NEWSLETTER 1/2015

This newsletter covers the following topics:

1. Motor vehicle tax changes from 2015

Fundamental changes in the manner in which motor vehicle tax obligations are calculated entered into force on 1 January 2015.

Annual tax rates are now defined directly in an annex to the Motor Vehicle Tax Act, as opposed to previous legislation.

The Act also introduced reduced and increased annual tax rates, which are determined based on the month in which the motor vehicle was first registered (including the month in which registration occurs) as follows:

Depending on the date on which the motor vehicle was first registered, the tax rate is:

- decreased by 25% during the first 36 calendar months;
- decreased by 20% during the following 36 calendar months;
- decreased by 15 % during the following 36 calendar months;
- unchanged after 108 calendar months have passed;
- increased by 10% after 144 calendar months have passed;
- increased by 20% for motor vehicles that are more than 156 calendar months old.

Hybrid motor vehicles, hybrid electric vehicles, motor vehicles using compressed natural gas (CNG) and liquefied petroleum gas (LPG) and hydrogen powered vehicles are provided with an additional 50% decrease in the tax rate in addition to the tax rate decreases and increases identified above. In addition, a 0% tax rate has been introduced for all pure electric vehicles.

2. Interrupted depreciation

The amendment of the Income Tax Act entering into force on 1 January 2015 made changes also to the obligation to interrupt depreciation for tax purposes. This Act defines additional cases when taxpayers are obliged to interrupt tax depreciation, specifically:

- in the tax period in which the taxpayer does not actively use specific assets to secure taxable income, except in the case of assets considered as emergency spare parts or held in reserve to secure the operations of fixed assets currently in use,
- if a taxpayer has three tax periods during the course of two consecutive calendar years as a result of making a change in tax periods (from the calendar year to a fiscal year and vice versa). The taxpayer is obliged to interrupt depreciation in the tax period beginning on the date on which the second tax period change was made and interruption is in place until such tax period in which 12 consecutive calendar months have passed since the previous change in the definition of the tax period.

3. Contractual fines, interest from delay and fees from delay

The amendment of the Income Tax Act entering into force on 1 January 2015 also made changes with respect to the fact that the payer's tax deductible costs will no longer include lump sum compensation for costs associated with the application of receivables, contractual fines, fees from delay and interest from delay; however, these items are recorded in the creditor's revenues as earnings.

The payer's costs were previously recognised as tax deductible after payment and were taxable for the creditor once received according to the version of the Act in force until 31 December 2014.

While the amended Income Tax Act does not include a specific procedure for including contractual fines, interest from delay, fees from delay and lump sum compensation for costs associated with applying receivables reported until 31 December 2014 into the tax base, the Financial Directorate of the Slovak Republic has provided information indicating that the procedure applied pursuant to the provisions of the Income Tax Act valid until 31 December 2014 and applicable to the expenditures (costs) for payers and income (earnings) for creditors reported before the end of 2014 shall continue to apply after 1 January 2015.

4. Changes to the chart of accounts

Changes based on the amended accounting procedures also required changes to the chart of accounts for entrepreneurs using double entry accounting.

The need to repeal specific accounts was induced by the cancellation of extraordinary activities and the resulting elimination of earnings attributable to extraordinary activities. Going forward, total earnings will

now comprise earnings from operations and earnings from financial activities. The following accounts are repealed:

593 - Tax on income from extraordinary activities
594 - Deferred tax on income from extraordinary activities
582 - Damages
588 - Other extraordinary expenses
682 - Compensation for damages
688 - Other extraordinary income
597 - Transfer of operating expenses
598 - Transfer of financing expenses
697 - Transfer of operating income
698 - Transfer of financing income

The names of the following accounts are changed as a result of the cancellation of extraordinary activities:

Account 591 – Tax on income from ordinary activities changes to: Account 591 – Tax on income
Account 592 – Deferred tax on income from ordinary activities changes to: Account 592 – Deferred tax on income

The exact definition of the contents of multiple accounts to which assets and liabilities are accounted with respect to participation interests and other assets and liabilities against partners and members has led to the renaming of the following accounts:

Previous name of the account	New name after renaming
066 - Borrowings to accounting unit in a consolidated unit	066 – Borrowings within a participation interest
351 – Receivables within a consolidated unit	351 – Receivables within a participation interest
361 – Liabilities within a consolidated unit	361 – Liabilities within a participation interest
471 – Long-term liabilities within a consolidation unit	471 – Long-term liabilities within a participation interest

5. Responsibilities of executive officers, Part II

In issue No. 3/2014 we focused on the responsibilities of executive offices when performing their duties and the obligation to configure appropriate audit measures, including functional internal audit capabilities. This article is connected to the same issue.

In our work as auditors we attempt to identify key internal audits or checks to ensure the functionality of a company's audit environment. The following are among the key internal audit activities that are not properly configured or implemented in many companies:

- approval and signature of bank transfers by at least two people at a minimum,
- separating the recording of accounting entries from any right or power of approval,
- dual and multi-layer approval of purchase and sales transactions above a certain amount, which may include automated restrictions on such rights/powers (e.g. a receipt containing a discount),

- insufficient security measures within the company's IT environment (sharing and using generally known passwords, insufficient protection of data in terms of external threats, a lack of backups or a disaster recovery plan).

The essence of separating and distributing powers and rights within a company is to ensure that no employee or group of employees has exclusive control over any transaction or group of transactions. Audits or checks covering transaction processing should also not be performed by a person responsible for recording or reporting these transactions. An appropriate separation of rights and powers minimises the risk of unintentional and intentional mistakes (which may actually be considered embezzlement in specific cases). An intentional mistake may be manifested in the incorrect reporting of accounting transactions and events with an impact on company reporting and is considered embezzlement of company property. These rules should be formally and clearly documented in the form of internal company guidelines. Such guidelines should be regularly monitored and updated based on changes in the environment in which the company operates. Likewise, a common error is that such audits or checks are conducted in an informal (i.e. irregular, incomplete, etc.) manner or there is no record of its completion (signature of a responsible person is missing).

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