



NEWSLETTER 2/2017

Your Tax Update: Get to know more about the most important tax novelties in February.

1. Security device for cash registers – what still has to be done by 31/3/2017?	1
2. New VAT definition of immovable property	5
3. Cross-border secondment	7
4. Apply soon for the SME investment growth premium 2017/2018	8
5. Deferred taxes	9
6. New IFRS Standards and when they are going to become effective	10
7. Croatia: reform package for enterprises	15

1. Security device for cash registers – what still has to be done by 31/3/2017?

From 1/4/2017, cash registers must have a functioning security device. In order to meet this deadline, the preparatory work must be completed by 31/3/2017 at the latest. There are also new reporting and documentation requirements that must be observed when operating the cash register.

From 1/4/2017 at the latest, cash registers must be equipped with a properly fitted security device. This requires the existence of a signature and seal generation unit linked to the cash register. A signature and seal certificate assigned to your business is an essential component of the signature and seal generation unit.

You can apply for the cash register premium of EUR 200 only if the cash register is procured or modified by 31 March 2017.

1.1. What has to be done to commission the security device correctly?

1.1.1. Ordering a signature and seal certificate

The necessary certificate can be procured from a trust service provider licensed in Austria (A-Trust, Globaltrust or Primesign). Alternatively, many cash register suppliers offer to supply the necessary card reader and the signature and seal certificate.

If you have not yet ordered a signature and seal certificate with the necessary reader, **please place your order immediately** with one of the three trust service providers or with your cash register supplier. You will need to quote your own tax reference number, VAT registration number or the GLN to be entered in the certificate.

TPA tip:

Please bear in mind that your cash register software may not be compatible with the certificates of all three providers. Ask your cash register supplier about it, or order the signature and seal certificate directly from your cash register supplier.

1.1.2. Initialising the cash register

The signature and seal generation unit is connected to the cash register when the signature and seal certificate has been received, and the corresponding function is activated in the cash register software.

NEWSLETTER 2/2017

The following items are issued in addition:

- a cash register identification number (any chosen number to uniquely identify the cash register concerned in your organisation), and
- a user key (AES key).

The user key is a (secret) password for the encryption process. This key can be freely chosen, or randomly generated by the cash register software.

TPA tip:

Your cash register may need a software update to be able to use the signature and seal generation unit. Please ask your cash register supplier about this.

1.1.3. Generating the initialisation voucher

After initialisation, an **initialisation voucher** must be generated. This is a voucher showing a zero transaction, which is used to verify secure linkage to the subsequent actual cash register transactions. The initialisation voucher can be generated either by a cash register software function, or by manually ringing up a zero transaction.

1.1.4. Registering the cash register and security device

The installation must also be registered with the fiscal authorities: all signature and seal generation units used, and all cash registers used must be registered with the fiscal authorities via FinanzOnline.

You can register

- using the “Cash register web service” (if your cash register supports this communication channel), or
- using your own FinanzOnline access, or
- using an authorised tax adviser.

TPA tip:

TPA will be pleased to create the login data to use the “Cash register web service”, or to conduct registration for you if you have no FinanzOnline access of your own.

1.1.5. Checking the initialisation voucher

The generated initialisation voucher has to be checked by the fiscal authorities after registration

- using the “BMF Belegcheck” smartphone app, available from your App Store for Android and Apple iOS, or
- using a cash register function, if it supports the FinanzOnline “Cash register web service”.

This checks whether the encrypted data can be correctly decrypted with the information disclosed to the tax authority, and whether the security device has consequently been successfully commissioned.

When the check has been completed, the cash register is set up so it is tamper-proof. If checking of the initialisation vouchers reveals an error,

- the cause must be found,
- the error must be rectified,
- rectification of the error must be documented, and
- the commissioning process repeated as necessary until checking of the initialisation vouchers has been successfully completed.

The successfully checked initialisation voucher must be **printed out and retained**.

Commissioning of the cash register and checking of the initialisation voucher for all cash registers in use before this date must be completed **by 31/3/2017 at the latest**. For cash registers commissioned from 1 April 2017, the initialisation voucher must be checked within one week of registration with FinanzOnline.



NEWSLETTER 2/2017

1.2. Will there be a fine if commissioning cannot be completed by 31/3/2017 at the latest?

Deliberately disregarding the obligation to use a compliant cash register (with security device) may be subject to a fine of up to EUR 5,000, in the absence of any other financial malpractice (e.g. tax evasion). The tax authority must check in each individual case whether there is deliberate non-compliance with the obligation.

Information published by the Ministry of Finance indicates that deliberately disregarding the requirement to operate cash registers with a security device cannot be assumed if the taxpayer

- has a cash register that complies with the Cash Register Directive, thereby satisfying the transaction recording obligation and the voucher issuing obligation,
- issues vouchers for all transactions without exception, and
- verifies or credibly demonstrates that procurement of a compliant security device and/or the necessary modification of the cash register has been ordered from the cash register supplier by **mid-March 2017 at the latest**, so the default was not the responsibility of the taxpayer.

