

## BEPS Actions implementation by country

### Czech Republic



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On 5 October 2015, the G20/OECD published 13 final reports and an explanatory statement outlining consensus actions under the base erosion and profit shifting (BEPS) project. The output under each of the BEPS actions is intended to form a complete and cohesive approach covering domestic law recommendations and international principles under the OECD model tax treaty and transfer pricing guidelines. The G20/OECD output broadly falls into the following categories:

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OECD categorisation	Definition
Minimum standard	All G20/OECD members are committed to consistent implementation
Revision of existing standard	
Common approach	Common approaches to facilitate convergence of national practices
Best practice	Guidance drawing on best practices

It is now for governments to digest and introduce the necessary legislation. The table below sets out a summary of the expected local country implementation and timing in the Czech Republic.

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Action	OECD categorisation	Notes on local country implementation	Expected timing
VAT on business to customers digital services (Action 1)	Common approach	The EU VAT directive applies and is already implemented into domestic law.	1 January 2015
Hybrids (Action 2)	Common approach	<p>The Czech Republic has implemented the anti-hybrid rules in the amended EU parent-subsidiary directive (PSD) into its domestic law. This law denies an exemption for dividend income received where the dividends are tax deductible for the payer company.</p> <p>As an EU member state, the Czech Republic is subject to the two EU anti-tax avoidance directives (ATAD and ATAD 2) and, therefore, is required to implement the directives into its domestic law. The ATAD and ATAD 2 include anti-hybrid rules that cover hybrid mismatches between EU member states, and between EU member states and non-member states. Member states are required to adopt the domestic legislation necessary to comply with the directives by 31 December 2019 (with an extension until 31 December 2021 for the reverse hybrid provisions).</p> <p>On 9 March 2017, the parliament approved the draft EU Council Directive on hybrid mismatches.</p>	<p>Implementation of amended PSD as from 1 May 2016</p> <p>1 January 2020 (1 January 2022 for reverse hybrid provisions)</p>
CFCs (Action 3)	Best practice	As an EU member state, the Czech Republic is subject to the ATAD, which must be implemented into its domestic law by 31 December 2018. The ATAD includes a CFC rule.	1 January 2019
Interest deductions (Action 4)	Common approach	<p>The Czech Republic already has thin capitalisation rules, but it is unclear whether these rules will be amended as a result of the final G20/OECD BEPS recommendations.</p> <p>As an EU member state, the Czech Republic is subject to the ATAD, which must be implemented into its domestic</p>	1 January 2019 unless the

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		<p>law by 31 December 2018. The ATAD includes an interest limitation provision to discourage artificial debt arrangements designed to minimise taxes, although a transition period may apply for member states that already have national, targeted rules for preventing BEPS that are equally effective as Action 4. The transition period lasts until 31 December 2023.</p>	<p>transitional rules apply to the existing regime, in which case 1 January 2024.</p>
Harmful tax practices (Action 5)	Minimum standard	<p>The Czech Republic has implemented the EU directive on administrative cooperation in the field of taxation regarding the exchange of tax rulings (EU DAC III), with effect from 1 April 2017. The exchange will take place on a biannual basis, with one-off information exchanges taking place in respect of rulings issued between 1 January 2012 and 31 December 2013, providing they were effective on 1 January 2014. Information will also be exchanged on rulings issued between 1 January 2014 and 31 December 2016.</p>	1 April 2017
Prevent treaty abuse (Action 6)	Minimum standard	Not yet known	Not yet known
Permanent establishment (PE)status (Action 7)	Revision of existing standard	Not yet known.	Not yet known
Transfer pricing (Actions 8-10)	Revision of existing standard	<p>The OECD transfer pricing guidelines are directly applied in administrative tax practice through the general provision on transfer pricing (contained in the Income Taxes Act). The Czech tax authorities typically focus on the economic substance of transactions. The introduction of specific measures generally follows updates to the OECD guidelines.</p>	Ongoing
Disclosure of aggressive tax planning (Action 12)	Best practice	Not yet known.	Not yet known

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Transfer pricing documentation (Action 13)	Common approach	<p>The Czech Republic does not impose any obligation to maintain transfer pricing documentation; in practice, the OECD transfer pricing guidelines and EU master file concept are followed.</p> <p>The tax authorities have not announced any specific measures relating to transfer pricing documentation requirements under Action 13, although the master file/local file approach is recommended and is broadly applicable in practice.</p>	Not yet known
CbC reporting (Action 13)	Minimum standard	<p>Legislation implementing CbC reporting in Czech tax practice is still in the proposal stage and should be applicable as from 5 June 2017. The proposed rules generally follow the OECD/EU standards.</p> <p>The Czech Republic has signed a multilateral competent authority agreement for the automatic exchange of CbC reports.</p>	Legislation implementing CbC reporting will be applicable as from 5 June 2017
Dispute resolution (Action 14)	Minimum standard Complemented by best practice	On 9 March 2017, the Czech Parliament approved the draft EU Council Directive on double taxation dispute resolution mechanisms in the EU.	Not yet known
Multilateral Instrument (Action 15)	Applicable across all four categories	The Czech Republic is expected to sign the multilateral instrument (MLI) in June 2017, although only the minimum standard articles are expected to be implemented (i.e. Articles 6, 7 (PPT) and 16). There currently is public discussion about the MLI and further details regarding the practical implementation of the changes have not been released.	Not yet known

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### **Unilateral BEPS Actions**

A requirement was introduced in 2015 that a transfer pricing annex be included with the corporate income tax return. The annex must include details on cross-border related party transactions (volume, type of transactions, identity of counterparties) or, for companies with tax losses or investment incentives, details on domestic related-party transactions.

### **Other Tax Developments**

None



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