed the crown (CZK) equivalent of amount 2 mil. EUR¹⁾

1.2 Significance of SME in the EU

During last decade the average extent of companies has decreased. The 90% of EU firms employ less than 20 employees. The number of SME not only increases, but there is in addition a colossal fluctuation in these firms, what could be qualified as instability of work conditions related to them. To improvement of the state certainly don't contribute informal organization structures, small experience with leadership, prevention and accidents, action in traditionally risk sectors, lack of sources and difficult access to qualified help. Some member countries have eliminated additionally certain administrative formalities or retrenched duties related to smallest firms, without unfavourable interference in protection of employees. Among necessary measures for improvement of the situation in SME there are:

- successful transmission of necessary information to the people who lead small enterprise
- development of manager skills and education of workers
- unsophisticated tools for facilitating of risk evaluation
- easily accessible information, free from in-jargon and specified according to sectors
- education and counselling conducted "on the spot", for acceptable price
- counsellors have to know enterprise, they can't be "experts detached from the life"
- partners like Trade-Union organizations, banks, insurance companies *etc.*, should play the main role in providing information and helping
- Special programs for SME (subvention of capital repair, help with invest planning, lending, collective plans for craftsmen, *etc.*)
- diffusion of good practice on local level
- utilize of work inspectors as a motive force for changes²⁾

Deeper classification of SME is of concern for analysis of property relations between firms. An example could be analysis of authority for directive interference of SME, which are in a certain dependence on further firms due to the property relations. In these cases recommendation of EU doesn't think as SME of organization units, where 25% or more of capital or vote rights in body of the company belong to another organization or individual. In the harmony with above-mentioned recommendations of EU, among SME there aren't included some specific organization units, like e.g. universities and other schools, unprofitable research centres, various kinds of funds and organizations of public administration.

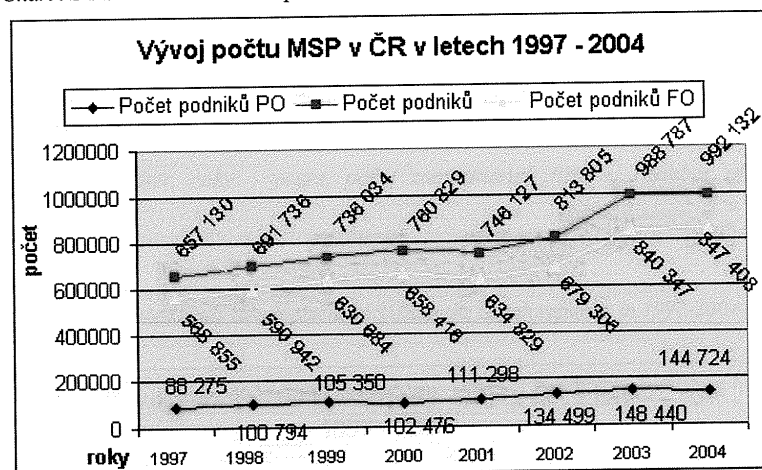
Big number, amount of the turnover and of the share on employment assurance makes from SME the important factor for social and economic conditions of European countries. It is valid that substantial majority of EU members affront problems of high unemployment, whether menacing or factual.

There are hundreds of written documents, which EU releases about problematic of development of SME. So-called European Charter for Small Enterprises has a key

significance for SME. It was adopted by EU members in June 19-20, 2000 in Santa Maria da Feira. It includes the support of SME in 10 main regions catalysing their development. Before the EU expansion in May 2004, there were fewer than 19 mil. SME in this economic grouping. They constituted about 99,8% of all firms in the EU and employed more than 74 mil. People. The whole number of employed people, i.e. including these in big firms, was less than 113 mil. Workers, - it means that SME take share in the global employment with two thirds.

As noted previously, in existing member countries of EU the SME were and are henceforth considered to be very substantial for assuring and development of employment. It is estimated, they take a share in employment with two thirds. In addition, these SME assure about 55% increase of new working places. They are also systematically evaluated to be significant for the innovative development. Innovations of lower ranks are involved, because they don't need background of financially and personally demanding basic and user-oriented research and development, which is incarnated generally in special institutions (in the Czech republic e.g. in Science Academy) or in big companies.³⁾

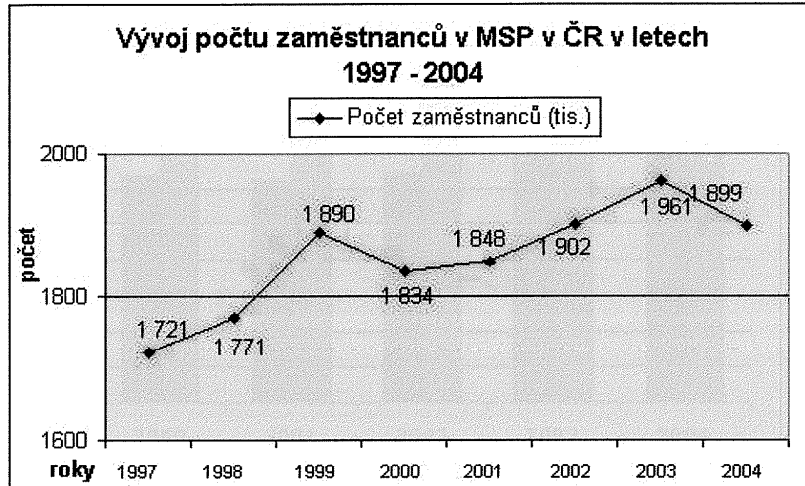
Chart № 1 SME number development in the Czech Republic in 1997-2004



www.vokac.cz/statistiky_msp.html#vyvoj_zahrobch_1997_2004

počet – number, roky-years, počet podniků – number of firms

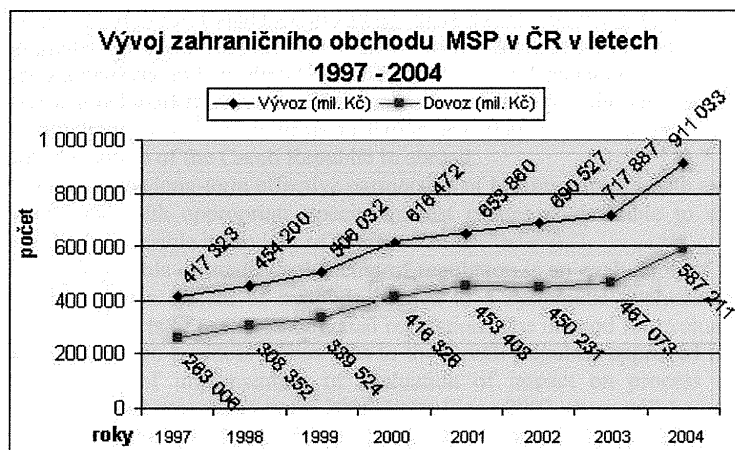
Chart № 2 Number of employees development in the Czech Republic in 1997-2004



www.vokac.cz/statistiky_msp.html#vyvoj_zahrobch_1997_2004

počet – number, roky – years, počet zaměstnanců (tis.) – Number of employees (in thousands)

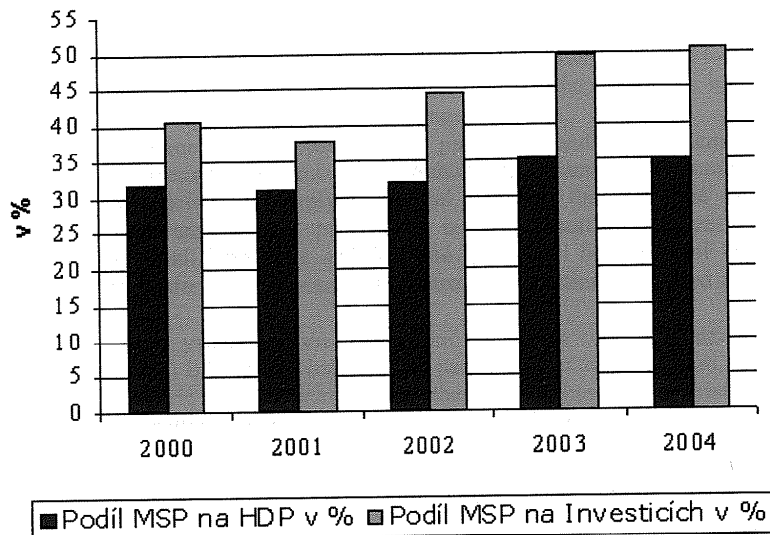
Chart № 3 foreign trade development of SME in the Czech republic in 1997-2004



www.vokac.cz/statistiky_msp.html#vyvoj_zahrobch_1997_2004

počet – number, roky – years, Vývoz (mil. Kč) – export (in millions of CZK)
Důvoz (mil. Kč) – import (in millions of CZK)

Chart № 4 Share of SME in the GDP and in the investments



www.mpo.cz/dokument6216.html

Podíl MSP na HDP v % - Concern of SME in the GDP (in %)

Podíl MSP na Investicích v % - Concern of SME in the investments (in %)

One of important common targets of sustains of small and medium enterprise is enhancing of export efficiency and competitive strength of SME and forming of conditions for their long-term successful abidance in foreign markets. The realization of measures included in programs for SME support will conduct to the facilitation of access of Czech firms to foreign markets, to their direct presence on these markets and to the support of their direct international market activities. These measures will help in the same time to reinforcement of collaboration of Czech firms in export and they will contribute to reinforcement of export position of the Czech Republic in abroad.

In terms of the long-term effective partnership of business sphere with authorities of public sphere and with appropriate special-interest groups is desirable to exert principles of socially responsible behaviour of firms.

One of key tools of quality enhancing of regulation is an evaluation of regulation impact, which includes system of methods headed to a systematic evaluation of negative and positive impacts of proposed or actual regulation. The method for evaluation of the impact of regulation on business milieu was in the Czech Republic approved in April 2005. The pilot period of implementing of evaluation of impact on process of preparation of regulation will proceed in years 2005-2006. Since 2007, there will be implemented a duty to carry out the evaluation of impact of all law proposals, prepared by ministries and by other authorities of an official state administration. In the future, this obligation will be extended to sub legal norms and materials of unlegislative character.⁴⁾

1.3 Advantages and disadvantages of SME

The fundamental question for possible prosperity judgement of the Czech SME is, in which measure they can hold their position and fruitfulness, compared to big companies in the Czech Republic and especially in the EU. This discussion has traditional roots in management and right answer opinions change.

Usually, for beginning of discussion about place and condition problematic of SME pass the works of German economist E. F. Schumacher, namely his famous book *Small is Beautiful!* He defended sharply the social function, the economic mission, and the possibilities of small firms, particularly in comparison to frequent "impersonality", bureaucracy, small innovative abilities, and retardation behaviour of big companies in general. Just under this influence big companies sometimes acquired attribute "giants", "dinosaurs" etc.

For a directory managing image how and in which respect a size of organization (enterprise, firm) influences characteristic parameters of its evaluation, the chart № 1 is presented. Empiric analysis demonstrated that exactly these characteristic parameters are essential for resulting manager behaviour of firms and consequently for their prosperity.

The number of „crosses“ shows directory items up, where are bigger advantages for big, medium or small organization forms. For example, for the first row of the table is valid that from the point of view of demand factor of leading the biggest advantages usually have small firms (easy management of requirements on organization leading), the smallest advantages have the biggest, often bureaucratic ossified organizations. For the second row is valid that, in the matter of knowledge sources seizure, statistics indicate the fact that this task usually the medium firms manage best, while the big firms suffer rather by bureaucracy, and the small ones by bad access to expansive knowledge sources.

Table № 1 Directory evaluation of advantages and disadvantages of organization of different size

| Characteristic evaluation | Big organization | Medium organization | Small organization |
|---|------------------|---------------------|--------------------|
| Demandingness of leading (demandingness of management of critical factors of success, measure of bureaucracy) | + | ++ | +++ |
| Organization elasticity (ability of quick reaction on business environment, competitive dynamic...) | + | ++ | +++ |
| Professionalism of dealing (with essential external and internal partners) | +++ | ++ | ++ |
| Innovative behaviour (of organization and of leader workers) | + | ++ | +++ |
| Capital strength and availability of sources (acquirement of credits, position on market...) | +++ | ++ | + |
| Business risks and possibilities of their reduction (reserves, insurances...) | ++ | ++ | + |
| Efficiency of economic processes (control systems, production and sale, concentration of sources) | +++ | ++ | + |
| Possibilities of quality assuring in the whole process of economic activity of organization (process control...) | +++ | ++ | ++ |

Section of the EU support framework, Ministry of Local Development

2. Situation of firms, especially of small and medium Entrepreneurs

Progressive structural changes in the secondary sector, which expresses itself in further loosening of the manpower, will form the pressure on employment in the tertiary sector. Absorptive ability of this sector however exhausts itself. This potential is again necessary, because the tertiary sector in the EU partakes in employment at average 66%. Growth in demand for manpower with appropriate qualification will depend first of all on sectors of so-called quartet. ⁵⁾

2.1 Conditions of small and medium enterprise in the Czech republic for year 2004

Economic situation of single regions is determined by their geographic location and historical development, but the important role is played by development of industry and agriculture enterprise as well. Transformation of Czech economy to free market economy deepened the historical and geographical differentiation of regions.