When the **cash register has been updated as promptly as possible**, and the signature and seal generation unit has been procured, the security device (see above) must be commissioned without further delay.

However, if another financial offence is committed by failing to use the properly set up cash register, (attempted tax evasion), the applicable consequences under fiscal criminal law come into force.

1.3. What reporting obligations, additional documentation requirements and documentation entries apply during operation of the cash register?

1.3.1. Reporting obligations relating to cash registers

During operation, the following events detrimental to the functioning of the tamper-proof cash register must be reported via FinanzOnline without unnecessary delay (no later than within a week):

- Malfunction of a cash register, unless temporary (for more than 48 hours);
- Malfunction of a signature and seal generation unit, unless temporary (for more than 48 hours);
- Recommissioning a cash register;
- Recommissioning a signature and seal generation unit;
- Decommissioning a cash register (e.g. in the case of discontinuation or disposal of operations);
- Decommissioning a signature and seal generation unit (e.g. on discontinuation of operations);
- Commissioning (additional) cash registers;
- Commissioning (additional) signature and seal generation units.

Messages relating to

- malfunction,
- decommissioning, and
- recommissioning

must **include the precise time** of the event (date and time, stating at least the full hour).

In the case of holiday shutdowns and seasonal closures, decommissioning of the cash register and/or the security device is not assumed. It is therefore not necessary to send a message via FinanzOnline in these cases.



NEWSLETTER 2/2017

1.3.2. New documentation requirements relating to cash registers

A signed monthly voucher must be created **at the end of each month**. The last monthly voucher of the calendar year (annual voucher) must furthermore be checked (using the “Cash register web service” or the “BMF Belegcheck” app), printed out and retained.

The cash register data acquisition log must be backed up **at least once a quarter** in an unalterable form on an external medium, and the backups retained.

In the case of (planned) **decommissioning of the cash register** (e.g. when discontinuing operations), a signed termination voucher must be created, the data acquisition log backed up in unalterable form on an external data medium, and decommissioning of the cash register and (if it not used for another cash register) the signature and seal generation unit must be reported via FinanzOnline.

1.3.3. Requirements for vouchers issued with the cash register

The vouchers issued from 1/4/2017 with the cash register must contain the **further obligatory voucher content**, in addition to the previous mandatory information (including serial number issued once):

- content of the machine-readable code (preferably QR code) with the coded voucher content and the signature,
- the cash register identification number,
- time and date the voucher was issued, and
- the amount of the cash payment, separated into tax rates.

If the signature and seal generation unit had failed when the document was created, the text **“security device defective”** must be prominently printed on the voucher.

1.4. What action should be taken if the cash register or the signature and seal generation unit fails?

If the cash register’s signature and seal generation unit has malfunctioned, the cash transactions must be recorded on another cash register with a functioning security device. If this is not possible, the text “security device defective” must be shown prominently on the vouchers of that cash register.

Any malfunction of the signature and seal generation unit must be reported via FinanzOnline if it lasts for more than 48 hours. After recommissioning of the signature and seal generation unit, **a signed collective voucher** of the cash transactions recorded during the malfunction must be created, and the recommissioning must be reported via FinanzOnline, if the malfunction has been reported.

If the cash register itself has become defective, and there is no other compliant cash register available, the cash transactions must be recorded with **manually created vouchers**. The cash transactions during the malfunction must be individually entered after the cash register has returned to service, and **a collective voucher with signature** must be generated. The duplicates of the paper vouchers with which the cash transactions were recorded during the malfunction must be retained. If the malfunction lasted for more than 48 hours, this and the subsequent recommissioning must be reported via FinanzOnline.

1.5. What TPA can do for you

In addition to providing ongoing tax advice, TPA can also undertake the necessary electronic reporting via FinanzOnline for your business. We are able to undertake the following specific tasks for you:

- Registering the certificate, the cash register identification numbers of all cash registers and the AES keys used via FinanzOnline;
- Reporting a malfunction or decommissioning of a cash register;

NEWSLETTER 2/2017

- Reporting a malfunction or decommissioning of a service signature and seal generation unit;
- Reporting the recommissioning of a cash register;
- Reporting the recommissioning of a signature and seal generation unit.

If your cash register software offers the function of compiling and exporting the data needed for the messages in the form of an XML file, we can send the data to the fiscal authorities electronically via Finanz-Online.

If your cash register is able to establish a direct link to FinanzOnline, there is an option to transmit the necessary data directly via a dedicated access to FinanzOnline (“Cash register web service”). We would be pleased to set up such an access for you.

TPA tip:

Please contact your TPA advisor as soon as possible so we can ensure timely reporting.

2. New VAT definition of immovable property

In the course of the Abgabenänderungsgesetz 2016 – AbgÄG 2016 the definition of the term “immovable property” for VAT purposes has been adapted according to EU provisions. This concerns the supply as well as the lease of immovable property as of January 1st, 2017. Furthermore, changes of the small business regulation and changes regarding short-term letting have been effected.

