

Reducing the Impact of the Global COVID-19 Pandemic on Business Entities in the Czech Republic from an Accounting and Tax Perspective

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Abstract.

Research background: The global pandemic declared by WHO on 11 March 2020 has had a widespread impact on the world economy, and the COVID-19 outbreak has severely affected economic life throughout the globalized world. Governments have taken various measures to support their economy and financial stability. The global restrictions on production and services, reduced demand for goods and services and this year's cash-flow problems will certainly lead to a significant decline in their profits, especially for small and medium-sized companies. The COVID-19 pandemic has undoubtedly affected most business entities in the Czech Republic.

Purpose of the article: The purpose of the paper is to describe, analyse and evaluate measures of the government of the Czech Republic, which aimed at reducing the impact of the pandemic on businesses in the Czech Republic.

Methods: In the paper, classical types of scientific procedures were applied using theoretical and empirical methods which include description, analysis, synthesis, induction, deduction, comparison and evaluation and so on.

Findings & Value added: The paper analyses the impacts of COVID-19 in the context of accounting measures from the perspective of Czech and international accounting regulations. The paper proposes a solution in the area of mandatory reactions of accounting entities to a completely unusual situation caused by the COVID-19 pandemic which should be mandatory and disclosed in the notes to the financial statements. Furthermore, the paper evaluates a set of measures in the field of taxation, wages and insurance premiums intended for business entities and their employees.

Keywords: *Accounting; Audit; COVID-19; Financial Statements; Taxes*

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1 Introduction

The government of the Czech Republic issued a wide range of measures and packages from March to June 2020 to reduce the effects of the pandemic on the business of small and large business entities. Government measures aimed at reducing the negative effects of the pandemic on the self-employed individuals (hereafter only SE) as well as companies are listed in Table 1.

Table 1. Overview of support for entrepreneurs and sole traders in the Czech Republic [1]

Name	Description	Intended for
Antivirus	Employment support program	employers
Nursing benefits	In the event of school or kindergarten closure	employees and SE
Bonus of	Compensation bonus	SE and small s.r.o.
Payment of social and health insurance premiums	Waiver of advance payments for 6 months (March - August 2020)	SE
Liberation package I, II and III	A set of measures for tax relief	everyone
COVID I, II and III loan program	Provision of an operating loan with a guarantee from the Czech-Moravian Guarantee and Development Bank	entrepreneurs
COVID - Rent	A contribution to cover the rent of an establishment	everyone
COVID plus	Providing guarantees for repayment of operating loans, working capital, innovation	exporters, manufacturing and trading companies, companies operating in transportation and tourism
Program Czech Rise Up	Support for innovative companies, including start-ups that develop new technologies and solutions to help fight coronavirus	entrepreneurs
Technology COVID-19	Support for projects directly related to the fight against the further spread of coronavirus through the acquisition of new technological devices and equipment.	entrepreneurs

In addition to the measures listed in Table 1, other measures were taken by the Government of the Czech Republic to support business entities in the selected sector. This included, for example, the Package of Measures to Support Transport Sector, Culture Renewal Package, Aid for Farmers Affected by the Coronavirus Epidemic, COVID-Sport Program, ZOO Contribution Program, Cultural and Creative Industry Program, COVID-Lázně Program, and so on. Financial resources spent by the Government of the Czech Republic as of 19 June 2020 to help partners of small s.r.o. and SE are listed in Table 2.

Table 2. Funds spent in connection with the measure of the Government of the Czech Republic [2]

Aid for partners of small s.r.o. as of 19 June 2020	
1st bonus period	2nd bonus period
Applications received 27,138	Applications received 26,054
Applications processed 98,36 %	Applications processed 98,36 %
Average application 24,205 CZK	Average application 18,702 CZK
Total amount of payment order by CNB 646,136,500 CZK	Total amount of payment order by CNB 479,283,500 CZK

Twenty-five - rescue program for SE	
1st bonus period	2nd bonus period
Applications received 529,414	Applications received 350,569
Applications processed 99,95%	Applications processed 99,95%
Average application 24,453 CZK	Average application 18,442 CZK
Total amount of payment order by CNB 12,938,535,500 CZK	Total amount of payment order by CNB 6,449,372,000 CZK