The negative factor was the recession of production in industry regions of the north-western Bohemia and Ostrava region and the decay of agriculture production in mountain regions and foothills. The positive part of tertiary sector and services development came to light first of all in big cities and agglomerations. From the total number of less than 2000 thousands business subjects with trade licence the 82% were individuals and the 18% were corporations. About 40% of these business subjects show systematic activity carried in order to profit achievement.

Small and medium entrepreneurs in all departments of the Czech national economy, with the number less than 250 employees, employ about 60% from the total number of employees.

In the Czech Republic, before entry into EU on 1st May 2004, and after its realization as well, arrived time and necessity to respond the main problem related to amount of revenue collection from individuals and corporations. Long-term deceleration of business environment by too high taxes conducts to increase suspension of earnings and employment. The state budget is burdened for that reason by high supports (in proportion to the GDP) in unemployment and by high social benefits for hundreds of thousands of people. Ministry of Finance has no other possibility than to harden in tax collection. In the contrary, taxpayers learn to pay to state as few as possible from pure self-preservation. The last stage is inflation. State will pay debts from deficit budgets in depreciated currency, banks, firms and citizens become poor henceforth. It is very pessimistic but genuine forecast of development and prolongation of the actual state. Construction of taxes after the last modification says: When you are able to earn more than subsistence wage, you will pay more; when you earn nothing, you will pay as well. In addition, social and health payments were raised, so that many independently wage-earners will be squeezed from an enterprise or they will be made to raise prices. If we take in consideration the corporation income tax, it was inadequate to give to state 31% of profit, 28% now and 26 or 24% in following years. It is illogical that an independently wage-earner must give this amount even if he has no profit. The construction of taxes is so unhappy that a firm cannot use any modernization for above 40 000 CZK as its expenses (the modernization of machines and equipment belongs to expenses). Writings-off with ambition to eliminate the tax

disharmony is inefficient in time because the technologies always are more expensive than the old ones. In inflation the writings-off are inefficient. In the other words, for a firm to survive is necessary not to have the high profit, but if it hasn't profit, it cannot afford modernization, it purchases on credit and loses on interests – its growth slows. Relative taxes don't conduct individuals or corporations to profit that are necessary for national wealth creation. The growing rich of the whole community, of every it's member, necessitates savings reinvested in development. Way back to understanding that minimum of regulation and taxation leads to higher employment and rising of living standard will be still long and thorny.

The tax politic of a state has to lead to:

- administrative simplification
- transparency of tax system and limitation of tax avoidance
- decomposition of the exceptions
- specification of the basic, unified and equal tax

The impact estimation of proposed changes has to be dynamic, not static. The static estimation “looks” only at change influence of tax rates on state gains, along with existing behaviour of taxpayers, and so it is misleading. The dynamic estimation includes also what from the nature of things cannot be calculated exactly, what however is much closer to reality, it is the fact that low taxes increase stimulations to work, enterprise, saving and investment. Lower taxes augment economic growth, they lead to the higher number of berths, to higher earn and profits – however, the marginal “cautious” tax cut will not have this positive effect, but only the substantial reduction, which will provoke taxpayers into behaviour change.

Results of the dynamic estimation of impact of the proposed changes are exposed to danger – the good often is rejected because it is not perfect, it's exactly numerable, while the static estimation allows such “perfection”.

Among the important factors, which the static estimation isn't able to include in, there are **dramatically lower expenses of tax collection**, what is the direct result of implementation of the simple, unified, income tax of individuals or corporations. For that reason, the income tax of individuals or corporations has to be cut quickly and by a single application. **The markedly lowered basic income tax will attract profits from abroad.** On the other hand, together with the proposed steps there is a proposal to arrange the appropriate legislation in the part *sanctions for tax avoidance*.

2.2 VAT before May 1, 2004 (the law № 588/1992 Col.)

Object of tax

Object of tax: there are all taxable fulfilments for pecuniary interest or without it, including non-monetary fulfilment in inland. With the VAT are taxed goods and services provided in inland and goods imported from abroad. The irregular international bus travel, carried out by a foreign operator in inland, is liable to tax as well.

What is not the object of tax

The § 8 specify exempted fulfilments:

- taxpayer with the title to deduction on the entry – export of goods and services and the international travel
- taxpayer without title to tax deduction on the entry (§ 25)

Taxable fulfilment

(Deliveries must satisfy conditions):

- it is goods delivery, conveyance of real estate with change of property or economy right, supply of services or transfer and right utilization
- it must be realized in inland (place of taxable fulfilment)
- it must be realized in the course of enterprise

Tax subjects

- people obliged to pay tax (people on behalf of which the taxable fulfilment is realized, during the import people are the ones to whom the goods are to be released)
- people liable to tax (individuals or corporations carrying business in inland)
- taxpayers (people liable to tax, who satisfied the conditions of compulsory registration or registered voluntarily)

Output tax

In the course of delivery realization a taxpayer is obliged to assess his taxable fulfilments. For tax assessment it is necessary to know:

- **Date of realization of taxable fulfilment and origin of tax duty** – the duty to exert the output tax starts up in day of taxable fulfilment realization. This principle is valid: the taxable fulfilment is always realized according to earlier date; payments before the day of delivery and the refunds are the taxable fulfilments; advance payment isn't liable to tax. In case of nonrecurring taxable fulfilment the taxable fulfilment is realised by handover and payment, in case of recurring fulfilment on the date listed in the contract
- **tax rate:** 22% and 5%
- **Accounting basis of VAT and output tax calculation** is the price for tax fulfilment (the value of delivered goods or supplied services, the final selling price). If goods are delivered for free, their value is expressed by a common price. Reduction decreases assessment base, in the tax base price grants aren't included. In the course of second-hand goods selling in a bazaar the tax base is the difference between selling and buying price. Assessment base can be the price inclusive of tax, as well (the taxable fulfilment realization to taxpayers for cash, the taxable fulfilment to non-payers, cases when final selling price without tax isn't known, the public sale of realties together with parcel). In the course of operative and financial leasing the tax assessment is agreed gale.

Tax calculation from price without tax

It is used when the price without tax is known – productive activity, services, wholesale. It is always used, when the standard tax certificate is made out. (*Negotiated price 200 000 x 22% = 44 000*)

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Tax calculation from price without tax

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Tax calculation from price inclusive of tax

It is used when the selling is effected to non-payers and the tax is calculated from incomes inclusive of tax, the tax with simplified tax certificate. 22% - 0,1803 and 5% - 0,0476
(In retail, the sale 244 000 CZK. 22% of tax makes $244\ 000 \times 0,1803 = 43993$).

Tax deduction

A taxpayer has a possibility to deduct the tax contained in assumed taxable fulfilment. Tax-on-the-entry is the tax that was exerted by payers to a taxable person as a part of price for taxable fulfilments accepted by them or the tax that was assessed in course of goods import. Tax deduction: the whole billed tax-on-the-entry for respective period of taxation, set up by the coefficient for conversion of demand to deduction if the taxpayer offers exempt fulfilments. The payer fulfils (conditions for) deduction demand if he used purchase to the sale achievement for the taxable fulfilments and if he attests deduction demand with the tax certificate from taxpayer. With some taxable fulfilments the tax-on-the-entry excludes a deduction demand.

If a taxable person runs, besides activities with tax-duty, duty-free activities, he can take an advantage of a tax deduction only in the amount that corresponds to the taxed activities. In the case of tax-exempt activities he can't take an advantage of deduction. To find out, how much of the charged tax-on-the-entry he can deduct, he has to tell the ratio of taxable fulfilments and tax-free activities.

Tax return

Taxable person is obliged to put tax returns and to pay collected tax after claiming the deduction. He puts forward the tax return in every period of taxation, it means no matter if he realized taxable fulfilments or not. The tax return is to be put always, also the zero one. Period of taxation can be monthly or quarterly. The tax return is sent by 25th the following month after the end of period of taxation. During this period the tax is collectable as well. Tax liability is the difference between output tax and alleged deduction of tax for concerned period of taxation. If the output tax exceeds the deduction of tax-on-the-entry, it's an actual tax duty, if the tax deduction exceeds the output tax, it's an excessive deduction.

VAT and financial activities

The problematic link of VAT to financial activities and the duty to shorten the demand of tax deduction don't cause any problems in connection to subjects engaged in typical financial activity (it is possible to include banks, funds and businessmen with valuables among them). However, because of that many problems come into being with companies concerned with production, trade or counselling, without any connection to stock market. With these subjects one or two trade cases can cause often the big reduction of deduction demand. The profit from one trade in stocks is surpassed manifold by following VAT restitution to the tax administrator, what can bring company to financial difficulties. Problems in this area are concentrated into:

- ignorance of VAT problems, in a part relevant to the tax-exempt financial activity, especially from what transactions and when arises from current enterpriser the financial institution;
- bad calculation of the part of VAT-on-the-entry where it isn't possible to apply for deduction;
- Bad posting of returned part of VAT.

The law № 588/1992 Col. about VAT in a word of later regulations (hereinafter only the „law“) divides financial activities into two groups. The first one includes financial activities, whose realization is always duty-free taxable fulfilment (§ 28, art. 1, of the law). In the second group (§ 28, art. 2, of the law) there are financial activities, whose realization is, dependently on satisfaction of defined conditions, either tax-exempt activity or activity that isn't taxable fulfilment. In tax-exempt activities and in activities that aren't taxable fulfilment, there isn't exerted congruently the output tax. However, their distinction is significant because of determination of the taxpayer demand on the tax-on-the-entry deduction (if a taxpayer carries out the duty-free taxable fulfilments, according to § 25 of the law, he has, according to § 20 of the law, to cut the deduction demand).

Activities, quoted in § 28 of the law, are duty-free in case they are effected by financial institution, according to § 25 of the law. Financial institution is the subject, enumerated in § 28 art. 4 of the law, followed by a payer, whose gains, eventually incomes from the financial activities, quoted both in art. 1 and in art. 2, in a calendar year exceed one of limits, defined in § 28 art. 5 of the law: the amount 10 000 000,- CZK or 10% part of income or profit from financial activities within total income or profit, reduced by the income or profit from the sale of written-off tangible or intangible property.

The amount, included in coefficient denominator for purpose of reduction of the tax-on-the-entry deduction claim, according to § 20 of the law (and consequently for insertion in the row № 31 of tax return), in duty-free taxable fulfilments, is the gain (in payers with double-entry accounting), eventually the income (in payers with single-entry accounting), from these fulfilments, according to valid methodology of accountancy (not the economic result).

Settlement of the deduction claim, by virtue of pursuance of financial activities, quoted in § 28 art. 2 of the law, the payer (not financial institutions, enumerated in § 28 art. 4 of the law) is obliged to accomplish (it is to include gains, eventually income from these activities, in tax-free fulfilments in the row № 31 of tax return) in settlement of the deduction claim for the whole calendar year in the last tax return of this year. Insertion of payer among financial institutions, according to regulation of § 28 art. 5 of the law, is valid only for that calendar year, in which he exceeds defined limit.

The risk trades, in which common enterpriser becomes financial institution with duty to cut the VAT deduction claim, are namely:

- securities selling on own account
- intermediation of the trade in stocks
- sale of debts purchased from other subjects
- Conclusion of a contract about transfer of securities with option right (trading on own account in the area of time trades).

Securities selling on own account

At securities selling, there is effectuation of duty-free taxation fulfilment in sellers, if sales from this negotiation (or more precisely from all securities selling carried out in respective year) exceed the amount of 10 000 000 CZK or 10% part of income or profit on the total income or profit, reduced by income or profit from sale of the written-off tangible or intangible property. At securities trading on own account the income or profit in enterprising subjects with double-entry accounting are the sales for effectuated securities negotiation, caught on account 661 (*Sales from the securities and deposit negotiation*). Securities emission is not taxable fulfilment in the sense of § 2 of the law. There is possibility here to rely on accounting management. With joint-stock company the emission of next stocks proceeds by means of increase in basic capital (account 411: *Basic capital*). At obligation emission the issuer of bonds charges on obligation account 241 (*Issued*

short-term obligations) or 473 (*Issued obligations*). The price is not charged through avails. On the contrary, the sale of proper securities, re-bought by issuer, is duty-free taxable fulfilment. If own stocks are concerned, their sale is charged through expenses account 561 (*Bought securities and deposits*) and sales are re-caught on account 661 (*Sales from securities and deposit negotiation*). At the purchase of debt securities (obligations, coupons, exchanges), there is possibility to distinguish two different procedures:

- a) further sale of debt securities to other holder before payback period is considered to be the sale of securities, it is charged through account 661 (*Sales from securities and deposit negotiation*), in limit exceeding the seller becomes financial institution;
- b) debt securities holding in property of purchaser till payback period and their repayment by issuer – this procedure isn't judged as sale of securities, it isn't charged through costs and gains, for that reason the company cannot turn into financial institution.