2.1. Changes regarding the term “immovable property”

In the course of the Abgabenänderungsgesetz 2016 – AbgÄG 2016 the definition of the term “immovable property” for VAT purposes has been adapted according to EU provisions. This concerns the supply as well as the lease of immovable property as of January 1st, 2017.

2.1.1. New definition

The main point of the changes is the autonomous definition of immovable property. Immovable property can be defined as

- a) any specific part of the earth, on or below its surface, over which title and possession can be obtained;
- b) any building or construction fixed to or in the ground above or below sea level which cannot be easily dismantled or moved;
- c) any item which forms an integral part of a building or construction, such as doors, windows, roofs;
- d) any item, equipment or machine permanently installed in a building or construction which cannot be moved without destroying/altering the building or construction.

In general, a building is defined as a construction (erected by human beings) with a roof and walls (which may offer at least temporary protection to people).

The term construction is the broader term and includes, for instance, also roads, silos, railway tracks, bridges, airports, ports, dikes, pipelines, water and sewage systems, power plants, wind turbines or refineries.

Regarding the classification of a building or construction as immovable property, it is decisive whether the building or construction can be easily dismantled or moved; the same is true for buildings erected on land owned by another person (“Superädifikate”).

NEWSLETTER 2/2017

Items, which are actually movable (e.g. kiosks, boats, stalls, prefabricated houses or caravans), can be fixed to the ground in such a way that they are considered immovable property for VAT purposes. A non-separable connection is not necessary; only the technical effort, the time and financial expenses required in connection with the subsequent removal of the construction is relevant in this context.

2.1.2. Services connected with immovable property

A direct/immediate connection between the service supplied and the respective immovable property can be assumed if the immovable property itself forms an integral part of the service. Among other things, the supply of the following services is considered to be connected to immovable property:

- Creation of blueprints for specific immovable property – irrespective of the subsequent actual construction of the building;
- Property management services;
- Services of architects, property developers and surveyors if they are connected with the construction of a specific building – again irrespective of whether or not the respective plan will be subsequently realized;
- Construction of a building, construction and demolition work, maintenance, renovation and repair work performed on (parts of) of building (incl. cleaning, tiling, parquetting and papering);
- Installation or assembly of machines or equipment;
- Maintenance and repair of machines or equipment qualifying as immovable property owing to their permanent installation;
- Provision of accommodation in sectors similar to the hotel sector;
- Timesharing in immovable property;
- Surveying and assessment of immovable property;
- Valuation of immovable property (e.g. for insurance purposes or to determine the value of a property as collateral for a loan);
- Lease of actually movable property classified for VAT purposes as immovable property (e.g. kiosk, caravan);
- Legal services relating to a change of the legal status of immovable property (drawing up of sales and lease contracts, notary work as well as registrations in the land register) – even if the underlying transaction is ultimately not carried out.

2.1.3. Services not connected with immovable property

The following services are not connected with immovable property:

- Provision of advertising (e.g. publication of property advertisements);
- Provision of an exhibition stand;
- Intermediation in the provision of hotel accommodation or a similar accommodation business (e.g. holiday camp, camping site);
- Consultancy or financial services (no change of the legal status);
- Investment advice;
- Portfolio management in connection with shares in real estate;
- Tax consulting.

Regarding the sale of immovable property as of January 1st, 2017, it should be borne in mind that the exemption of § 6 (1) item 9 lit a VATA 1994 cannot be applied to the transfer of specific rights (e.g. land servitude or property-related rights) not connected with the supply of immovable property. The granting or transfer of a right to build is equated with the supply of immovable property and continues to be exempt from VAT (with the option to subject the sales to VAT).



NEWSLETTER 2/2017

2.2. Other important changes

Other important changes are

2.2.1. Short-term letting is subject to tax

Also the short-term letting of 14 days at most is now subject to tax if the entrepreneur uses the immovable property only for

- sales which do not exclude input VAT deduction,
- short-term letting, and/or
- meeting his own requirements of accommodation (§ 6 (1) item 16 VATA 1994).

To determine whether short-term or long-term letting in the sense of this provision is effected, the individual rental revenues have to be considered separately.

This new provision shall prevent the need for an allocation of input VAT and potential input VAT corrections (e.g. lease of conference rooms) of entrepreneurs entitled to full input VAT deduction.

2.2.2. Changes for small businesses

Furthermore, the small business regulation has been expanded to persons subject to limited tax liability – insofar as they operate a business in Austria. Thus, persons subject to limited tax liability may also make use of the exemption regarding the lease of domestic immovable property (§ 6 (1) item 27 VATA 1994).

Moreover, as far as freelancers in particular are concerned, their tax-exempt freelance sales and sales from letting and leasing real estate may no longer be added up.