The income of one third of households in the Czech Republic had fallen from the beginning of the coronavirus pandemic until May. Almost half of the employees and three quarters of the SE felt the negative effects of the spread of the disease. Five percent of Czechs have found themselves in a situation where they could not make ends meet. Seven out of ten households, on the other hand, were able to make ends meet for at least another three months. Due to the spread of COVID-19, the Czech Government issued a number of regulations in mid-March which dampened the economy. The Government then tried to support companies and households through further measures. By May, when the survey was conducted, incomes fell sharply for 11% of households and slightly for 23% of them. An increase in incomes reported 5%, for 61% income remained approximately the same. 58 percent of entrepreneurs reported a drop in income. The coronavirus crisis most often affected employees in terms of partial working time restrictions, which reported 31% of employees. 12% of employees had forced leave, and 4% of them lost their jobs. In contrast, 8% reported an increase in working hours, while for 45% nothing changed [3].

2 Methods

In order to achieve the defined goal, following methods were used: studying and researching legislative sources, description, analysis, deduction, comparison, analysis and syntheses. Information and resources used in the preparation of the paper were available as of 19 June 2020. Within the focus of the paper, significant support measures and impacts in connection with the COVID-19 pandemic for business entities in the Czech Republic were described and analysed.

3 Results

The unexpected situation caused by the COVID-19 pandemic, which surprised everyone around the world, is negatively reflected not only in the economy and business environment, but also affects the choice of correct procedures to be applied in business accounting not only in terms of national regulation but also from the international point of view (IFRS). IFRS are a set of standards, which are issued by the International Accounting Standards Board, governing the compilation and presentation of all financial statements [4]. The IAS/IFRS are largely focused on the output of an accounting – financial statement [5]. Financial statements bring information about financial position, performance and changes in financial performance [6]. Selected accounting procedures and comments in the financial statements prepared in accordance with IFRS are always assessed and verified by an auditor. From the point of view of compliance with a number of accounting principles applied in accounting and in the preparation and presentation of financial statements, it is necessary in this unusual situation to assess especially the accounting principle of going concern, i.e. the principle of continuity of the entity, and to reflect potential threats in the accounts of business entities or in the notes to the financial statements. A similar situation has occurred in the past in connection with emerging financial crises. According to the legislation valid in the Czech Republic, business entities (accounting entities) are governed primarily by the Act No. 563/1991 Sb., on Accounting, namely Section 7 (3), and the provisions of Section 21 regulating the content and requirements of the Annual Report. According to International Financial Reporting Standards, in connection with the pandemic situation, it is currently mainly the IFRS Conceptual Framework for Financial Reporting and IAS 10 - Events after the reporting Period and other IAS and IFRS. The principle of going concern is in fact endangered by the pandemic, declining orders, a slowdown in production and the rapid onset of changes and subsequent application of measures to reduce the impact of the pandemic. Each entity must assess this threat and respond with appropriate accounting procedure. The financial statements of business entities must faithfully and honestly present all the facts even in this unusual situation. Negative facts affect the reporting of events after the balance sheet date. Events after the balance sheet date are those events that occur between the balance sheet date and the date when the financial statements are authorized for disclosure. In general, there are 2 types of such events, as shown in Table 3.

Table 3. Types of events after the balance sheet date in relation to the COVID-19 situation [7]

Help for partners of small s.r.o.	
Types of events after the balance sheet date	Facts caused by the COVID-19 pandemic
Events providing proof of facts that already existed at the balance sheet date (events that result in an adjustment to the financial statements).	Decline in orders. Slowdown in production. Impairment of a specific asset. Declaration of a state of emergency and other things.
Events indicating facts that arose after the balance sheet date (events for which financial statements are not adjusted but are disclosed in the notes to the financial statements).	Notification of the intention to terminate manufacturing or business activities Loss of a major supplier or customer. Closing the production process. Changes in legislation (such as tax or legal ones – e.g. tax changes may affect current and deferred tax assets or debts). Solvency problems and other things.

