

Reorganization as a way of resolving insolvency

Insolvency, due to over-indebtedness or other reasons, is a fact of life for some firms in a market environment and when it occurs, reorganization becomes an elegant solution to the situation as it maintains the economically viable part of the bankrupt business without interrupting its operations while ensuring the gradual satisfaction of the creditor's claims.

A successful reorganization results in a still-operating and financially "hygienised" company which meets all obligations set out in the reorganization plan. If the present value of future expected revenues generated by the revitalized bankrupt's business is higher than the present value of future revenues from the sale of assets of the bankrupt, it is logical from the creditor's perspective to consider the resolution of bankruptcy by the reorganization.

The easiest way to implement the reorganization is to continue operations of the company and gradually satisfy the claims of the creditors on the operating income of the company. An enterprise may still be operated by a debtor, creditor, or, a third party authorized by creditors. This reorganization design assumes the securing of financing operations and an agreement among creditors about changes in the amount and maturity of its debts. This means the remission of the part of the debt of the bankrupted organization and the rescheduling of the payment of the remaining part of the debt. Such an agreement is also supported by the state through the law on income tax by the exemption of income derived from the bankrupt, the forgiven part of the debt from income tax. I recommend completing this basic form of reorganization by monetizing redundant assets.

The basic **principles for a successful reorganization** include: negotiating, drafting and approving an adequate

economically, and legally, correct reorganization plan, the belief of the creditors that the reorganization will bring them greater results than any bankruptcy claims and, especially, the **ability of the bankrupt to create financial resources** so they will pay in accordance with the approved reorganization plan.

To the debtor the successful reorganization brings an opportunity to come out of a failed business in a socially beneficial manner while maintaining control over the operation of the business for reorganization (the debtor is left with the dispositional authority to his property).

The actual bankrupt therefore does not mean the end of the business. The reorganization, as an institute offered by the Insolvency Act for the purpose of resolving insolvency, is actually positive information for business partners and stakeholders. Business relationships with the company, which is located in the reorganization of the approved reorganization plan, does not increase the risk of entrepreneurs - rather the **opposite**. **An approved reorganization plan increases the credibility of the company itself and its ability to continue to operate in a market environment and to meet its obligations in the future. If one of your business partners encounters such a situation, do not be afraid to set new terms and continue your cooperation.**



Dear readers,

In the penultimate issue of 2014 we take a closer look at the benefits of reorganizing a company, one of the ways of resolving insolvency.

Before the anticipated legislative storm awaiting us next year, in particular in tax regulations, I want to present a few fundamental changes related to the new Act on accounting prepared by the government and related to the obligation to transpose the European directive on annual accounts in advance. It promises better times, as there should be a reduction of the administrative burden, especially in the presentation of data and information in the financial statements in "micro" and "small" entities. We will soon find out what the Ministry of Finance manages to push through ...

Jitka Fanturová
Partner, Moore Stephens

Upcoming news in VAT

Following the approval of the misleading amendment concerning a third VAT rate of 10 %, and the amendment relating to the particular treatment of electronically supplied services, our lawmakers are currently dealing with a third amendment, which should also come into effect 1 January.

The approved government amendment relates largely to real estate. For example, it will be **possible to exempt**, without a time test, the **sale of land** on which is situated an engineering network owned by a person other than the landowner. It also proposes to **extend the concept of “building land”** to land in the vicinity where construction work (e.g.

grid-connected neighbourhood plots), as preparatory work for building land, has been carried out. Sale of such land will now be taxable.

The discussed Act also pertains to the **extension of the use of the reverse charge procedure**. There will be a list of goods and services from which the Government may regulate the question of whether the goods will be subject to the reverse charge procedure. Our sources indicate that, at the moment, it will include the supply of cereals and industrial crops, or, the delivery of mobile phones.

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Did you know that ...

... it will be possible (after more than 4 years, according to the effectiveness of the new Tax Code) to again apply for a waiver of penalties and interest on late payment as of 1 January 2015?

A prerequisite for the application is the payment of tax liabilities. In considering the request, the trustee will take into account the frequency of violations of tax obligations in tax administration and also for any violation of tax regulations by the statutory body of the company.