3. Cross-border secondment

Austrian employers are increasingly seconding manpower abroad – and SMEs are no exception. Foreign workers are likewise of increasing importance in Austria for enterprises that operate internationally.

But the international deployment of manpower constitutes an exceptional challenge in terms of payroll accounting for every enterprise, especially because of the intertwined legal aspects of tax, social security and employment law.

Our recently published folder entitled “Successful Secondments” deals precisely with these aspects. We consider both the wide variety of different aspects that need to be considered when seconding manpower to Austria from abroad or vice versa, and we make cross-border comparisons of salaries, especially the social security and other deductions in the countries in which our TPA Group operates. This reveals significant differences in take-home pay with the same gross salary.

To order the “Successful Secondments” folder in German and/or English, [click here](#).



NEWSLETTER 2/2017

4. Apply soon for the SME investment growth premium 2017/2018

The SME investment growth premium is intended to create an incentive for corporate investment in 2017 and 2018. The Ministry of Finance is to set aside a total of EUR 175 million for this direct subsidy for investment growth.

Although the final funding rules are not yet available, subsidy applications can be submitted since 9 January 2017. The only guidance on funding preconditions for applicants is currently the summary information published by AWS (Austria Wirtschaftsservice Gesellschaft mbH, www.aws.at).

4.1. Who can apply for funding?

The intended recipients are micro-enterprises and small and medium-sized enterprises (regardless of whether they are natural persons or legal entities) with up to 250 employees, and an establishment in Austria. Founders and start-up entrepreneurs that have been operating for less than 3 years are not intended to qualify.

4.2. What investments are to be subsidised?

Eligible investments are new investments in depreciable fixed assets of an establishment located in Austria that are subject to capitalisation. But a major consideration is that the specific new investment must be at least EUR 50,000 higher than the value of the average capitalised cost over the last three financial years (investment growth) in the case of micro-enterprises and small enterprises, and at least EUR 100,000 higher in the case of medium-sized enterprises.

Based on the above summary information from the AWS, the **following investments in particular are not to qualify for funding:**

- Leasing financed or used assets;
- Purchase of vehicles also used for transport purposes;
- Intangible and financial investments;
- real estate;
- Projects with eligible costs in excess of EUR 5 million.

4.3. How much funding is available?

The tax-free subsidy paid as a lump sum is to be up to 15 % of the investment growth of at least EUR 50,000 to EUR 450,000 for micro-enterprises and small enterprises, and up to 10 % of the investment growth of at least EUR 100,000 to EUR 750,000 for medium-sized enterprises. It is important to note that the subsidy reduces the cost of purchase and consequently the depreciation for tax purposes.

4.4. When and how do subsidy applications have to be made?

It is important that the subsidy application is made **before (!) starting to implement the project.**

The start of implementation is deemed to be the date of legally binding order placement, start of work or construction, the date of the first delivery or service provision, of the first invoice or the purchase contract or the (down) payment.

In general, the subsidy application must be submitted via the AWS online portal (subsidy manager: <https://foerdermanager.awsg.at>). Österreichische Hotel- und Tourismusbank Gesellschaft m.b.H. (ÖHT) is responsible for leisure and tourism businesses.

TPA Tip:

Since the funding guidelines have not yet been finalised, we recommend submitting the subsidy application quickly, even in case of doubt. No more grants will be available once the budget has been exhausted.

NEWSLETTER 2/2017

5. Deferred taxes

In December 2016 AFRAC (Austrian Financial Reporting and Auditing Committee) published a revised commentary concerning deferred taxes in financial statements including clarifications to the Accounting Changes Act 2014. In the following we describe the changes concerning deferred taxes and how they affect the accounting.

With the Accounting Changes Act 2014 the accounting of deferred taxes was adopted to the EU accounting directive. With the Statutory Audit Regulation Changes Act 2016 the legislator published editorial adjustments and clarifications to the Accounting Changes Act 2014. The most important changes will be presented in the following.

5.1. Accounting according to the balance sheet based temporary concept

Due to the Accounting Changes Act 2014 deferred taxes are not any more accounted according to the profit and loss account "timing concept" but to the internationally applicable balance sheet based "temporary concept".

Temporary differences in accounting have to be considered in case

- of differences between the valuation according to company law and the valuation for tax purposes and
- are expected to be reversed in future financial years.
- The recognition of temporary differences in profit or loss is not relevant.

Deferred tax assets and liabilities are, as a matter of principle, to be set off against each other, unless the set-off of effective tax credits against effective tax liabilities is not permitted by law. Depending on the type of balance either deferred tax assets or deferred tax liabilities are to be recognised.

Deferred tax assets are shown as a main balance sheet item "D" after prepayments and accrued income.

Deferred tax liability is presented as a provision in the balance sheet.

According to the new accounting regulations deferred tax assets are required to be recognised only by medium-sized and large companies with share capital.

Small companies with share capital are granted an option to recognise deferred tax assets in their balance sheet, but are required to show a breakdown of liabilities and credits prior set-off in the notes to the financial statements if the option is exercised. In case this is not done the full provision from deferred taxes has to be presented in the balance sheet.