Conclusion of a contract about transfer of securities with option right

In § 14 of the law about securities, there is modified the right of option, as the right of one contracting party of purchase agreement not yet effective, to show the will (in defined deadline and in defined way) that he stands on the contract. With expiry of defined term the option right ceases and effects of purchase agreement will not happen. Realization of this right is an suspensive condition of operation of contract. This option right, according to § 14 art. 4, is transferable and so negotiable as well. If buyer has the option right, there is so-called purchase option. If seller has the option right, there is so-called selling option. If nothing other was agreed, the option owner has to show the will to stand on in a written form, and in 15-day deadline from the conclusion of a purchase agreement that founded the option right. There can be arranged the payment for the option right order. The amendatory act about accounting procedures for enterprisers introduced, with effect from 1st of January 1997, two new accounts: 373 – *Purchased option*, and 374 – *Sold option*. Just on account 374 (*Sold option*) are charged options sold here (option bonus). The option price is depreciated for a period till the exercise, eventually realization of option, in revenues to the credit of account 668 (*Other financial gains*). Amounts here captured can make financial institution from enterprise subject, if defined limits are exceeded (see above).

Calculation of unexercisable part of VAT

The proportionate part of tax deduction is specified as a product of total tax-on-the-entry during respective taxation period and coefficient. The coefficient is determined as a quotient with sum of prices without tax from taxable fulfilments, where title to deduction arises, in numerator, and with total sum of prices without tax from all effectuated taxable fulfilments with title to tax deduction and from the duty-free taxable fulfilments in denominator. It could be useful for right procedure in including of exempt fulfilments into coefficient to have the suitable analytical record chez relevant performance accounts. It's impossible to adapt only returns from the account group 66 (*Financial returns*).

Accounting realization of VAT, unexercisable in a deduction claim

Over the year, the VAT payer enters in the books the exercised deduction claim as a credit on the debtor side 343 (VAT), the output tax as debt on credit side 343. He must re-account the tax part with no deduction entitlement on the basis of the reduction of deduction with coefficient, according to § 20, as a debt on credit side 343 and on the debtor side of the expense account 538 (*Other taxes and fees*) or 548 (*Other operating costs*). This amount will be, for purposes of income tax, considered to be expense for achievement, assuring and maintenance of income, according to § 24 art. 2 letter . The more detailed interpretation of this letter is contained in the instruction D-132, where is

pointed out that, among other taxes, according to § 24, art. 2, letter of the law, there is VAT as well or part of VAT, that the payer cannot exert as a deduction, according to § 20 of the law № 588/1992 Col. in a word of later instructions. This implies that it is up to tax subject, VAT payer, to weigh choicely advantages and disadvantages of financial activities implementation, and to judge in the annual extent if the gain from these financial activities is not lower than the “loss” from the VAT refund to tax administrator, by reason of reduction claim on VAT deduction. With bad examination of these links the error can be made, not detrimental of the state budget but of the taxpayer.

2.3 VAT after May 1, 2004 (the law № 235/2004 Col.)

Temporary arrangements

Pursuant to temporary arrangements, payer registered in agreement with the existing instructions will be the payer in accordance with the new law. Tax identification numbers (TIN), assigned before the date of force of VAT law, and are changed in the way that the first three numbers and the dash are replaced by code „CZ“.

Geographical delimitation

With entry into EU the division into the Czech Republic and foreign countries disappears – the VAT law distinguishes territory newly first of all in relation to EU and to other countries on:

- inland, i.e. the territory of the Czech republic;
- territory of the EU that is defined by respective instruction of the EU and is formed by 25 member states (for VAT purposes from the territory are excluded territories enumerated in § 3 art. 2 of the VAT law and, on the contrary, there are counted territories of Monaco principality and Isle Man);
- Third countries, i.e. all other countries.

In connection with new geographical distinction the related terminology changes as well. Notion *abroad* the VAT law uses exclusively toward third countries, foreign person is meant the person which hasn't on EU territory the domicile, place of business or business premises, eventually whereabouts or place where he resides usually. Conceptions import and export in the VAT law are used only in relation to the third countries as well as for goods movement between inland and free custom deposits or free custom zones. Inland is the part of the EU, so if the law wants to differentiate other EU member states, it uses qualification other member states. For goods movement between inland and other EU member states the notion *goods acquisition (delivery) from (in) other member state* and for services *supply of services from (in) other member state* is used.

Economical activities

Conception *economical activity*, contained in § 5 art. 3 of the VAT law, includes:

- activities of a business kind (activities of producers, businessmen and of the people providing services as well as activities performed according to special law instructions as independent activities);
- Utilization of tangible and intangible property for purpose of income gain, if this property is used systematically.

Delimitation of tax subjects

According to a prior version of the VAT law, the payer could be only person liable to duty. In a new law there are newly delimited persons obliged to tax and so-called persons identified to tax.

Person obliged to tax

The VAT law envisages person obliged to tax as an individual or corporation that independently realises economic activities. It can be also a person from another member state or from the third country, or non-profit subject, i.e. the corporate body that wasn't founded or constituted in order to enterprise, if it accomplishes economic activities (non-profit subject is so-called public entities as well).

There are two conditions for a person to be considered a person obliged to tax:

- independent activity
- economic activity pursuance

In fine, it is possible to say that, on the basis of delimitation in § 5, persons obliged to tax in practice are:

- inland enterprisers
- payers from other member states
- foreign persons obliged to tax
- other persons which aren't enterpriser but they will realise independently the economic activity
- Corporate bodies that weren't founded or constituted in order to enterprise, public entities included.

VAT payer

VAT payer is the person obliged to tax with registration to tax in inland, according § 95 of the VAT law (see below).

Person identified to tax

Person identified to tax is completely new notion that serves, in the connection to commerce inside EU, to designation of person that is not VAT payer but, by reason of goods acquisition, he is obliged under certain condition to declare and pay VAT.

According to definition, in § 96 art. 1 of VAT law, person identified to tax is:

- non-profit subject, i.e. corporate body that wasn't founded or constituted in order to enterprise and doesn't realise economic activities in inland; or
- person obliged to tax which accomplishes only duty-free fulfilments without entitlement to tax deduction, if
- who acquires goods from other member state and the value of goods acquired without tax in current calendar year exceeds the amount 10 000 EUR; or
- Who is addressee of goods that are consumer tax object.

Turn-over

The VAT law delimitates turn-over in § 6 art. 2. Into turn-over enter:

- gains chez accounting persons
- Chez others income for realised fulfilments, with exception of these that are duty-free, without entitlement to tax deduction (§ 51 of the VAT law).

In turn-over there are included gains or income from duty-free activities as well, without entitlement to tax deduction, i.e.:

- from transfer or rental of land, buildings, flats and non-residential premises (freed from VAT, according to § 56 of the VAT law), providing that they are not casual activity in people obliged to tax;
- from financial activities (§ 54 of the VAT law) and insurance activities (§ 55 of the VAT law) that aren't casual or supplemental activity in people obliged to tax.

Turn-over of public entities is defined independently, namely as gains for taxable fulfilments carried out by accounting entity.

In connection with turn-over there is very important to remember that turn-over for the duty to become payer is counted only from 1st of May, 2004.

Tax-payers registration

The most common way of how we can become taxpayers is exceeding of turn-over. According to § 94 art 1 of the VAT law, it is concerned the inland person obliged to tax, if his turn-over for 12 calendar months overruns the amount 1.000.000 CZK. He becomes payer

- from the first day of third month that follows the month, in which defined turn-over was exceeded, if he register; or
- with the day of registration efficacy set forth on registration certificate, if he doesn't register and the administrator himself registers him.

Duty to enter the registration application he has, according to § 95 art. 1 of the VAT law, by 15 days after termination of calendar month, in which he exceeded defined limit.

Conditions for enterprisers carrying business on the basis of agreement of association without legal subjectivity are defined so that all of them were either payers or non-payers of VAT. Member of association becomes payer:

- when he exceeds turn-over 1.000.000 CZK; towards turn-over is counted the total turn-over of all partakers of association, within the association or outside it; or
- if only one partaker of association is VAT payer already at closing of a contract or he becomes it later by any reason.

With registration procedure deals § 95 art. 2 of the VAT law, where is newly introduced duty to submit to tax administrator the written association contract and to communicate the name of determined association partaker, which will keep tax evidence for association, according to § 100 art. 3.

The inland person obliged to tax will become payer as well if he accomplishes goods acquisition from other member state and the value of acquired article without tax in current calendar year exceeds amount 10.000 EUR or equivalent amount in another currency. Value of new vehicle and of article that is consumer tax object is not counted towards limit.

It must be valid that this person obliged to tax accomplishes taxable fulfilments or duty-free fulfilments with entitlement to the tax deduction. He must register, according to § 95 art. 6 of the VAT law, by 15 days from the amount exceeding, but he becomes payer already on the date of limit exceeding, and he will pay the tax from goods what he exceeded limit with.

Likewise, inland person obliged to tax becomes payer because he receives goods that are consumer tax object from another member state. Again, however, he must accomplish taxable fulfilments or duty-free fulfilments with entitlement to the tax deduction. He becomes payer already with first sending regardless of limit (according to § 18 art. 1 of the VAT law). This person has duty to submit registration application no later than 15 days from the date of first goods delivery, according to § 95 art. 9 of the VAT law.

If an inland person obliged to tax (again, accomplishing taxable fulfilments or duty-free fulfilments with the entitlement to the tax deduction) lets delivery from another EU member state goods together with assemblage or installation and if these goods are delivered and installed by foreign person obliged to tax or by person registered to tax in another member state that hasn't domicile, place of business or business premises, in the inland, it means – for the inland person obliged to tax – that:

- he becomes payer on the date of goods delivery;
- he is obliged to register by 15 days from the date when article was delivered; and
- He is obliged to declare and pay tax from these delivered goods.

Inland person obliged to tax becomes payer, regardless of limit, on the date of acceptance of reverse charge type services, i.e. services when their taxation duty transfers from provider to receiver. There is concerned the larger number of services defined generally in § 10 art. 1, 2, 4, 5, 6, 9, 12 and 13 of the VAT law. It is assumed that the services are offered by person registered to tax in another member state, which has not got domicile, place of business or business premises in inland or by foreign person obliged to tax. Receptor of services must be the inland person obliged to tax that accomplishes taxable fulfilments or duty-free fulfilments with entitlement to the tax deduction and has duty to pay VAT from already received service and to register by 15 days from the date of service receiving.

Other cases, when an inland person obliged to tax becomes payer:

- on the date of property purchase within privatisation, buy or enterprise (or its part) investment from payer;
- on the date of company or society transformation registration (according to § 69 of the commercial code), when extinct company or society were VAT payers;
- in enterprise continuation after payer's decease, the legitimate representative becomes payer on the day successive after death till heritage solution.

The registration must be always done by 15 days from decisive event.

Person registered to tax in another member state is a person (individual or corporation) with TIN assigned for purpose of VAT in another EU member states, registered according local laws.

The VAT law has, in cases enumerated in § 98 of the VAT law, a new sanction called the compensation for neglect of legal registration duty. It is concerned:

- non-fulfilment of registration duty after turn-over 1.000.000 CZK exceeding –tax administrator assesses compensation in the amount of 10% from total income or gains in period from the date, when he should become payer, till the date from verdict of tax administrator;
- persons identified to tax that purchase goods from another member state and failed to register – they have to cover to tax administrator the amount of 10% from the value of goods, acquired unduly without tax, like a compensation.

Goods delivery in other member state, goods export

According to the new VAT law, the actual notion "export sales" is replaced, in relation to goods purchasers from EU member states, by term "goods delivery to another member state" or so-called "intra-communitarian performance".

Goods delivery to another member state is considered the duty-free fulfilment with entitlement to deduction if:

- the goods acquirer is registered to VAT in another EU member state, i.e. TIN (tax identification number) was attributed to him for purpose of VAT
- in the same time, the article was really sent or transferred in another EU member state by payer or acquirer or third agent.

Exemption will not be possible to exert in case when the article is delivered to the person, for whom goods acquisition in another member state isn't tax object. For purpose of claim to tax immunity the provider will be obliged to quote and check the TIN validity of his customer, issued in another EU member state.

With goods delivery in the third countries outside territory of the EU, the current legal regulations of the goods export will be preserved.

Goods acquisition from another member state

Goods acquisition by payer from another member state, according to § 2 of the new VAT law, is the tax object in inland. In contrast to goods import from the third countries, there is not goods taxation here at the border checkpoint, but payer declares the tax within his tax declaration. The tax administrator in this case is the locally respective tax office.

Summary reports

Summary report (§ 102 of the VAT law) is the brief and general form where the tax-payer gives summary data about his accomplished delivery of goods, free from VAT, in another member state in proceeding calendar quarter. In single rows of summary report the payer declares for every goods purchaser:

- code of the state, where the purchaser is registered
- TIN of the purchaser
- The total goods value delivered to the given purchaser during the given calendar quarter.

If payer doesn't accomplish in the given calendar quarter the goods delivery in another EU member state, he doesn't present the summary report.

In sequence on so far used practice in tax control the new legal regulations determine sanctions for case of the belated presentation or for abstention of summary report presentation at all as procedures in additional date change.

