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CZECH REPUBLIC

TAX ALERT
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Big tax reform |

Unification of VAT rate
The most important changes in income taxes
Agreement on information exchange with Cayman Islands

| 1. Unified value added tax rate

Important change in rules for the application of the rate of value added tax (hereinafter referred to as "VAT") has been definitively approved by the Parliament. Provided that the amendment is signed by the President, the reduced rate will amount to 14% as of 1 January 2012. Furthermore, as of 1 January 2013, all taxable supplies will be subject to the unified VAT rate, namely 17.5%.

| 2. Tax reform

After long discussions, the Chamber of Deputies has approved an act which will bring changes to almost all tax legislation. Due to this, the so-called Single Collection Point will be created. Changes which should come into force on 1. January 2014 affect especially the act on income taxes and the acts governing contributions on social security and health insurance.

Below is a brief overview of the most important changes:

- cancellation of the concept of the so-called „super-gross salary" in connection with the tax rate of 15% and simultaneous introduction of an unified income tax rate of 19 % which will be applied only on gross salary as a tax base;
- unification of rates of employee's contributions on social security and health instance at 6.5% (i.e.an increase in contributions paid by employee of 2%);
- contributions on social security and health instance paid by employer will be replaced by a tax on total salaries at 32.5% (i.e. a reduction in contributions paid by employer of 1.5%);
- income from sale of securities and from possession of securities will be tax exempt, provided that the securities will be held for more than 3 years (currently, the period is 6 months as long as not more than 5% of registered capital or votes is held);
- income from sale of securities will not be taxed, if it does not exceed the limit of 100,000 CZK a year;
- introduction of unified rate of inheritance tax amounting to 9.5% and gift tax amounting to 19% with simultaneous increase of limit for tax exemption from 20,000 to 50,000 CZK for those persons who are not tax exempt from these taxes.

| 3. Another agreement on information exchange in tax matters

Representatives of the Czech Republic and the Cayman Islands have negotiated another agreement on exchange of information in tax matters. Now, the ratification process will take place in both countries. This agreement is already the seventh similar agreement for the Czech Republic and provides further evidence that the Czech Republic is actively involved in the current global trend of strengthening international tax cooperation and fighting against harmful tax practices.