5.2. Measurement and subsequent measurement of deferred taxes

The measurement of deferred taxes is dependent on the tax rate. In case a future tax change is already foreseeable at the time of measurement, the principle of prudence requires that the future change is taken into account.

Deferred taxes may not be discounted.

The measurement of deferred tax assets has to be observed in future periods. In case a planned tax credit is not or only partly not taking place, the deferred tax assets has to be impaired.

NEWSLETTER 2/2017

5.3. Prohibition of profit distribution for deferred tax assets

The Accounting Changes Act 2014 and the Tax Amendment Act 2015 led to a new restriction on profit distribution, in particular concerning restructurings leading to revaluation.

In case deferred tax assets are recognised in the balance sheet the prohibition of profit distribution is settled as follows: the profit of a corporation shall be distributed only to the extent that the amount of reserves readily available for release plus profit carried forward and minus loss carried forward is after profit distribution at least equal to the amount of deferred tax assets.

5.4. Deferred tax assets resulting from losses carried forward

Under certain conditions, it is possible to recognise tax assets from losses carried forward. There has to be convincing substantial evidence that sufficient taxable profits will be generated in the future, for which the losses carried forward provide a tax credit. Furthermore it is possible to recognise losses carried forward to the extent that sufficient deferred tax liabilities exist.

5.5. Transition regulations of Accounting Changes Act 2014

The Statutory Audit Regulation Changes Act 2016 clarified that deferred taxes resulting from restructurings and capital consolidation that have not been considered so far, should not be recognised in the profit and loss statement.

The following procedures are possible on initial recognition of deferred taxes:

- Immediate recognition of deferred taxes in full, or
- Equal allocation of the deferred tax for at the most five years, or
- Immediate recognition of the deferred tax in full and allocation by recognising prepayments and accrued income/accruals and deferred income, which have to be equally reversed in the following five years

5.6. Exceptions

The exceptions stated in the Accounting Changes Act 2014 concerning deferred taxes are identical to the regulations in IAS 12 and therefore every case has to be reviewed separately. The exceptions affect in particular investments and goodwill.

6. New IFRS Standards and when they are going to become effective

Dynamics in IFRS: You find the most important information concerning new IFRS Standards and the latest interpretations here.

In 2016 and the following years once more new or amended IFRS standards and interpretations became or are going to become effective. The endorsement process of the European Union often leads to significant delays after the publication by the IASB. Therefore the effective dates for new IFRS Standards of the European Union and the IASB may differ.

The following overview shows the effective dates of the new IFRS Standards for the ISAB and in the EU for 2016 and the following years (as at February 13, 2017). The endorsement status is available on the EFRAG (European Financial Reporting Advisory Group) website: <http://www.efrag.org/Endorsement>

NEWSLETTER 2/2017

Overview new IFRS Standards and effective date for IASB and EU

Type	Standard	Title	Date of publication		Effective date (on/after)	
			IASB	EU	IASB	EU
New / New Version	IFRS 9	Financial Instruments	24.07.2014	29.11.2016	01.01.2018	01.01.2018
	IFRS 14	Regulatory Deferral Accounts	30.01.2014	open*	01.01.2016	open*
	IFRS 15	Revenue from Contracts with Customers	28.05.2014 11.09.2015	29.10.2016	01.01.2018	01.01.2018
	IFRS 16	Leases	13.01.2016	open	01.01.2019	open
	IFRIC 22	Foreign Currency Transactions and Advance Consideration	08.12.2016	open	01.01.2018	open
Amendment	IAS 19	Defined Benefit Plans: Employee Contributions	21.11.2013	09.01.2015	01.07.2014	01.02.2015
	various IFRS	Annual Improvements (2010-2012)	12.12.2013	09.01.2015	01.07.2014	01.02.2015
	various IFRS	Annual Improvements (2012-2014)	25.09.2014	16.12.2015	01.01.2016	01.01.2016
	various IFRS	Annual Improvements (2014-2016)	08.12.2016	open	01.01.2017 01.01.2018	open
	IAS 27	Equity Method in Separate Financial Statements	12.08.2014	23.12.2015	01.01.2016	01.01.2016
	IAS 16 IAS 41	Agriculture: Bearer Plants	30.06.2014	24.11.2015	01.01.2016	01.01.2016
	IAS 16 IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	12.05.2014	03.12.2015	01.01.2016	01.01.2016
	IFRS 11	Accounting for Acquisitions of Interests in Joint Operations	06.05.2014	25.11.2015	01.01.2016	01.01.2016
	IFRS 10 IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	11.09.2014 17.12.2015**	open	open**	open
	IAS 1	Disclosure Initiative	18.12.2014	19.12.2015	01.01.2016	01.01.2016
	IFRS 10 IFRS 12 IAS 28	Investment Entities: Applying the Consolidated Exception	18.12.2014	23.09.2016	01.01.2016	01.01.2016
	IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	19.01.2016	open	01.01.2017	open
	IAS 7	Disclosure Initiative	29.01.2016	open	01.01.2017	open
	IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers	12.04.2016	open	01.01.2018	open
	IFRS 2	Classification and Measurement of Share-based Payment Transactions	20.06.2016	open	01.01.2018	open
	IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	12.09.2016	open	01.01.2018	open
	IAS 40	Transfers of Investment Property	08.12.2016	open	01.01.2018	open
	IFRS for SMEs	First complete revision	21.05.2015	/	01.01.2017	/

* The European Commission has decided not to launch the endorsement process for the interim standards IFRS 14 and to wait for the new standard "Rate-regulated Activities".