Verification of purchaser's TIN (tax identification number)

As indicated above, one of conditions of exemption from VAT claim, in case of goods delivery in another member state, is the fact, that goods purchaser is registered in another member state to VAT, i.e. TIN was attributed to him for purposes of VAT. For exemption exercise the provider is obliged to present and check the TIN validity of his customer, issued in another member state. For that reason every member state must provide to persons supplying intra-communitarian fulfilment the possibility of verification of TIN

validity of his business partner, registered to VAT in another member state together with code of that country.

Special regimes

The new VAT law modifies special procedures that should be exerted in the harmony with EU regulations.

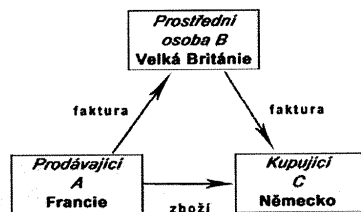
Tripartite negotiations

Tripartite negotiation is revised in the new VAT law like a negotiation form inside EU territory, where is possible to apply the simplified VAT regime of goods delivery and purchase among persons registered to VAT in different member states. **The simplified regime is possible to apply only when all condition requested by law are satisfied.**

The tripartite negotiation is conceived as a negotiation closed by **three persons (seller, mediator, buyer) registered to tax in three different member states** and the article is delivery of the same merchandise among these three persons, along with the fact that **the article is directly sent or transferred from selling member state to purchasing member state.**

It is possible to say, in the simplified way, that the article is delivered from one member state to the customer in another member state, through the medium of negotiator from the third member state. Example of this is the situation when a German firm orders from a British firm the article produced in France. The diagram of tripartite negotiation is displayed in the picture.

Picture – Diagram of the tripartite negotiation



3-2-1 year 2004/2005

The simplified procedure consists in the fact that the payer (medium person) in member state B will not declare this transaction within tax-on-the-entry nor output tax in his tax declaration for taxation period in which he carried out the article purchase from another member state (i.e. state A) and the consecutive article delivering in another member state (i.e. state C).

New vehicles delivery inside EU territory

Another exception is the VAT regime applied at new vehicles delivery inside EU territory. At this regime the principle of taxation place in the destination country is valid, regardless of fact if the provider or purchaser is registered to VAT or not.

Goods sending

Goods sending is conceived as a goods delivery to people non-registered to VAT in another member state, if **the total value of article delivered to people non-registered to VAT exceeds in one calendar year the amount defined by a member state**, in which the

article is delivered. Goods transport or expedition assures provider – the VAT payer or third person authorized by him.

While in case of goods sale to a person non-registered to VAT in another member state doesn't arise exempt entitlement, i.e. the payer delivers goods for the price inclusive of VAT, he declares properly these transactions and assesses them with output tax in his country, the procedure in case of the mail-order trade is different.

If provider – VAT payer exceeds, at the goods delivery people non-registered to VAT, limit defined by country in which the article is delivered, he is obliged to register to VAT in this member state. Registering by reason of goods dispatch this person doesn't become payer in given country, but he is only obliged to declare and pay tax from following deliveries in this member state in a way of goods forwarding.

The exception from the point of view of goods forwarding is formed by new vehicles delivery and by delivery of article with assemblage or installation.

Every member state determines own limit, at the reaching of which the goods delivery for people non-registered to VAT in its country is considered to be goods delivery.

In the Czech republic, according to the new VAT law, the limit for goods forwarding is total value of the goods delivery into Czech republic higher than 35000€.

Used transport vehicle acquisition from another member state is subject to the same regime like goods acquisition. According to instructions that are exerted in single member states, the seller of used article (used car) delivery can use, in satisfying conditions defined in § 90 of the law, the special regime that consist in that he assesses in used car delivery to his customer only additional charge that he determines as difference between selling price and purchase price of this car. If in inland is delivered a used car, at the delivery of which from another state the special regime was exerted, this delivery is not tax object in inland.

Services

VAT exercitation on the delivering services after the entry of the Czech republic in the EU

For right VAT exercitation on delivering or receiving services it is necessary to determinate the place of delivery, i.e. the state where VAT from given operation will be levied, and who is obliged to pay the tax. For the right exercitation of the tax is so necessary to determine, who provides the service, for whom the service is provided and what service is concerned.

A. Place of performance determination

1. Basic rule

The basic rule says that place of delivery, i.e. the place where the tax is levied, is the place where person, that provides the service, has his place of business or workroom from which he provides service, eventually whereabouts or place where he resides usually.

2. Services related to realty

Place of delivery in services related to realty is the place where the realty is situated. If realty concerned by given service is in territory of the Czech Republic, VAT will be levied in inland regardless of fact who provides the service.

On the contrary, if Czech VAT payer provides services related to realties situated in another country, it may originate duty for him to register to VAT and to pay tax here (conditions can be different in single states) – see part B.

3. Transport services

Generally, place of delivery in transport services is the place where transport is carried out. From this rule is excluded the goods transport between member states. It is such goods transport where the place of transport initiation and termination is situated in different member states. If there is goods transport between member states, the place of delivery is, and the tax is levied there as well, where transport began. If however this transport service is provided for person registered to VAT in other member state than in state of transport initiation, the place of delivery is in territory of a member state that released to service receiver TIN for VAT, under which the service was supplied.

4. Cultural, artistic, sports services and other

Place of delivery in this group of services is situated where these services are supplied. If so some Czech artist or sportsman appears in an action that takes place for example in France, this service will subject to VAT in France.

5. Services directly connected to transport service

These services are subject to VAT where they are supplied. If however this service is related to goods transport between member states (see above) and is provided to a person registered to VAT in another member state than where service is provided, this service will subject to VAT in member state, where the service receiver is registered to VAT, and TIN for VAT under which the service was supplied.

6. Services of evaluation of a realty or of a work on movable

Place of delivery in services of evaluation of realty or of work on movable is where this service is provided. From this rule there is exemption, namely in case of satisfaction of two conditions:

- service was provided for person registered to VAT in other member state than where the service was supplied; and
- movable was transported after supplied service from a member state where the service was provided

With satisfaction of these two conditions, the place of delivery is situated, and the tax there is levied, in the state that released to service receiver TIN for VAT under which the service was supplied.

7. „Reverse – charge“ services

If services are supplied to a foreigner or to a person registered to VAT in another member state that hasn't domicile, place of business or business premises, the place of delivery is situated where the receiver of service has domicile, place of business or business premises, eventually whereabouts or place where he resides usually.

If the mentioned services are supplied to another person, the place of delivery will be determined pursuant to basic rule (see item № 1).

8. Vehicle hire

Generally, at this service will be applied the basic rule (see item № 1). Nevertheless, if vehicle hire is supplied to a foreigner and till last usage the whole hiring period happens in third country, the place of delivery is in the third country. On the contrary, if vehicle hire is supplied from a foreign person obliged to tax, and the real utilization, though for a part of hiring period, occurs in inland, the place of delivery is in inland.

9. Exchange service

It is a service, where mediator acts by name and for account of another person. Place of delivery at exchange service abides by the place of delivery of mediated service. If however the exchange service is supplied to person registered to VAT in another member state than where would be situated so defined place of delivery, the place of delivery is in the member state that issued to service receiver TIN for VAT under which the service was supplied.

B. Person obliged to declare and pay tax

Besides determination, where the service is liable to tax, there is necessary to specify, who will pay the tax from the services provided.

If services are provided in inland between inland people, the rules for who is obliged to pay the tax don't change – it is the payer that provides service. If however the provider and purchaser of service are from different countries there can occur the situation when the receiver of that service is obliged to declare and pay the tax.

Generally, if VAT payer receives the service, with the place of delivery in inland, from person registered to tax in another member state or from foreign person obliged to tax, it will be exactly the receiver of service (payer) who will be obliged to declare and pay the tax from this service. It is so-called “reverse-charge system” (transfer of duty to pay tax on service receiver). If however the person registered to VAT in another member state or the foreign person obliged to tax provides service with place of delivery in inland for a person that isn't registered to VAT (with exception mentioned in part “registration of the tax payers”), the service provider will be obliged to register to VAT in inland and to pay the tax from these services.



Likewise, if the Czech payer of VAT provides service with the place of delivery in another state, there can start up duty to our payer to register to VAT in this country and pay the tax here. It is necessary to observe that, excepting obligatory reverse-charge system, the member states use possibility to transfer duty to declare and pay the tax on service receiver in different extent. It is so necessary to make enquiries in given state, in which the services are supplied. In some EU countries the Czech payer of VAT would have opportunity to choose so-called tax agent in order that he fulfils, instead of him, duties resulting from VAT registration and tax declaration and payment. Conditions for tax agent choice are different in single member states as well.

2.4 Differences between the new and the old VAT law

The new VAT law (№ 235/2004 Col.) brings, compared to existing legal regulations, quite a number of changes that result from Czech Republic entry into EU. It contains however also the ulterior changes that will concern both the existing VAT payers and the new much wider range of subjects than till this time, and, in its impacts, every citizen.

Basic changes are:

- changes directly related to Czech republic entry into EU and concerning the economic relations to subjects of member states or non-members and the exercitation of the VAT, relevant first of all to foreign trade
- changes evoked by the EC directions application by reason of comparison with the other states, EU members, and by rights of EC, and concerning besides



foreign trade the whole economic activity (of entrepreneurial and un-entrepreneurial subject)

- Other changes, with influence on both subjects entrepreneurial and un-entrepreneurial and all citizens.

1.
Newly there are defined some basic notions, where the content remains the same like in existing legal regulations, some of them are, in relation to Czech republic entry into EU, completely new, some of them evoke significant changes in the range of subjects that will be obliged to exert VAT or in the ways how to exert VAT.

2.
Range of subjects, that become VAT payers, broadens: with enumeration either of subjects that weren't yet payers of VAT, or of these subjects, the registration of which was depending on turn-over, namely by reduction of the turn-over for the duty to register to VAT.

3.
Enumeration of fulfilments, that are considered to be taxable, broadens. With some of them, at their exercise, the tax regime changes.

4.
Way of property settlement changes.

5.
Rates of tax change – the base rate lowers from 22% to 19%.

6.
Range of article and services, where will be exercised the base tax rate, narrows down.

The final consumption is liable to tax, so it bears on the final consumer. He however doesn't pay this tax to the state budget, but the tax is paid by the provider, tax payer, who levies it through the price of his supplies.

1. Tax object

Object of VAT is:

- every taxable fulfilment for a consideration, without consideration and in form of non-monetary fulfilment
- import goods
- Irregular international bus passenger traffic realized by foreign provider in inland.

4 conditions

- Conveyance of real estate, supply of goods, supply of services
- For a consideration
- Place of delivery is in inland
- VAT payer

Object of VAT is not

- Goods acquisition from another EU state
 - with exception of acquisition of new vehicle or goods that are object of consumer tax
 - The total value of goods acquired without tax hasn't exceeded 10.000 € in current calendar year.

The taxable fulfilment is:

- Goods delivery and conveyance of real estate with property right change. Grant of land is not the taxable fulfilment.
- Supply of services realized in inland.

Goods are movable assets, thermal and electric energy, gas and water. Outside special exceptions the money doesn't belong here. Nor the human sang, human organs and the breast milk belong here. Taxable fulfilment is the right transfer and use as well. It is transfer and use of rights from industrial or another intellectual property, the right administration of use of thing or of proprietarily exploitable value, as well as the provision of technical or other economically exploitable knowledge.

Taxable fulfilment is the delivery of building objects and operations as outputs within the frame of building activities (article)

2. Tax subjectsPersons liable to tax

Person obliged to pay tax is the person, for benefit of whom the taxable fulfilment is implemented, eventually the person to whom the goods at the import to inland are to be released.

This range is than narrowed to people liable to tax. These are individuals or corporations that exercise the taxable fulfilments. Only people liable to tax can become taxpayers.

Taxpayers

Taxpayers are either voluntarily or by law (they must register compulsorily).

By law:

- person obliged to tax is an individual or a corporation that realises independently economical activity
- public entity

Tax-exemption (§ 6)

Person obliged to tax, with domicile, place of business or business premises, in inland, is exempt from tax exercitation, if his turn-over doesn't exceed the amount 1 000 000 CZK in next 12 consecutive calendar months, if this law doesn't prescribe otherwise (§ 94).

Persons liable to tax, whose turn-over didn't exceed the given amount, are payers from date of validity mentioned in registration certificate. These persons can submit whenever the application for payer registration.

Person obliged to tax, with domicile, place of business or business premises, in inland, whose turn-over exceeds in next 12 consecutive calendar months the amount mentioned in § 6, becomes payer from the first day of the third month that follows month, in which the defined turn-over was exceeded. If he doesn't satisfy the register duty, he becomes payer in the date of validity mentioned in registration certificate.

Example

| | | |
|------------|-----------------------|---------|
| Turn-over: | 5 th month | 200 000 |
| | 6 th month | 300 000 |
| | 7 th month | 100 000 |
| | 8 th month | 200 000 |
| | 9 th month | 250 000 |

October, 15 – obligatory registration
From December, 1 – VAT payer

Payer registration

Person obliged to tax, with domicile, place of business or business premises, in inland, whose turn-over exceeded the amount mentioned in § 6, is obliged to submit the application for registration by 15 days after finishing of calendar month in which he exceeded the given limit.