In case of the first type of events listed in Table 3, the most common accounting procedure is the creation of provisions and adjusting entries. These accounting procedures

respect the accounting principles of prudence and true and fair presentation and have impact on the reduction of the economic result. In case of the second type of events, it is necessary to faithfully and honestly comment on the negative facts in the notes to the financial statements and thus inform the users of the financial statements in order to make relevant economic decisions, which is in accordance with Section 7 of the Act No. 563/1991 Sb., on Accounting.

For financial statements prepared in accordance with IFRS pursuant to Section 19a of the Act No. 563/1991 Sb., on Accounting, at least the following must be taken into account, especially in the accounting period of 2020 (during the pandemic) or in other periods as well:

- compliance with the going concern principle (tested for at least 12 consecutive months) – according to IAS 1,
- compliance with the principle of materiality and comparability of data and other accounting principles – according to IAS 1,
- valuation, depreciation and impairment of non-current assets – according to IAS 16, IAS 36, IAS 38,
- decrease in the value of current assets (mainly for inventories) – according to IAS 2,
- financial impacts, exchange rate changes, etc. – according to IAS 7, IAS 21,
- change in the classification of long-term and short-term liabilities – according to IAS 19,
- tax implications – according to IAS 12,
- application of state aid and subsidies – according to IAS 20,
- problems with supplies and securing inputs – according to IAS 37,
- and other facts [8].

These facts represent only an indication of the effects of a pandemic in the accounting of business entities. The process of taking all facts into consideration in accounting needs to be given great attention not only in 2020, but also in the following years, 2021 and 2022. National regulations of accounting legislation as well as international regulations provide instructions on how facts can be presented while respecting all accounting principles. The distortion of financial reports or non-publication may indicate a corruption conduct or hide the poor financial position of companies and may also indicate attempts to evade paying taxes (for details [9, 10]). Persistent globalisation and the need to harmonise create permanent pressure to synchronize not only in the field of accounting and financial reporting, but also in the area of taxation [11]. Some other important measures are discussed in the following chapters.

Government regulations seeking to mitigate the effects of the current situation with COVID-19 have also greatly dampened the business of the SE, of which there are a large number in the Czech Republic, either directly by banning activities or indirectly by restricting the free movement of people. The Ministry of Finance of the Czech Republic and the Financial Administration presented a program of direct support for SE economically affected by the spread of coronavirus. The Act No. 159/2020 Sb. [12], On a Compensation Bonus in Connection with Crisis Measures in Connection with the Outbreak of the Coronavirus SARS CoV-2, was created and had been amended several times. The compensation bonus, as a support measure, was to compensate entrepreneurs for losses from business and thus mitigate the effects of negative state interventions in doing business when the activities of SE were completely or partially suppressed. In the Czech Republic, only persons who met the conditions stipulated by law could apply for the compensation bonus. The compensation bonus was 500 CZK for each calendar day of the bonus period. The total amount for the full number of days of the first bonus period (12 March – 30 April 2020) amounted to 25,000 CZK. The total amount for the second bonus period (1 May – 8 June 2020) amounted to 19,500 CZK. A third bonus period was also enacted (9 June – 31 August 2020), however, the government did not use this option in the end. The second

amendment to the Act of 27 May 2020 introduced a compensation bonus also for partners of s.r.o. in one or two-member s.r.o., or multi-member, if it is a family business. The third amendment to the Act of 16 June 2020 addressed the effects of the bonus on local municipal budgets. The compensation bonus is considered a tax according to the Tax Code. It is a refund of personal income tax from dependent activity, and the administrator of the compensation bonus is the relevant local tax office for the administration of the income tax of the tax entity that submitted the application for the compensation bonus. As in terms of personal income tax it is not a taxable income of SE, this income is not subject to compulsory insurance for SE [13]. The payment of the compensation bonus will cost the Czech Republic tens of billions of CZK, but it will dampen the efforts of SE damaged by government bans to seek compensation, which would probably cost the state treasury much more in the future. In addition to the payment of the compensation bonus for SE by the relevant financial administration, SE were waived from March to August 2020 minimum compulsory payments for public health insurance and pension insurance, and in order not to reduce the average income, from which the percentage of pensions is calculated in the future, it was stipulated that for SE with the main gainful activity the period during which no advance payments for insurance premiums were paid (March to August 2020) will be considered the so-called excluded period. The SE which had to stop their business in connection with childcare after the closure of schools and other facilities could also draw the nursing benefit. According to the valid legislation in the Czech Republic, self-employed persons are not normally entitled to the nursing benefit, even if the SE is voluntarily insured against sickness, and this is why the nursing benefit in this period is solved in the form of a subsidy administered and paid by the Ministry of Industry and Trade of the Czech Republic, until 30 June 2020.