** In December 2015 the IASB decided to postpone the effective date of this amendment indefinitely.

Coloured presentation for entities with calendar-based business year

2015	2016	2017	2018 f
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Overview for new and revised IFRS Standards

The following overview shows the content of the new IFRS Standards. The Standards are structured according to the effective date in the EU and of the IASB. Furthermore we differ between new and revised standards:

6.1. EU effective date for financial years beginning on or after 1.2.2015

IAS 19 Defined Benefit Plans – Employee contributions: Contributions by employees or third parties that are linked to service must be attributed to periods of service as a reduction of service cost.

NEWSLETTER 2/2017

Annual Improvements (2010-2012):

- IFRS 2 (Definition of “vesting condition”),
- IFRS 3 (Accounting for contingent consideration in a business combination),
- IFRS 8 (Aggregation of operating segments, Reconciliation of the total of the reportable segments’ assets to the entity’s assets),
- IFRS 13 (Short-term receivables and payables),
- IAS 16/IAS 38 (Revaluation method – proportionate restatement of accumulated depreciation),
- IAS 24 (Key management personnel).

6.2. EU effective date for financial years beginning on or after 1.1.2016

Annual Improvements (2012-2014):

- IFRS 5 (Changes in methods of disposal),
- IFRS 7 (Clarifications to Servicing Contracts, Offsetting disclosures to condensed interim financial statements),
- IAS 19 (Discount rate: regional market issue),
- IAS 34 (Clarification of disclosure of information “elsewhere in the interim financial report”).

IAS 27 Equity Method in Separate Financial Statements: Entities are allowed to apply the equity method of accounting for investments in subsidiaries, joint ventures and associates in separate financial statements.

IAS 16 / IAS 41 Agriculture: Bearer Plants: Biological assets that meet the definition of a “bearer plant” fall within the scope of IAS 16 Property, Plant and Equipment rather than using the fair value measurement approach prescribed by IAS 41. Products growing on bearer plants remain in the scope of IAS 41. They are measured at fair value less costs to sell.

IAS 16 / IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation: Clarification that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate.

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations: Clarification that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3.

IAS 1 Disclosure Initiative:

- Clarification that materiality applies to the whole financial statements and that information which is not material need not be presented in the primary financial statements or disclosed in the notes;
- presentation of additional line items in the statement of financial position and statement of profit and loss and other comprehensive income;
- the share of the other comprehensive income of associates and joint ventures accounted for using the equity method, separated into the share of items that will or will not be reclassified subsequently to profit or loss.

IFRS 10 / IFRS 12 / IAS 28 Investment entities: Applying the Consolidated Exception: The changes clarify various issues related to the application of the consolidation exception.

NEWSLETTER 2/2017

6.3. IASB effective date for financial years beginning on or after 1.1.2016, EU effective date open

IFRS 14 Regulatory Deferral Accounts: IFRS 14 permits an entity which is a first-time adopter IFRS to continue to account for “regulatory deferral account balances” in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required. The European Commission has decided not to launch the endorsement process for the interim standard IFRS 14 and to wait for the new standard “Rate-regulated Activities”.

6.4. IASB effective date for financial years beginning on or after 1.1.2017, EU effective date open

IFRS for SME: In May 2015 the IASB published a completely revised version of the IFRS for SMEs (predominantly additional clarifications and supporting guidelines). IFRS for SMEs is a stand-alone standard, which is designed for the accounting of entities without public accountability. Compared to full IFRSs the IFRS for SMEs is less complex and significantly fewer disclosures are required. IFRS for SMEs does not come under the regulation of IAS directive 1606/2002 and furthermore does not go in line with compulsory requirements of the new EU accounting directive 2013/34. Therefore IFRS for SMEs do not have

legal consequences in the EU. The application possibilities are limited to voluntary IFRS consolidated/ separate financial statements at the moment.

Annual Improvements (2014-2016): IFRS 12 (Clarification of the scope of the disclosure of interests in other entities).

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses: Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use.

IAS 7 Disclosure Initiative: The IASB requires that the following changes in liabilities arising from financing activities are disclosed:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchange rates;
- changes in fair values;
- other changes.