For deregistration the payers can apply earliest after elapse of one year from the date of validity mentioned in the registration certificate, if their turn-over didn't exceed in next consecutive months the amount 750.000 CZK and in the same time in last 12 months the amount 3.000.000 CZK, if the law doesn't prescribe otherwise.

Persons liable to VAT under contract about association can apply individually for deregistration only at the leaving or expulsion from association. At the association dissolution all partakers can apply for deregistration only after the property settlement in association.

Payer is obliged to mention the tax identification number in the structure: the code of state (CZ) and the ordinary part, formed by common identifier, according to special legal instruction.

Tax identification number

In the international form: CZ859091111 (originally for example 303-8259091111)

Tax is levied by:

1. financing organs
 - taxable fulfilments
 - tax duty
2. custom organs
 - imported goods
 - casual bus transport in inland

Period of taxation

- Period of taxation is calendar quarter, if the turn-over of payer for precedent calendar year didn't reach 10.000.000 CZK.
- If the turn-over of payer for precedent calendar year reached 10.000.000 CZK, the period of taxation is calendar month.

Tax base

Tax base is the amount that serves for tax calculation depending on corresponding rate. It can be:

1. The price for taxable fulfilment that doesn't contain the tax. This base serves to tax calculation at the administration to taxable fulfilments to payers, when current tax document was made.
2. The price inclusive of tax. Namely in case when:
 - it comes to effectuation of taxable fulfilment on behalf of payers for cash
 - it comes to effectuation of taxable fulfilment on behalf of people that aren't taxpayers
 - mass transportation of people
3. The common price without tax, in case:
 - when price for taxable fulfilment isn't defined
 - of personal consumption of payer
 - When taxable fulfilment is realised on behalf of person being in the special relation to payer, for lower price than is the common price.

Quite a number of article kinds is liable to consumer tax. In this case the tax base for VAT calculation moves upwards by corresponding high of consumer tax. At the goods import in the tax base are included customs as well.

Tax rate

Two rates: the basic rate 19%; and
 The reduced rate 5%

With goods the basic rate is used usually, with services is used the reduced rate.

Tax calculation

- There is a number of modes. The fundamental way is the product of tax base and coefficient. The latter is calculated as a quotient, where in numerator is the amount of rate, in denominator is 100. This mode will be used, if the basic of assessment is the price without tax. Simplified: tax base * 0,19, eventually 0,05.
- If tax base is the price inclusive of tax, the tax will be again calculated as a product of tax base and coefficient, but this time the coefficient will be calculated as a quotient, where in numerator is the tax rate, in denominator is sum of 100 and tax rate.

Or otherwise: price inclusive of tax / 1,19 eventually 1,05 = tax base
Price inclusive of tax – tax base = tax

- Price inclusive of tax is multiplied by coefficient:

For 19% $19/119 = 0,159663$ – round. 0,1597
For 5% $5/105 = 0,047619$ – round. 0,0476

Tax document conservation

- Min 10 years

Tax declaration and tax maturity

- By 25 days after the end of period of taxation.
- By 30 days at competition declaration.

Summary report

- Is obliged to present the payer that realised goods delivery in another member state to person registered to tax in another member state.
- he transferred commercial property in another member state
- he delivered article as a middleman within the tripartite commerce

Term for summary report presentation:

For the monthly and quarterly payers is valid the same term, i.e. by 25 days after the end of the calendar quarter, and it is presented together with the VAT declaration.

Report correction – by 15 days is necessary to present the sequent summary report.

Imp rest coefficient

After 1st of May 2004 the imp rest coefficient for tax reduction in income fulfilment is used. It equals to the settlement coefficient for year 2003. In income taxation fulfilments, where payer is obliged to cut the tax deduction, the proportionate part of the title to deduction is calculated as a product of input tax at fulfilment reduction for correspondent period of taxation and the coefficient (row 550).⁶⁾

3. Creation of conditions for business environment

The situation of Czech economy within the European Union confirms that last years were positive for the standard of living growth. In the same time, it turns out that the approach is still little dynamic and the evolution is burdened with range of economic and institutional problems from precedent years. Perspectives of ulterior economic development in the Czech Republic depend on ability of enterprising subjects to cope with competitive pressures that are accompaniment of the world economy globalization. Increasing competition from countries with cheap labour means that in the long term it is not possible to build the competitive strength of economy on existing comparative advantages like low work costs or low exchange rate. Key factors to stand up to these pressures become the knowledge community development, research support and fosterage, development of innovative potential of companies, quality of the business environment and human resources development.

It remains so in the EU 97% of all small and medium firms (SME) that decided to work only in unique country. Sequent on the tax analysis for year 2004, made by the European Commission, the costs of keeping of various tax systems for SME are considerably higher than these for big translational companies. It's the main reason why in the non-mother EU states only 3% of the SME do function, although they participate in total number of EU firms with 95%. Small and medium firms can't so factually utilise advantages of the global European market.⁷⁾

3.1 Business milieu

Small and medium firms (SME) are considered generally to be the impulsive force of economy. According to date from December 2004, the SME form 99,85% of all enterprising subjects in the Czech republic and they employ 61,5% of total employees number. In the last year they produced 35% of the GDP, they partook with 50,5% in whole investments expended in the Czech republic and with 34,3% in the total volume of exported goods and services.

At present, there exist 7 national programmes of small and medium enterprising support, financed from the state budget. For the period 2005 and 2006, the amount 550 millions CZK was earmarked for these programs. Beside this, there exist 9 programmes of support, co-financed from structural funds within Operational Programme Industry and Enterprising (OPPP). From the state budget, the co-financing of projects, in the amount of 25% of the acceptable costs, is guaranteed. National programmes of SME support, financed from the state budget, should be used first of all for activities that can't be covered from structural funds. The Czech Republic will target so in the future the guarantee of efficient function of programmes and continuously it will adapt their structure and utilization conditions to actual exigencies of small and medium entrepreneurs. On the communitarian level, for SME support, there is designed first of all the Multi-annual programme for firms and for enterprising. For the period after year 2007, the Framework programme for competitive strength and innovation will be fundamental.⁸⁾

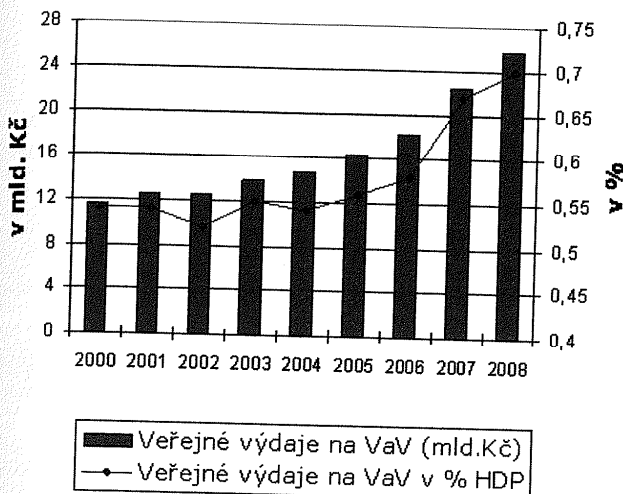
3.2 Research and development

In the field of research and development the Czech Republic lags behind advanced countries both in term of invested resources (public or private) volume and in term of amount and quality of research and developmental workplaces and workers. The serious problem is the low efficiency of research and development (R&D) results for innovative activities and insufficient industrial research support. In term of Czech republic participation in the 6th Framework programme R&D (2002-2006) is necessary to note that percentual efficiency of the Czech republic, i.e. proportion of the partakers number in projects that successfully passed in the evaluation and could apply for EC contribution, compared with number of all partakers sharing in preparation of projects that entered in the evaluation process, reached 15,1%, which means the 19th place among the EU-25. One of reasons of smaller interest of the Czech SME in this program is the high cost of project preparation. Within the prepared 7th Framework programme (2007-2013) the Czech republic concentrates on better utilization of network excellence and integrated projects for stronger connection of national, regional and European activities.

3.2.1 Public expenses for the research and development

R&D expenses constitute in the Czech republic today approximately 1,3% of GDP, whereof about a half comes from the private resources, the second half from the public resources (the EU average makes almost 2% of GDP). The actual, not too high, volume of resources spent on R&D can result in backwardness of competitive strength of Czech economy as a whole and in credit decrement of our country in international collaboration in this area. For higher efficiency of R&D in successive years there is important the progressive year-on-year increase of public expenses so that till year 2010 the public expenses on R&D reach 1% of GDP of the Czech Republic. The approved proposal of expenses of the state budget on R&D for year 2006 and the medium-term budget prospect to the years 2007 and 2008 presupposes the increase of financial resources on R&D from 16,4 milliard CZK in 2005 to 25,7 milliard CZK in 2008.

Chart № 5 Public expenditures for research and development



www.mfcr.cz/cps/rde/xchg/mfcr/hs.xsl/eu_program_zprava_21474.html?year=PRESENT

Veřejné výdaje na VaV (mld. Kč) – Public expenditures for R&D (in milliards CZK)
Veřejné výdaje na VaV v % HDP - Public expenditures for R&D (in % GDP).

Besides progressive increase in volume of public resources on R&D and efficiency improvement of their utilization the Czech Republic carries out measures stimulating **private expenses increase on R&D programs, say firstly through indirect support instruments**. In January 2005 the tax legislature was amended with the aim of supporting private investments in R&D. Essence of the change is the introduction of deductible item from the base of income tax of the enterprising subjects at the realization of the strict R&D projects. For the reinforcement of the multi-resource R&D financing it came in the same time to the new modification in the area of succession duty, gift tax and conveyance of real estate tax, which makes possible to exempt the gratuitous acquisitions of possession destined for R&D financing from the succession and gift tax. These tax relieves the entrepreneurs can exert for the first time in the taxation period 2005, eventually in year 2006. The positive impacts should so manifest in following years.

Priority measures

- to increase year-on-year the public expenses for R&D
- to change structure of routing of public expenses for R&D
- to facilitate private investments in R&D through indirect support instruments
- to increase utilization intensity of instruments of protection of rights of intellectual property by research institutions and companies
- to develop innovative infrastructure
- to improve the access of innovative firms to financial resources.⁹⁾

3.3 Programs of the support for SME

All activities for business support are realised on the basis of multi-annual development plans (which is typical for almost all kinds of tenders and supports).

The new programmes of small and medium enterprise support with effect for years 2005 and 2006, financed from the Czech republic state budget and approved by the government, are the programmes GUARANTEE, MARKET, PROGRESS, COUNSELLING, DESIGN, ALLIANCE and REPRESENTATION.

These programmes react on the actual needs of Czech small and medium enterprises development. They aim at entrepreneurs support in form of guarantee for bank accounts, at support of entrepreneurs from capital Prague region, at counselling support, support of individuals and of services focused on export. In 2005 was earmarked from the budget category of the Ministry of Industry and Commerce the total amount 550 millions CZK for these programs. The programme REPRESENTATION will be promulgated additionally after its ratification (notification) by the European Commission.

Support applicants in programmes for SME had, as receivers of public support, from 1st of January 2005, to satisfy the new definition of the EU for SME that entered into force for the EU member states to the same date. The amendment of act, № 47/2002 Col., about SME support, by which is abolished the existing definition of SME and introduced the direct reference to the new definition of SME, according to the regulation of the commission (EC) № 70/2001, was signed by the president and it becomes operative by day of publication.

The new definition of the small and medium enterprise will be so exert for example within Operational Programme Industry and Enterprising (OPPP), in above mentioned programmes of SME support and in other programmes of public support for this sector already from the beginning of year 2005.

- the tiny firm – up to 10 employees, turn-over or total balance up to 2 millions € (it wasn't defined earlier)
- the small firm – up to 50 employees, turn-over or total balance up to 10 millions € (earlier: turn-over up to 7 millions € and the total balance up to 5 millions €)
- the medium firm – up to 250 employees, turn-over up to 50 millions € or total balance up to 43 millions € (earlier: turn-over up to 40 millions € and the total balance up to 27 millions €)

1. Guarantee – Programme of guarantees for small and medium entrepreneurs

Objective of the programme is support of new enterprise prospectus in form of access facilitation to the bank account and leasing, - the support is granted to investment accounts destined for the purchase of know-how, land, buildings, machines, equipment and vehicles, inclusive of purchase of already existing production, services and transport equipment, for fabrication, restoration and modernization of buildings, machines and equipments, to operating credits inclusive of revolving for reserves, claims till date maturity and for refunds of operating costs immediately connected to project realization, to bailment lease, provided minimally 10% enterpriser participation, either in the form of advance payment or liability toward leasing company; guarantee is not supplied to the private car and computer technology leasing; guaranteed investment credit can be used maximally till 40% of its total volume for reserves as well, for claims till date maturity and for refunds of operating costs immediately connected to project realization.