In a difficult period caused by the COVID-19 pandemic, most countries sought to prevent redundancies and therefore provide significant financial support to employers whose activities were directly or indirectly affected by various measures taken to fight coronavirus [14]. The Ministry of Labour and Social Affairs of the Czech Republic has prepared the Antivirus Program which is an important tool for maintaining employment, and its purpose is to mitigate the negative effects of the global spread of COVID-19 on employment in the Czech Republic. It is similar to the German Kurzarbeit which allows employers to temporarily reduce their employees' working hours, while the lost wage is to a certain amount reimbursed by the state. The aim is to preserve jobs, and by drawing a contribution the employer undertakes not to dismiss the employees. This support system brings the following benefits to all stakeholders:

- the employee receives a wage despite the lack of work,
- due to quarantine measures, the employer is not forced to permanently reduce or even close the business and is not forced to lay off its qualified employees,
- the state will save on unemployment benefits that it would have to pay in the event of mass redundancies.

The labour costs that can be reimbursed to the employer by the Antivirus Program are incurred when no work is being performed for the employer. During this period, employees are provided with reduced wage compensation in accordance with the Labour Code. The program was originally intended to run until the end of April 2020, but it was gradually extended depending on the development of the pandemic and has now been extended until 31 August 2020. The reason is that there are still economic activities the performance of which is largely limited by extraordinary government measures (holding fairs, festivals and other major cultural events). The amount of the state contribution to the companies concerned was determined in March 2020 in two regimes (regime A, regime B) which differ from each other mainly by the reason for the obstacle to work and the related amount

of the provided contribution. During the month of June, the Chamber of Deputies of the Czech Republic also approved the C regime of the Antivirus Program.

Program Antivirus A – Forced limitation of business operation and quarantine

This program is intended for companies (employers) the employees of which have been quarantined or have had to partially or completely reduce their operations. The State contribution provided under regime A is 80% of the employer's eligible expenses. These expenses mean compensation of wages, including social and health insurance contributions, i.e., the so-called super-gross wage [15]. The maximum amount of this contribution is 39,000 CZK per month per employee.

Program Antivirus B – Connected economical difficulties

This regime applies to cases where there are obstacles to work on the part of the employer and the cause of their occurrence is the current epidemiological situation and related measures to prevent the spread of the disease both at home and abroad. These are cases where the employer cannot assign work to employees for the following reasons:

- a significant or key part of the employees is absent from work (for example due to quarantine, illness, childcare or even a situation when employees cannot get to the job),
- there will be a reduction in the availability of inputs (such as raw materials, semi-finished products or services) – this is also called downtime, i.e., an obstacle to work on the part of the employer,
- there will be a significant reduction in demand for the products or services provided – this is the so-called partial unemployment.

The amount of the state contribution is 60% of the wage compensation, including the contributions paid by the employer to the employee for the duration of the obstacles to work. The maximum monthly amount of the contribution per employee is 29,000 CZK.

The main conditions for the payment of the state contribution under the Antivirus Program are job retention and evidence of justified reasons for drawing the contribution. For all reasons, the applicant had to document a connection to COVID-19. Small, medium and large companies could apply for the contribution. Another condition is that the employer must, without exception, comply with the Labour Code, and the employee must be properly employed and participate in pension and sickness insurance.