... the third VAT rate of 10 % will be introduced as of 1 January 2015? This rate will be applied to books, medicines and baby food. At the same time there was a cancellation of the planned introduction of a single VAT rate of 17.5 %.

... the international tax agreement with Liechtenstein will likely be applied next year? Liechtenstein is the only country in the European Economic Area, which has, so far, not applied similar rules as the EU states.

As every year we have prepared a seminar on tax news valid from January 2015. You will learn, for example, about changes in the area of corporate tax, changes in VAT on real estate and other news. At the same time practical experience with changes in 2014 will be discussed.

Experience with taxes in 2014 and changes in 2015

- 13. 1. 2015, MKS Domažlice
- 14. 1. 2015, hotel Ibis Borská Pole Pilsen
- 15. 1. 2015, hotel Ibis Malá Strana Prague

More information can be found on our website under „Events“.

Property taxes in 2015

First the good news: there will not be any changes in taxes on the acquisition of immovable property as of 1 January 2015. In contrast, the amendment to the **Act on Tax on immovable property** is awaiting a second reading in the House of Commons. In addition to the unification of terminology with other laws, it includes these proposed changes:

- 1. Specification of the subject of the tax:** not only taxable buildings are subject to tax, but also new parts of these building and taxable units that are completed or used.
- 2. A pool or reservoir** is considered as a paved surface of the plot, if not considered a taxable construction.
- 3. Modification of the definition of building lands:** building land will not

be a land designed to be installed with a building exempt from the tax; it has to be a significant building in terms of public interest.

- 4. Exemption from tax:** does not apply to land owned by the Czech Republic, regions and municipalities, if they were established with building rights. The taxpayer will be the person to whom the right to construct the building belongs.

The course of the examination of the amendment to the Act on Tax on immovable property continues and I will inform you about specific approved changes at a later date.

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„Trust happens when leaders are transparent.“

Jack Welch

How is the Accounting Act changing?

Will the objective of the European Commission on better regulation be fulfilled? This is the so-called “Smart Regulation in the EU”, whose purpose is to propose and adopt legislation that does not increase administrative burdens, in particular for small and medium-sized enterprises.

The new directive combines the aged directives in the field of accounting (ie. The Fourth Directive of 1978 and the Seventh Directive of 1983) into one. Obligations of the Member States of the EU Directive are to remain in effect until 20. 7. 2015. Individual countries also have the option of ensuring providing that these accounting rules will be first applied to the financial statements prepared for the period starting from 1 January 2016.

The Ministry of Finance has already prepared an **amendment to the Accounting Act**, which takes full advantage of **simplification or exemption** with regard to the reduction of administrative burdens for so-called “micro” and “small” entities. For example, they will not have to mandatorily prepare a cash flow statement or statement of changes in equity. Additionally, if they are not obliged to conduct an audit, they will not even have to disclose the profit and loss account.

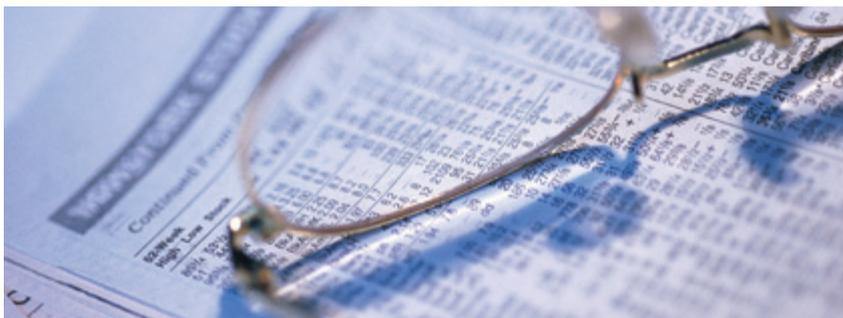
Besides terminological modifications the amendment introduces substantive modifications, among which mainly include:

- 1. Introduction of the categorization of entities to:** micro, small, medium and large according to the fulfilment of two of three specified criteria (the value of assets, net turnover and average number of employees). Each category will be subject to different accounting obligations.
- 2. Introduction of categorization consolidation groups:** the small consolidation group category will be exempt from the requirement to prepare consolidated financial statements.
- 3. The determination of public interest entity:** currently, the definition of these entities referred to in the Act on Auditors will be newly defined in the Accounting Act.
- 4. Introduction of the obligation to prepare and publish a report on payments to governments:** large entities and public interest entities operating in the mining and logging industries will have to compile it.