Closing date: 31st of December 2006 ¹¹⁾

2. Market – Multi-purpose programme of small and medium entrepreneurs support

Objective of the programme is to support the certificate ISO acquisition by small and medium entrepreneurs, increasing their competitive strength, support of investment-oriented projects of beginning and small entrepreneurs in the territory of capital Prague region, eventually its selected parts, with aggravated conditions for external financing in consequence of lower proper capital availability or limited possibility to give guarantee to credit.

Closing date: 31st of December 2006 ¹²⁾

3. Progress – Programme of support of dynamically developing small and medium entrepreneurs

Objective of the programme is, by means of support in the form of subordinated credit, reinforcing for the duration of up to 5 years capital availability of enterpriser, facilitate realisation of more extensive developmental enterprising projects of small and medium entrepreneurs in selected branches of Czech economy, for which lower proper capital availability or limited possibility to give guarantee to credit is barrier to external financing.

The support is granted in form of preferential subordinated credit in the amount of 2-25 millions CZK, with fixed interest rate 3% per year, respectively up to 50% of presupposed total project costs. Maturity of credit can be determined at its granting up to 8 years (with an extended time payment up to 5 years). Negotiated extended time payment can't be reduced nor subordination credit conditions changed without prior agreement of all creditors of the support receiver.

Closing date: 31st of December 2006 ¹³⁾

4. Counselling – Programme of support of consultancy and educational services for SME

Objective of the programme Counselling is to make possible to people in preparation for entrepreneurial activity and to small and medium entrepreneurs in the Czech republic to acquire the cost attractive general education and consultancy services of external advisors. Within this programme there are offered services promoting firms in phase new entrepreneurial subjects founding, their development, increase, management improvement and increase of their economical stability.

Educational subsidies for beginning enterprisers are offered in an amount of 50% of acceptable costs for these services, maximally 7000 CZK for a participant. Educational subsidies for enterprisers in phase of increase and development of the firm are furnished in an amount of 50% of acceptable costs. For beginning enterprisers - not more than 20.000 CZK for year and for SME - maximally 50.000 CZK for year.

Closing date: 31st of December 2006 ¹⁴⁾

5. Design – Programme of design support for small and medium entrepreneurs

The programme helps to the enhancement of competitive strength of small and medium entrepreneurs with creation of front-end design that enhances competitive strength of industrial production, influences working and living environment creation, takes a share in level enhancement of the material culture of the community and in its consequences co-creates style of life. Objective of the programme is to offer support to the small and medium enterprisers at design integration in their entrepreneurial strategies, to help with the suitable designer choice, to create conditions for effective collaboration of designer with enterpriser, to contribute to cover financial costs for the creation of an author craft and to give publicity to these new products with a good-class design.

Closing date: 31st of December 2006 ¹⁵⁾

6. Alliance – Programme of alliances creation and presentation abroad

Objective of the programme is to support the enhancement of competitive strength of small and medium entrepreneurs in foreign markets by means of support of international marketing activities of alliance, coalition of minimally three small and medium entrepreneurs, whose production schedule is mutually complementary and that entered into an agreement about collaboration within programme Alliance. It enforces the idea of collaboration consolidation of small and medium entrepreneurs abroad. Namely, these supported activities are concerned:

- elaboration of study of association entry in the concrete foreign market with output of concrete activities and potential customers
- elaboration of marketing foreign-language materials of alliance
- alliance presentation on fairs and expositions

Closing date: 31st of December 2006 ¹⁶⁾

4. Research of influence of taxation on economy of small and medium entrepreneurs

Research of influence of taxation on economy of small and medium entrepreneurs I have carried out together with the team 3-2-1 - with a major number of partakers in research there was possibility to speak to more firms and to acquire more effective sight of situation in question. We conducted research on the whole territory of the Czech Republic from October to December of 2004. We used a questioner method and the questionnaire we distributed to 500 small and medium firms. We received back 348 filled-out questionnaires. From them we started at evaluation of our research.

The originals of filled-out questionnaires are deposited in the library (3-2-1 2004/2005, group manager Ostrožiková).

4.1 Questionnaire

*European Polytechnic Institute, ltd
Osvobození 699
Kunovice 686 04*



Research of influence of taxation on economy of small and medium entrepreneurs

Dear informant, we are students of European Polytechnic Institute, ltd, in Kunovice, and on the basis of research allocation we have the honour to address you and to ask you for filling of the following questionnaire.

1. What is your firm?

- small (0 – 25 employees)
- medium (25 and more employees)

2. How much employees do you have?

- I haven't
- 1 – 10
- 11 – 30
- 31 – 70
- 71 – 100
- 100 – more

3. What is your enterprise form? I am:

- corporation
- individual

4. What is annual turn-out of your firm?

- up to 500.000,-
- up to 1.000.000,-
- up to 2.000.000,-
- up to 5.000.000,-
- more than 5.000.000,-

5. Do you utilise external capital?

- yes
- no

6. Are you VAT payer?

- I am payer
- I am non-payer

7. Were the financial indicators of your firm influenced by VAT change on 1st May 2004?

- yes, a turn for the better
- yes, a turn for the worse
- no

8. How did you prepare your economic section workers for VAT change?

- with education training of all
- with education training of leaders
- with purchase of new software
- there was no preparation

9. Your firm was acquainted with VAT change enough on time?

- yes
- no

10. Would you agree with the shift of some activities to another VAT rate?

- yes
- no

If so, mention them _____

11. Do you deliver goods, eventually purchase for/from EU countries?

- yes
- no
- yes, in the form of tripartite negotiation

12. Is your firm sufficiently acquainted with delivery goods problems in the other EU countries?

- yes
- no

13. Is your firm sufficiently acquainted with provision of services problems in the other EU countries?

- yes
- no

14. Do you export, eventually import, goods in/from third countries (beyond EU)?

- yes
- no

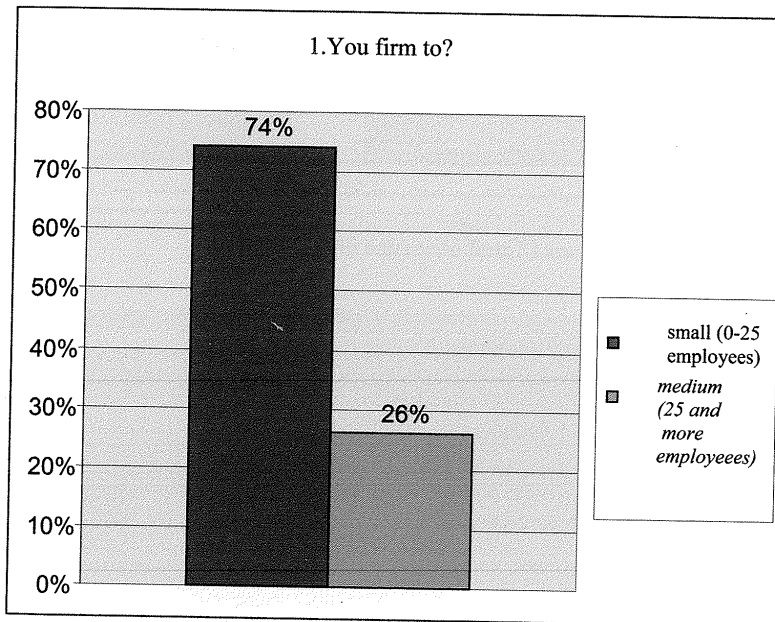
15. Is your firm sufficiently acquainted with export and import goods problems from other EU countries?

- yes
- no

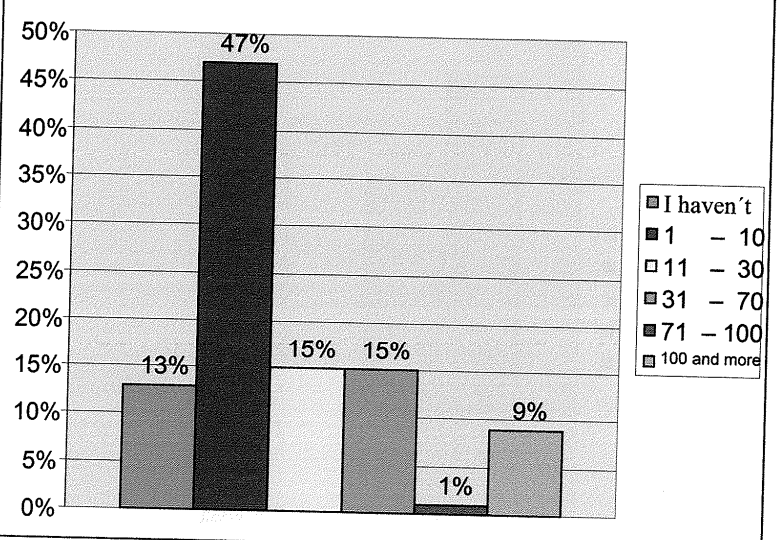
We thank you for filling of questionnaire and we wish you nice day.

Students of EPI, ltd.

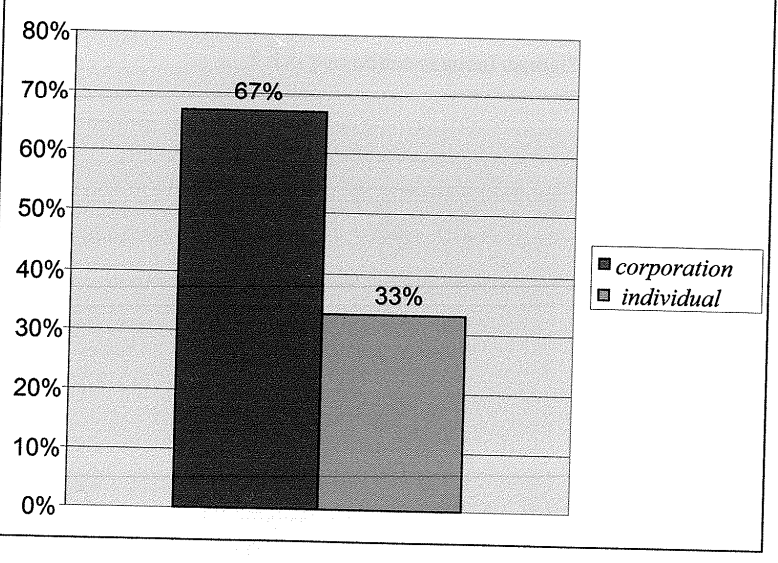
4.2 Evaluation of questionnaire



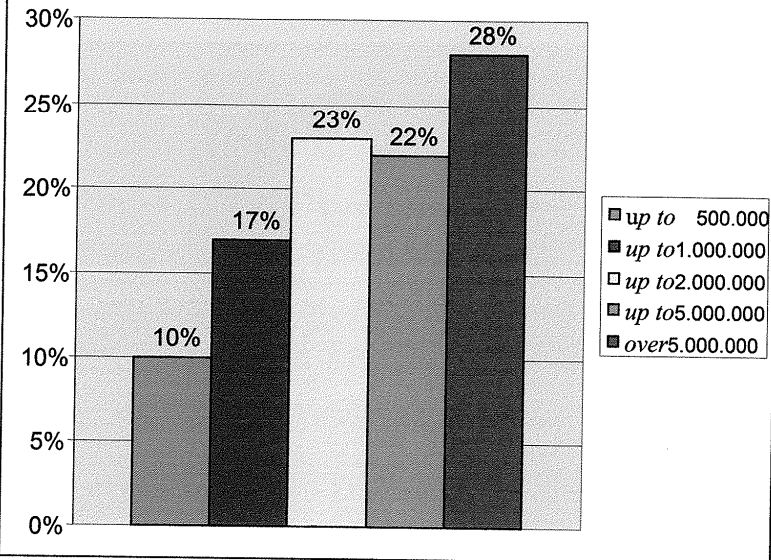
2. How many employees do you have?