One way to fulfil the disclosure requirement is by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

6.5. EU effective date for financial years beginning at or after 1.1.2018

IFRS 9 Financial Instruments: The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting of financial instruments. Under IFRS 9 financial assets will be classified in three groups: A financial asset shall be measured at “amortised cost” if it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and according to the contractual terms on specified dates solely payments of principal and interest on the principal amount outstanding. If the objective is achieved by both collecting contractual cash flows and selling the financial assets financial asset shall be measured at “fair value through other comprehensive income”.



NEWSLETTER 2/2017

All other financial assets shall be measured at “fair value through profit or loss”. Impairment losses must be based on expected losses for the first two categories.

Financial liabilities which meets the definition of “held for trading” have to be measured at “fair value through profit or loss”. All other financial liabilities normally shall be measured at “amortised cost”.

The new model for hedge accounting focuses more on risk management.

IFRS 15 Revenues from Contracts with Customers: The new standard defines in a five-step model whether, at what amount and at which time revenues shall be recognised. IFRS 15 replaces IAS 11, IAS 18, IFRIC 13, 15 and 18 as well as SIC 31. IFRS 15 is applicable to the contracts with customers of all industries except for lease contracts, insurance contracts and financial instruments. In September 2015 IASB postponed the effective date of IFRS by one year (before January 1st, 2017).

6.6. IASB effective date for financial years beginning on or after 1.1.2018, EU effective date open

IFRIC 22 Foreign Currency Transactions and Advance Consideration: The interpretation provides requirements about which exchange rates to use in reporting foreign currency transactions when payment is made or received in advance.

Annual Improvements (2014-2016): IFRS 1 (Deletion of short-term exemptions for first-time adopters), IAS 28 (Fair value measurement of investments in associates and joint ventures).

IFRS 15 Clarification to IFRS 15 Revenues from Contracts with Customers: The Transition Resource Group for Revenue Recognition (TRG) identified five topics for improvements and clarifications. Three identified topics (identifying performance obligations, principal versus agent considerations and licensing) have been clarified by the amendments and should facilitate the transition process.

IFRS 2 Classification and Measurement of Share-based Payment Transactions: The amendments clarify the following requests:

- accounting for cash-settled share-based payment transactions that include a performance condition;
- classification of share-based payment transactions with net settlement features;
- accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: The amendment addresses the temporary accounting consequences of the different effective dates of IFRS 9 (Financial Instruments) and the forthcoming new version of the insurance contracts standard. Entities have the option to defer the application of IFRS 9 until 2021 as temporary exemption (deferral approach) or to reclassify some of the income or expenses from designated financial assets from profit or loss to other comprehensive income (overlay approach).

IAS 40 Transfers of Investment Property: Clarification that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

6.7. IASB effective date for financial years beginning on or after 1.1.2019, EU effective date open

IFRS 16 Leases: About one year ago the IASB finished its long-standing project on lease accounting and published IFRS 16, Leases. IFRS 16 is likely to have a significant impact on the financial statements of a number of lessees and also on the long-term lease negotiations.

NEWSLETTER 2/2017

Especially the provision of a single lessee accounting model, a significant amendment, requiring lessees to recognise right-of-use-assets and liabilities for virtually all leases, unless the lease term is 12 months or less or the underlying asset has a low value (up to around USD 5.000), on the balance sheet, is intended to improve the quality of financial reporting and the comparability of financial statements of lessees.

Concerning lessors IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 replaces IAS 17 as well as IFRIC 14, SIC 15 and SIC 27. Earlier application is permitted if IFRS 15 has also been applied (prematurely if before 1 January 2018). A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application. Lessors are not required to make any adjustments. The lessor therefore has to differentiate between finance leases and operating leases.

7. Croatia: reform package for enterprises

For enterprises operating in Croatia, there are some changes in the field of tax and social security.

The new Croatian government has presented a comprehensive reform package to stimulate the Croatian economy. Most of the tax changes it contains already enter into effect from 2017. We summarise the most important points for you:

7.1. Fewer tax audits when a Croatian tax advisor is used

An innovation that is particularly attractive to enterprises brings more legal certainty and simplification in the case of tax audits. Enterprises represented by tax advisors licensed in Croatia are given a reduced risk profile by the tax authorities, with immediate effect. There are fewer tax audits, and procedures are speeded up.

TPA Tip:

TPA Croatia is one of only a few international consultancies that have a Croatian tax advisor's licence.

Our clients therefore benefit from this new special arrangement, simplifying matters when it comes to tax investigations.

7.2. New income tax regulations

The tax package results from a new income tax law in force since 01/01/2017. The main changes relate to income determination and the progressive tax rates:

7.2.1. Progressive taxation

- The previous progressive tax rates of 12 %, 25 % and 40 % are replaced by the rates of 24 % and 36 %;
- The new tax rate of 24 % applies up to a basis of assessment of 210,000 HRK, and the 36 % rate above that;
- The tax rate of 12 % will continue to apply for certain types of income such as dividend taxation and rental income.