Antivirus C Program - Waiver of social security contributions for employers with up to 50 employees

The aim of the waiver for insurance premiums is to support the maintenance of employment for employees. Premiums are waived for the months of June, July and August 2020. The following conditions must be met in order to be entitled to a waiver of insurance premiums:

- the number of employees in employment participating in sickness insurance does not exceed 50 on the last day of the calendar month,
- the number of employees in employment, at the end of each of these 3 months, compared to the number of such employees at 31 March 2020 has not decreased by more than 10%,
- the total assessment bases of employees in employment in an individual month (out of the above three) did not decrease by more than 10% compared to the total assessment bases of such employees in March 2020 [16].

The following Table 4 provides, according to the individual regimes of the Antivirus Program, an overview of the amount of compensation due to employees.

Table 4. Antivirus program regimes [17]

Regime	Specification of an obstacle to work	Compensation to employees by law	State contribution	Maximum contribution
A	Forced restriction of operation	100% of the employee's average earnings	80% of the paid wage compensation, including levies	39,000 CZK
	Quarantine order	60% of the reduced average earnings of the employee		
B	Absence of a significant part of employees at work	100% of the employee's average earnings	60% of the paid wage compensation, including levies	29,000 CZK
	Restrictions on the availability of inputs	80 % of the employee's average earnings		
	Sales restrictions	at least 60% of the employee's average earnings		
C	Waiver of social security premiums	24.8% of the total income of their employees for the months of June, July and August 2020		

The state contribution under the Antivirus Program does not cover the payment of labour costs incurred on the basis of agreements to complete job or agreements to perform a job. Depending on country-specific labour law, the living of these people is often not ensured by unemployment insurance or other financial assistance programs, which often put them in a difficult financial situation due to the COVID-19 pandemic [18]. It was not until the end of June that the Czech government decided that people working on agreements (not in employment) who participate in sickness insurance and were prevented from working due to coronavirus would receive state support in the form of a compensation bonus, which they would be able to claim retroactively. The compensation bonus was approved in the amount of 350 CZK/day for the period from 12 March to 8 June 2020, but no more than 31,150 CZK.

4 Discussion

Due to the global COVID-19 pandemic, business and non-business entities around the world have experienced a completely new unexpected situation since March 2020 which has entirely affected not only the way of life, doing business but also, of course, consumer behaviour in supply and demand for goods and services. A completely different lifestyle due to isolation, social distancing and working from home meant that consumers preferred the most necessary expenses such as food, health, hygiene, household cleaning, etc. There was an increased demand for on-line shopping and contactless delivery of goods outside the actual shop. Entrepreneurs in other sectors were forced to dampen production, address financial consequences of the temporary closure of establishments and production plants, implement e-business and, above all, address the negative effects of the pandemic on their own business and solvency, including the resolution of the situation regarding employees. For many employers and sole traders, the "Home Office" was the only way to keep their business running smoothly in a declared state of emergency and quarantine. According to the latest ACCA Covid-19 study in 2020 follows that approximately 40% of SMEs had no plan for bridging crisis situations. 85% of companies with less than 200 employees worldwide expect a significant drop in year-on-year turnover, and 86% also expect a significant loss [19, 8]. The state of emergency has affected almost all sectors of business.

In the Czech Republic, as well as in other countries, the areas most affected included tourism, gastronomy, industrial and consumer sectors, the automotive industry, etc. In some branches of business, sales began to decline almost immediately, in others the decline manifested itself gradually or will be reflected only at the end of the accounting and tax period of 2020 and the following ones. The big challenge was the solution of cost minimization, deferral of installments, optimization of cash flow in this unexpected situation. Only time and further development of the pandemic shows whether the government measures in place were sufficient; further research will be devoted to this issue. In the current situation, it is more than clear that the pandemic has an economic impact on the whole world. Due to the closure of borders, a significant drop in revenues also affects Czech foreign trade. Today it is already obvious that many industries are undergoing a major change; entrepreneurs had to adapt their business to the situation, which, in addition to the downsides, also brought positives such as greater modernization and digitization in business. The world was digitizing very fast during the pandemic. The pandemic has forced even the most conservative entrepreneurs to start using on-line business and e-commerce.

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