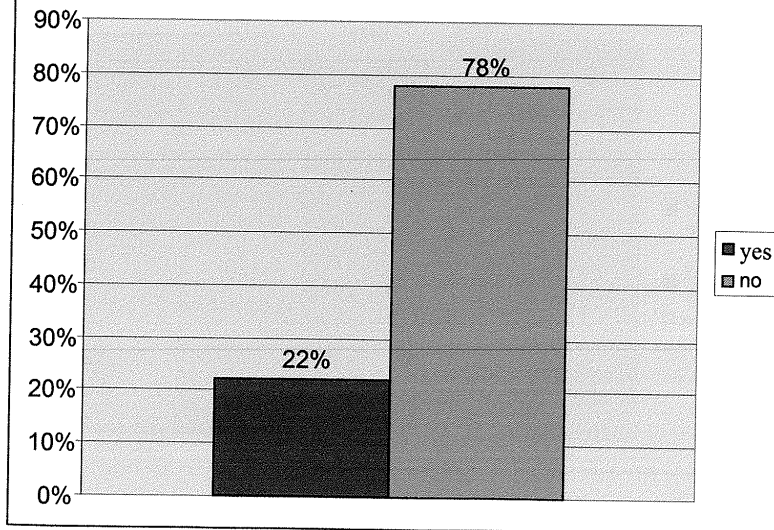
3. What is your enterprise form? I am

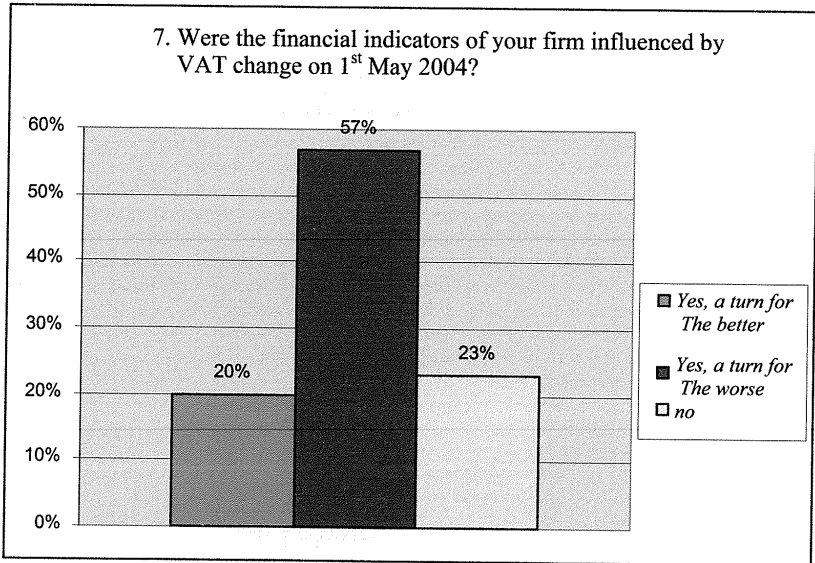
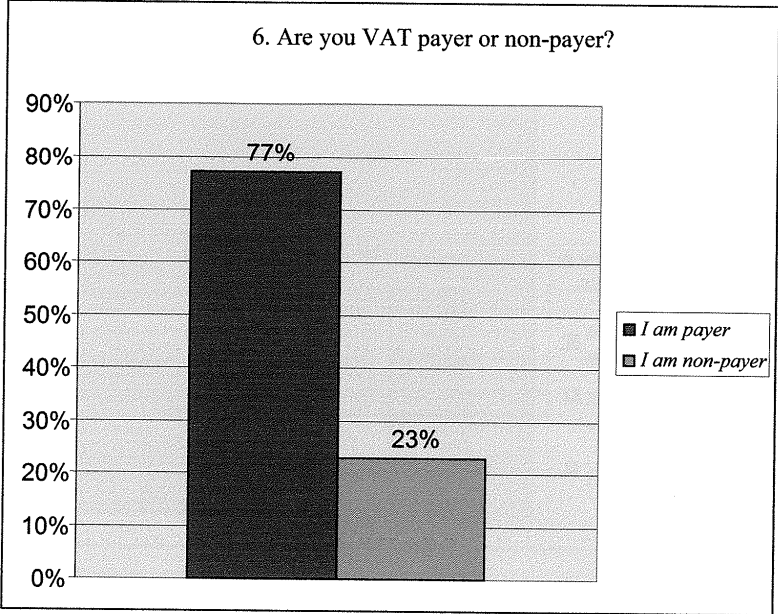


4. What is the annual turn-over of your firm?

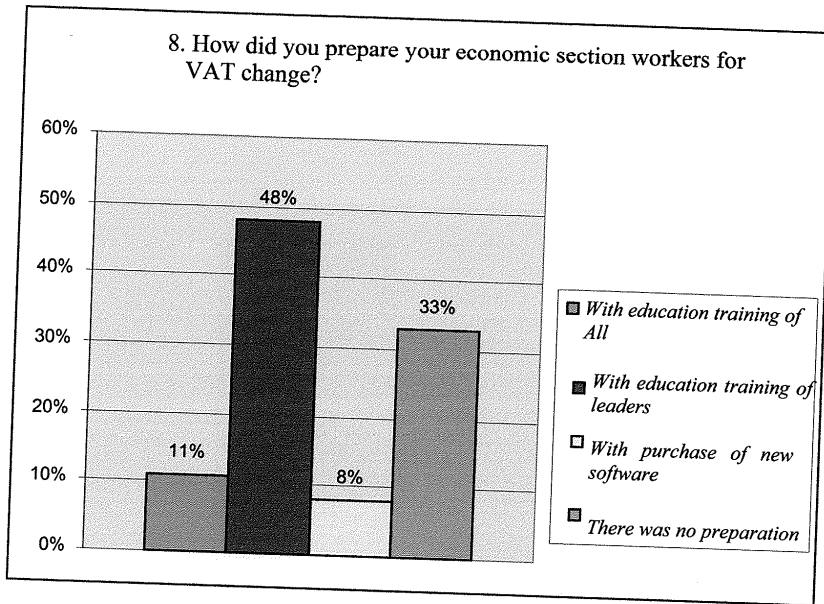


5. Do you utilise external capital?

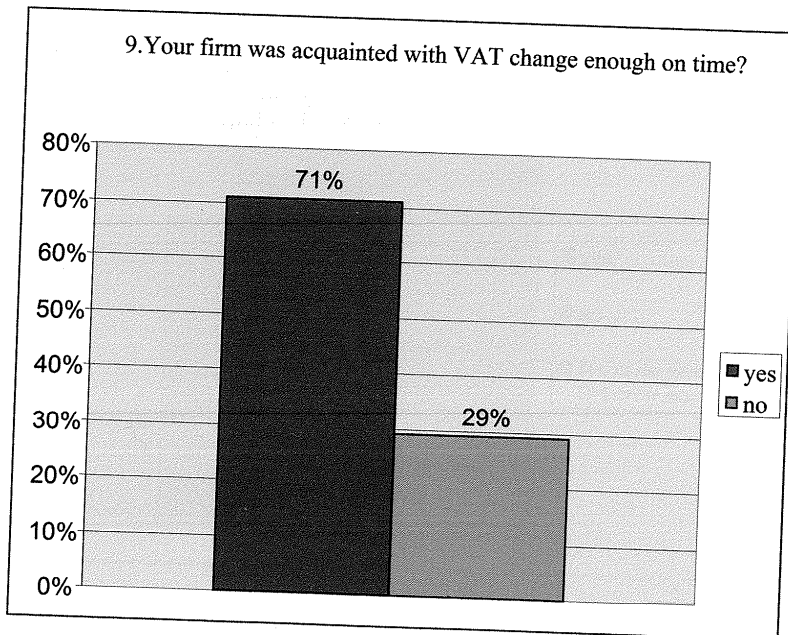


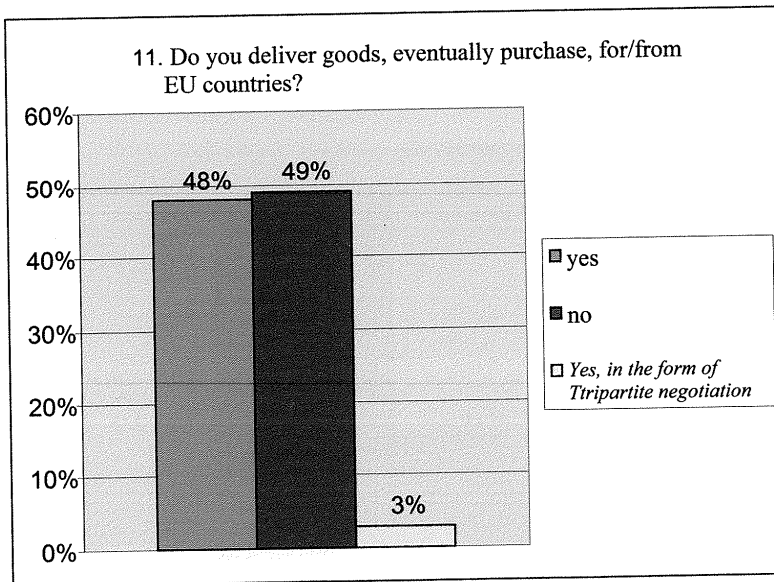
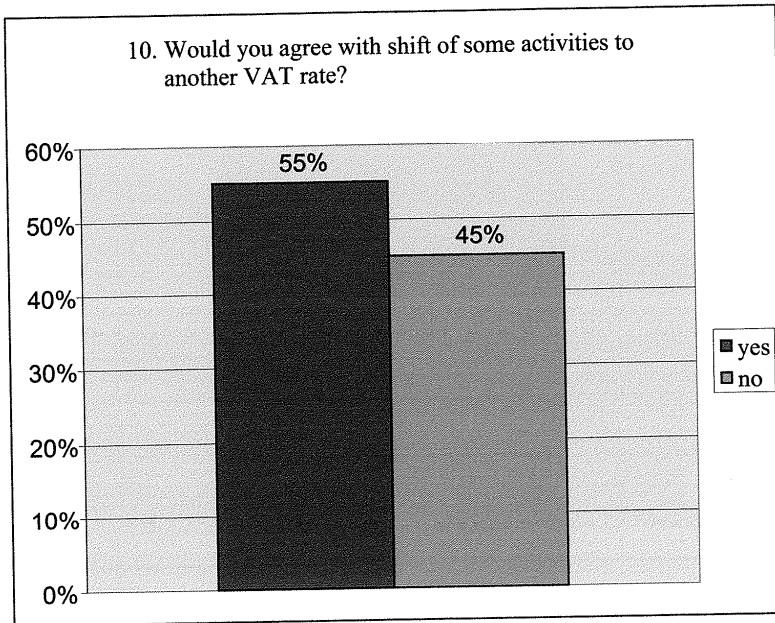


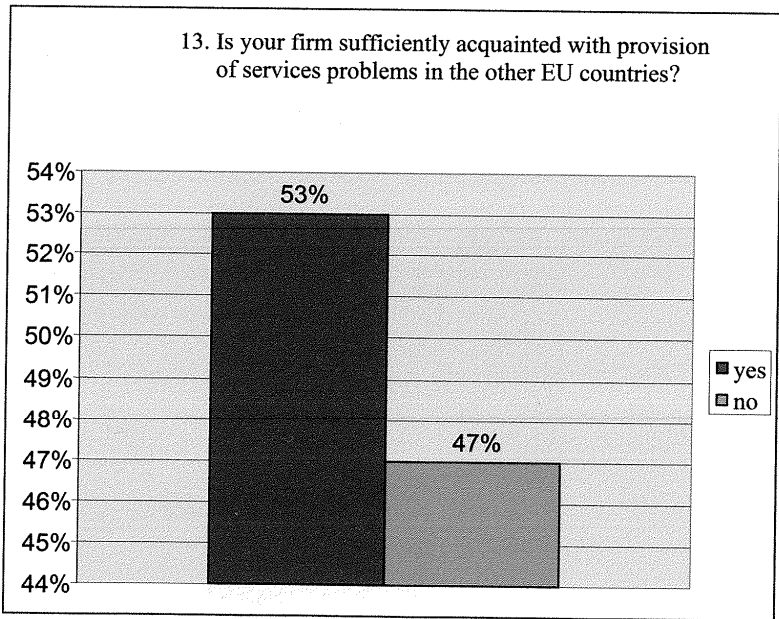
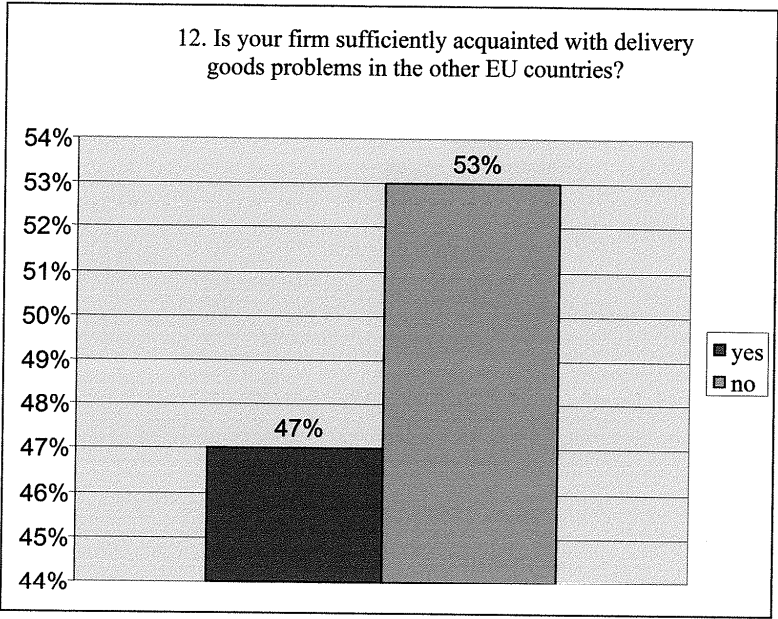
8. How did you prepare your economic section workers for VAT change?