NEWSLETTER 2/2017

7.2.2. Tax allowances

- The general tax allowance is increased for all taxpayers from 2,600 to 3,800 HRK.
- The child support allowance for dependant relatives is also increased.

7.2.3. Other changes:

- Other reforms relate to allowing tax deductible expenses for the self-employed,
- tax exemptions, and
- data exchange between the authorities.

7.3. Corporate income tax reduction for enterprises

7.3.1. New corporate income tax scale

- The main changes for entrepreneurs are the reduction in the corporate income tax rate of 20 % to 12 % for enterprises with a turnover of less than 3 MHRK, and
- to 18 % for all other taxpayers.

7.3.2. Cash accounting for SMEs

SMEs with a turnover of up to 3 MHRK now have the option of determining their taxable income by cash accounting if they pay their value-added tax on the basis of payments received.

7.3.3. APA for transfer prices

Another reform is the option to enter into Advance Pricing Agreements (APA) with the tax authorities as regards transfer prices.

7.3.4. Other important changes

- Arm's length terms for loans between affiliated enterprises: taxpayers may also apply a rate of interest that differs from the interest rate published by the Ministry of Finance, which has been 4.97 % since 01/01/2017. This is subject to proof that this is the normal market rate, and is applied to all financing agreements;
- Abolition of relief for reinvested profits;
- Increase in allowable hospitality and entertainment expenses from 30 % to 50 % – leisure activities are no longer classified as hospitality and entertainment expenses;
- Reduction in deductibility of expenses arising from the use of a car from 70 % to 50 %, provided there is no private use – effective from 01/01/2018;
- Simplified deductibility of write-downs of receivables and impairment allowances;
- Option for non-profit organisations as to the method of taxation: determining earnings by accounting, or paying a lump sum.

7.4. Value-added tax rates are changing

Some VAT changes entered into effect on 01/01/2017; others will apply from 01/01/2018 and from 01/01/2019.

7.4.1. Applicable from 01/01/2017:

- Tax rate of 25 % also applicable to restaurant and catering services;
- Changes in the scope of the reduced rate of 13 %;
- The VAT registration threshold is being increased to 300,000 HRK. In the case of voluntary registration, the minimum VAT continuance period is being reduced from 5 to 3 years;
- Introduction of fines for foreign enterprises registered in Croatia that omit to submit form INO PPO: reporting deliveries of goods and services for which the tax liability transfers to the recipient.

NEWSLETTER 2/2017

7.4.2. Applicable from 01/01/2018

- Deductibility of 50 % of the input tax for acquisition or leasing of cars, and other goods and services associated with the use of cars: cap on input tax deductibility where the cost of purchase amounts to 400,000 HRK;
- The import turnover tax for the purchase of certain items – with a value of more than 1,000,000 HRK – can be deducted as input tax in the same reporting period. This does not give rise to a liquidity effect.

7.4.3. Applicable from 01/01/2019:

- Standardisation and clarification of the VAT treatment of credit notes in compliance with the EU Directive.

7.5. New social security provisions

7.5.1. The following changes should be noted:

- Increase in the minimum basis of assessment for directors and managers to 5,024.00 HRK;
- Limitation period is generally fixed at 6 years (previously 5 and 10 years);
- Extension of times allowed for payment of social security contributions in certain cases;
- Introduction of reduced rates (10 % and 7.5 %) in certain cases;
- Abolition of the previous exemption from contribution in the following cases:
 - Remuneration for copyrights and/or similar rights (e.g. royalties);
 - Remuneration for supplying works of art;
 - Payment of miscellaneous income to pensioners.

7.6. General fiscal proceedings: uniform time limitation

7.6.1. Standardisation of time limitation

- A uniform limitation period of 6 years is being introduced. This replaces the previous split between the relative (3 years) and absolute (6 years) limitation period.
- The tax authorities are officially required to take account of the limitation periods. If proceedings are time barred, the authorities are obliged to close the proceedings, and expunge any tax liabilities.

7.6.2. Other important changes

- Extension of the time limit for correcting tax returns to 3 years from the submission deadline;
- Expansion of the reporting obligations for banks as regards transmitting data of current accounts and savings accounts of natural persons to the tax authorities;
- Increased penalties for repeated infringements.

7.7. Important changes to real-estate transfer tax

7.7.1. The principal changes to real-estate transfer tax are:

- Abolition of tax exemption for the acquisition of the first property (e.g. freehold apartment);
- Reduction of the real-estate transfer tax rate from 5 % to 4 %;
- General exemption from real-estate transfer tax where real estate is transferred to the operating assets of an enterprise: it is no longer necessary to increase the share capital;
- Introduction of new exemptions, e.g. in the event of termination of joint ownership.

7.8. Law on the tax registration of cash transactions

The new tax reform package also includes various changes regarding the recording and reporting of cash transactions, such as the abolition of exceptions, and extension of liability to suppliers of cash register software.



NEWSLETTER 2/2017

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