The draft amendment also **reintroduces the possibility of single entry accounting**, so it becomes a simple legalization of accounting for defined entities meeting certain criteria.

In one of the next issues I will bring you more information on the further development of these novel, planned changes.

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Moore Stephens in the Czech Republic

Moore Stephens s.r.o. has its offices in Prague, Pilsen, Domažlice and České Budějovice. Our goal is to provide complex assurance, tax, accounting, legal services and valuations, all “under one roof”.

Moore Stephens s.r.o. is a member of the global network of independent assurance and advisory companies whose seat is in Brussels. The Czech offices employ over 80 people.

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Spotlight on...

PRVNÍ CHODSKÁ s.r.o.

When you say specialist on the roof ...

... you probably recall the company PRVNÍ CHODSKA, s.r.o here presented by its Marketing and Sales Director, Soňa Císařová.

1. Mrs Director, please present Specialist on the roof to us.

PRVNÍ CHODSKÁ, or Specialist on the Roof, which is our motto, is a network of specialized shops with roofing materials. The company has been in operation for twenty years and boasts a total of 20 branches throughout the Czech Republic. PRVNÍ CHODSKÁ is a 100% owned Czech company and ranks among the three largest roofing contractors in the Czech Republic. We offer all roof coverings, windows, insulation, facades, sheets, gutters and assorted materials for the roof or attic. Since we are real experts on roofing, we also offer technical advice, pricing and estimates of the roof which is free of charge, of course.



Name: Soňa Císařová
 Position: Marketing & Sales Director
 What do you like: sushi
 What vehicle do you prefer: airplane

2. What kind of roofing do you personally prefer? Is there any particular brand you prefer?

In our assortment you will truly find all roof materials. I must admit, at first, I was clearly won over by the clay roof tiles, I even have one unnamed favorite. But the longer I am with the company, the more I am following the trend of tearing metal roofing. We have such gorgeous profiles and designs that you really cannot help yourself. As for popular brands, small trip from roofing and abbreviated take an opportunity to introduce the manufacturing division of PRVNÍ CHODSKÁ - trusses TESARIO - a big hit nowadays.

3. As an expert on the roof, I would like to ask if a roof has to be prepared for the winter?

Fortunately, we have a few basic tips on our website www.strechychodska.cz. The most common problem is the difficulty associated with draining water from the gutter - this can cause it to freeze leading to ice accumulation in the gutters or downspouts, which often leads to irreversible damage or even destruction of sheet metal components and possible leakage into the roof, facade and so on. Before winter, therefore, make sure your gutters are clean. Furthermore, visually inspect the roof for loose or damaged components - cracks in the tiles, loose ridges for example.. Also check the roof from the interior, whether there is any apparent penetration, especially on soils.

4. Now, a completely different subject, Corporate Social Responsibility - a much talked-about topic in recent years. How is it with PRVNÍ CHODSKÁ?

My favourite subject, but we do so much that I do not know where to start. We are a socially responsible company that does care about the place in which we operate and help where needed.

Outside of our core business, i.e. sale of roofing materials, we deal with social responsibility, which is incorporated into the corporate strategy. We think of the place and community where we operate and at the same time create the conditions for our employees to feel support in a variety of community activities. We understand social responsibility in our company so we must be not only responsible, but also build on an economic basis.

5. We are almost at the end of 2014, how do you assess it?

Of course, we have had such a successful year. The season is still in full swing, but I can now confirm that the year 2014 was comparable with the previous year and the market trend shows growth. The greatest pleasure is, naturally, the ever-expanding base of satisfied customers. We are a relations-led society and our customers are extremely positive.