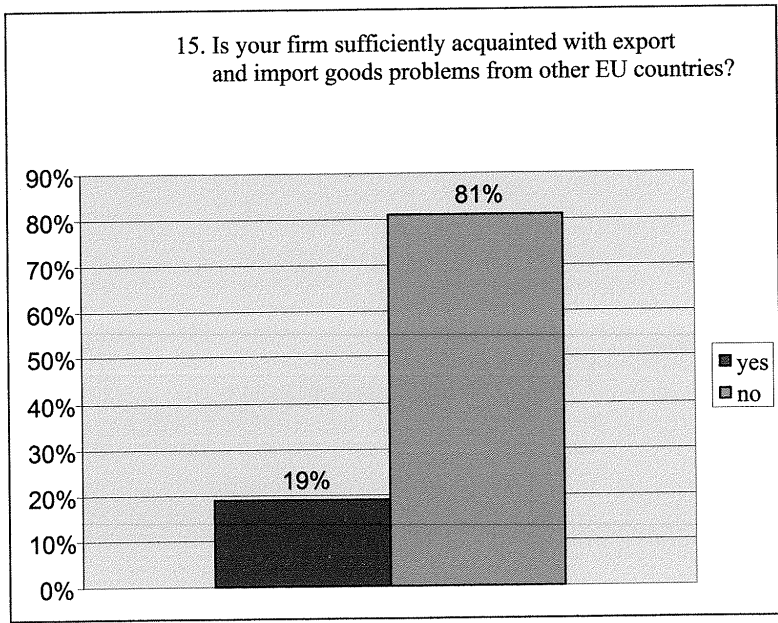
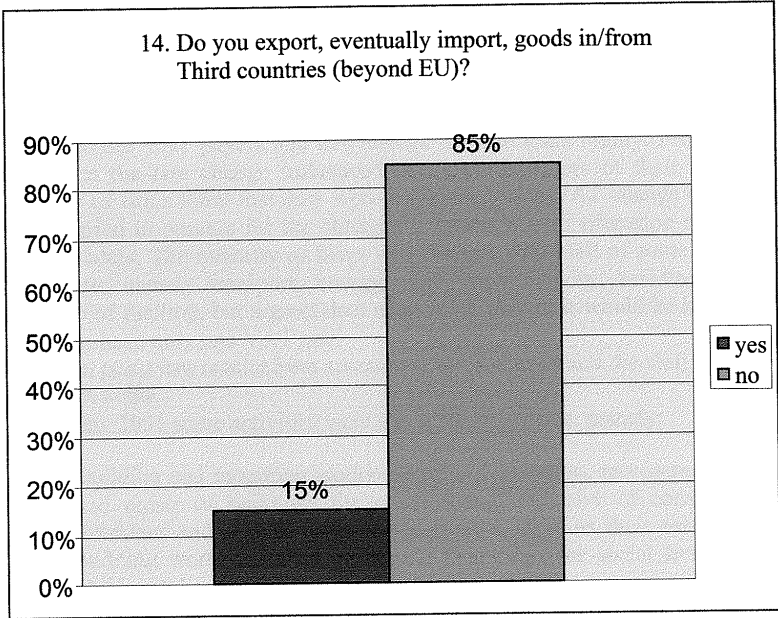


9. Your firm was acquainted with VAT change enough on time?









5. Analysis of the research

The main reason of our research was VAT change on 1st May 2004. Majority of firms addressed are VAT payers and this change touched them highly. From all enquired 57% think that the law change influenced financial indicators of their firm for the worse. Majority of firms think that they were acquainted with VAT change enough on time, and so they tried to prepare for the change for example with education training of economic sector leaders. The majority of firms would agree with shift of some activities to another VAT rate, namely transport, energy, rent, copy activity, building, revision activity, purchase of fuelling, but a great deal of firms think that it would be helpful for Czech tax system to have only one VAT rate.

The main point that results from research is VAT change and the shift of some activities to lower VAT rate.

On 1st May 2004 some activities were shifted to lower rate, namely:

- Building and mounting works united to fabrication, reconstruction, modernization and repair of buildings for social living, inclusive of constructions, materials, machines and arrangements that will be in them as their part with assembly and building works installed or mount. (Buildings for social living are: rest homes, children's homes, institutions of social work...).
- Sports activity.
- Other recreational activity.

This Research of influence of taxation on economy of the small and medium entrepreneurs can help among others to leader workers of economic sector.

6. Proposed strategy

To facilitate the situation of SME could new initiative Home State Taxation of European Commission, according to which firms from SME could calculate tax base pursuant to system valid in country where mother company domicile has. The final taxation amount would be calculated however according to the rate valid in country, where firm, eventually its branch and functions.

In practice, it would look that small and medium firms can calculate tax base, according to instructions valid in country of mother company domicile, though their subsidiary firm's enterprise in the other EU countries as well. Consequently it would come to tax base division, namely in consequence on high of labour costs or realised turn-over in single countries. So defined tax base would be then assessed with correspondent income tax rate valid in given country.

Advantage of such measure is that for tax calculation would suffice for the company to have only one accountant department in Mother Company. In addition, the firm could choose, if it wants to calculate tax base where it functions or in the place where firm management resides, respectively according to what is more favourable for it.¹⁷⁾

6.1 Specific goals of the strategy

With regard to extent and abbreviated programme period of Community support framework there is necessary that our strategy aims to limited number of key areas of the intervention that are defined as specific targets - it is possible to reach the biggest effect by their realization.

In the context of general developmental strategy for the Czech Republic these three specific objectives are distinguished:

- conditions creation for business environment (enterprise infrastructure improvement, improvement of institutional structure for enterprise development)
- Development of enterprise sector – it is crucial for economic performance. Investment into enterprise environment, with the aim to improve enterprise and economic growth conditions, are so crucial priorities of Community support framework. Investment into enterprise environment will primarily aim to the Czech enterprising sector as such so that it would be possible to offer to all firms' equal development occasions. The support will be accorded to single firms with a view to activities with growth potential and to activities demanded on market, with a special accent on small and medium firms, beginning and innovative firms. High-quality offer of industrial estates, business zones and centres for various target groups is necessary for creation of favourable business environment. Transformation of territories exhausted by industrial activity (so-called brown fields) in new business zone and modernization of antiquated business infrastructure should have for object equalization of business infrastructure offer with demand. The support will be accorded to projects in harmony with market analysis of supply and demand. Such analysis should take into consideration the existing supply in regions and the needs of state as a whole. This needs analysis should cover amount and kinds of industrial zones needed in regions with the

accent that special attention will be dedicated to activities with growth potential and to activities demanded on market.

There is necessary to concentrate effort on the increasing portion of SME in economic growth and export performance with necessity to keep in mind their potential of unemployment decrease and their contribution to economic revival of structurally depressed and economically poor regions. Collaboration of SME with research workplaces in universities and colleges will be supported as well as similar collaboration with public and private research institutions, which will lead to process and technologies improvement. The support will be focusing on better SME financing, investment incentives to innovation, utilization of new technologies, application of modern technologies, materials and processes leading to higher efficacy of energy utilization and reduction of energy intensity.

Direct support within this specific object will not be granted to non-vital companies that affront restructure, or to direct investment incentives financing for direct foreign investments. Nevertheless, indirect incentives, like industrial zones and business places development, will be object of direct foreign investments financing.

- Competitive strength of Czech economy is also conditioned by the quality of institutions creating frame for single sectors functioning. Thereby it must come to progress in the area of institutions creation and bureaucracy reducing. It is necessary to resolve administrative burden of business sector, especially for beginning firms. Beginning firms are decelerated by tedious and mutually separated processes. The tax system is complicated. There are always persisting fears of corruption and influence of economic criminality on economic climate in the Czech Republic.

One of factors, that will contribute to the higher competitive force of agriculture as well, is the development and modernization of business industry – modernization and restructure of firms so that it would be reached

6.2 Export targets of the strategy

This project of Export strategy of the Czech Republic for the period 2006-2010 aims to availability of financing of Czech export. The main target is to extend financing, first of all utilization of structural funds and developmental collaboration of EU.

New elements in comparison with the Conception of export policy 2003 – 2006

- Risks and financing resources sharing with foreign partners (multisourcing)
- Use of developmental collaboration of EU for export support
- New services of EGAP (Export Guarantee and Insurance Company) – credits for risks of regional banks, project financing, insurance of sales from subsidiary companies, financing of investments for production expansion, guarantees insurance
- New services of ČEB (Czech Export Bank) – arrangement, co-financing, financing of investments in foreign firms, financing of long-term production programmes
- Enlargement of collaboration with commercial banks

The principal aim of this project is to extend availability of financing of Czech goods, services and investment export.

7. Conclusion

Our whole existing tax system is considerably un-transparent and unnoticed even for specialists. Exceptions stimulate tax avoidance and corruption. High taxation and un-clarity limit economic development and depress competitive strength in European measuring. Low, but strictly levied taxes with appropriate sanctions in case of non-fulfilment, together with simple tax declaration and with equal conditions for all kinds of enterprisers are the best way for Czech economy development. **SME should finally cumulate profit for development and modernization from proper resources** and in the same time improve their position towards banks namely because of proper capital disposability. This fact is important for eventual project from EU as well, when part of proper capital is demanded in order to obtain donations from central developmental EU funds. Program of development and stabilization of segment SME is of big concern for enterprisers and their employees and for a more significant position for the Czech Republic the growth EU market place.

Abstract

Aim of my bachelor thesis was to find out what conditions small and medium firms in the tax area have, how total income range influences development of these firms, situation of firms, especially of small and medium ones and the creation of conditions for business environment.

In the first part I focused on a theoretic survey of tax problems, tax theory and tax organization before entry in the EU and after entry in the EU as well, us from 1st of May 2004.

The next chapter deals with the creation of conditions for the business environment, it is with the offer of support to small and medium enterprisers from the state budget. There are specified here single support kinds. The basic significance for business environment creation and functioning has for firms the optimally adjusted legislative cadre. Although the certain level of regulation is necessary and desirable, every regulation entails costs, namely both direct financial and requirements for human resources and time. It is necessary so to create such regulation environment that will be helpful to enterprisers in all phases of business activity. Enterprising support in the strict sense of the word takes in only small part of the EU budget. It can be acquired by Czech subjects, but purely by small and medium firms. In the offer there are predominant guarantees for commercial credits and risk capital.

In the second practical part I arrived at the opinion that most firms are aware of the need like up to date in respect of changes is the so they tried to prepare for the change for example with education training of economic sector leaders. The majority of firms would agree with shift of some activities to another VAT rate, namely transport, energy, rent, copy activity, building, revision activity, purchase of fuelling, but a great deal of firms think that it would be helpful for Czech tax system to have only one VAT rate. The main point that results from research is VAT change and the shift of some activities to lower VAT rate. On 1st May 2004 some activities were shifted to lower rate.

SME are, for the EU, the back bone of the European economy and main background of its competitive ability towards rest of the world, especially the mighty economy of the USA. EU considers SME to be the key to solution of sensible social problem of employment, the basis for effective innovative policy, for undertaking development and for European economy creation, founded on knowledge. Each member of the European Union must submit a report which demonstrates their compliance with the European chart. Amendments to the chart have been progressively accepted since the year 2000.

Small and medium firms enhance market dynamism, create job opportunities for low capital costs, they can help to quicker advancement of regions and are stabilising element of economic system. Small and medium firms reduce negative impacts of structural changes as well, create conditions for development and new technologies implementing, they adapt themselves quicker to market demands and swings and fill border market areas uninteresting for big companies.

Twenty five different tax systems in united Europe are the big impediment for international activity of smaller firms. Single countries however resist any simplification.

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Research is suitable for firms that are interested in education training of some employees, in our case of economic sector leaders, and points out the big interest for training and seminars.

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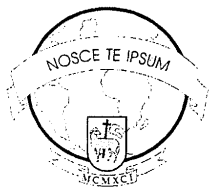
Study section: Finances and Taxes

**RESEARCH OF INFLUENCE OF TAXATION
ON ECONOMY OF SMALL AND MEDIUM
ENTREPRENEURS**

(Bachelor Thesis)

**Author: Hana HARCOVÁ
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Kunovice, May 2006



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Ing. Dušek / Čápková

KUNOVICE
8.9.2005

Zadání bakalářské práce

Vážený studente, vážená studentko,

jako téma Vaší bakalářské práce ve studiu oboru Finance a daně Vám zadávám

Výzkum vlivu zdanění na ekonomiku malých a středních firem

- Osnova: 1. Pojetí malých a středních podniků a jejich místo v ekonomice EU a ČR
2. Situace podniků, zejména malých a středních podniků
3. Vytváření podmínek pro podnikatelské prostředí
4. Výzkum vlivu zdanění na ekonomiku malých a středních firem
5. Analýza výzkumu
6. Navržená strategie

Bakalářská práce bude zpracována pro: AKONT sdružení účetních poradců v
Hodoníně

Tento dokument je součástí Vaší bakalářské práce

S pozdravem

Ing. Oldřich Kratochvíl, Dr.h.c.
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I confirm, that I am the sole author of this work under the supervision of MS.Jaroslav Zahradka and all its literary or special sources are mentioned in the List of references.

Kunovice, May 2006

A handwritten signature in black ink, consisting of a stylized initial 'R' followed by a horizontal line.

I would like to express my gratitude to Ing. Jaroslav Zahrádka for useful methodical help, which he gave me during the work on my bachelor thesis.

Kunovice, May 2006
Hana Harcová