

Tax Agenda Czechia

August 2023



No.	Fact	Action
1	<p>Carbon duty mechanism in force from 1 October 2023</p> <p>The members of the Council and the European Parliament have agreed on the form of the Carbon Border Adjustment Mechanism (CBAM). The mechanism will come into force on 1 October 2023, with a first phase (transition period) for data collection. The length of the transition period is not yet known.</p> <p>The new obligations will apply to imports of carbon-intensive products, including in the first phase iron, steel, aluminum, cement, fertilizers, electricity, hydrogen, precursors, and, under certain conditions, indirect emissions).</p> <p>In this respect, a draft implementing regulation that regulates in particular the rules for reporting in the transitional period has been published.</p>	<p>Review the potential impact of implementing a carbon duty on the company and if it affects it, start preparing for the new rules.</p>

Use text boxes above the timeline to plan your actions for coming months

● Compliance ● Risk management ● Cash-flow and ETR impact

No.	Fact	Action
2	<p>Energy price caps for large enterprises</p> <p>The Government approved a regulation of energy price capping for large enterprises. The basic parameters of the regulation are summarized below:</p> <ul style="list-style-type: none"> ▶ Price capping applies from 1 January 2023 until the end of 2023. ▶ The maximum price (excluding VAT and distribution charges) of electricity is set at CZK 5 000 per MWh and the price of natural gas at CZK 2 500 per MWh. ▶ The capping applies up to 80% of the highest monthly consumption over the last five years. ▶ The enterprise must provide a declaration to its energy supplier. <p>The capping can be combined with other forms of aid under the temporary crisis framework, but the total state aid cannot exceed EUR 2 million or EUR 4 million for an enterprise (higher limits for energy-intensive companies).</p>	<p>Consider making use of energy price capping and, if appropriate, provide a statement to your energy supplier.</p>
3	<p>Registration of limited liability company (LLC) in the Commercial Register</p> <p>Act No. 416/2022 amending regulations related to the use of digital tools and the operation of public registers, and Act No. 417/2022 amending the Notarial Tariff have entered into force.</p> <p>Main changes they bring:</p> <ul style="list-style-type: none"> ▶ The option to first register the company in the Commercial Register and to obtain a trade license afterward (the opposite order was obligatory before this acts) ▶ Creation of an official template of articles of association of LLC (published on the website of the Ministry of Justice), which can serve as a full-fledged incorporation act ▶ Reduction of the notary fee in case that the articles of association template is used 	<p>Consider the revised regulations when establishing a limited liability company in the Czech Republic.</p>
4	<p>Extension of the statutory period for archiving payroll records</p> <p>The main innovation of the approved amendment to the Pension Insurance Act (No. 455/2022) is the extension of the legal deadline for archiving employee payroll (i.e., wage lists) and accounting records of data needed for pension insurance purposes. The existing 30-year retention period for these documents has been extended to 45 calendar years following the year to which the documents relate. This change is effective from 1 January 2023.</p>	<p>Assess the implication of the extended deadline and assess the company's policy for archiving payroll and accounting data for alignment with changes to the law.</p>
5	<p>Updated guideline on the application of certain provisions of the Income Tax Act</p> <p>The General Financial Directorate has published a new guideline D-59, an update of previous guideline D-22. The guideline specifies in more detail the application of certain provisions of the Income Tax Act (e.g., moment when the depreciation of buildings can start has been specified, concept of cost of meals for the purpose of providing meals to staff has been clarified, rules for taxation of a controlled foreign company have been specified).</p> <p>The new wording of the guideline is effective as of 1 January 2023.</p>	<p>Review the updated guideline and consider its potential impact on the company.</p>

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6	<p>Pillar 2 of BEPS 2.0</p> <p>Approved the implementation of Pillar 2 of the BEPS 2.0 initiative, which rules on minimum effective taxation of 15% in each country. The rules should apply to groups that have a turnover on a consolidated basis of more than the EUR 750 million. Although the statutory tax rate in the Czech Republic is higher than 15%, the calculation of the effective tax for Pillar 2 is complex, there are many exceptions and deviations from the standard calculation of the effective tax for accounting purposes.</p> <p>The draft of the Czech implementation of the EU Directive has been published and is expected to be effective from 2024.</p>	<p>Review the applicability of Pillar 2 rules for the group, individual entities and jurisdictions, assess the potential impact, develop the model for the calculation, prepare for reporting, monitoring and compliance.</p>
7	<p>Tax consolidation package - Amendments of the corporate and personal income tax</p> <p>The government published a set of intended measures to help consolidate public finances. The changes should generally be effective from 1 January 2024.</p> <p>Main changes proposed for corporate income tax:</p> <ul style="list-style-type: none"> ▶ Increase of the corporate income tax rate from the current 19% to 21% ▶ Amendment of tax deductibility of expenses for meal allowances for employees ▶ Limitation of tax deductibility of employee's non-monetary benefits ▶ Possibility to apply enhanced depreciation for zero-emission vehicles acquired between 1 January 2024 and 31 December 2028 ▶ Limitation of input price of vehicles to CZK 2,000,000 for tax deductibility purposes ▶ Elimination of tax deductibility of wine as a representation expense up to CZK 500 <p>Main changes proposed for personal income tax:</p> <ul style="list-style-type: none"> ▶ A taxpayer's tax base exceeding 36 times the average wage will now be subject to the higher (23%) tax rate ▶ A maximum of CZK 40 million per year will be exempt if the taxpayer met the holding period (3 or 5 years) of securities or shares before their transfer ▶ Abolition of the exemption for non-cash employee benefits provided in the areas of culture, education, purchase of medical services, recreation, and tours ▶ Changes in meal allowances ▶ Stricter conditions for applying for the spouse's tax credit ▶ Abolition of the student tax credit and the credit for the placement of a child in the nursery school 	<p>Review the proposed changes in detail and consider their potential impact on the company.</p>

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8	<p>Tax consolidation package - Amendments of VAT</p> <p>Following the previous point, the main changes proposed for the VAT part are:</p> <ul style="list-style-type: none"> ▶ Two VAT rates instead of the current three - the basic (21%) and the reduced (12%) ▶ With respect to the catering services, application of the reduced rate for tap water only, as the other beverages will be included in the standard rate of VAT ▶ Exemption of VAT for books ▶ Transfer of the services such as municipal waste collection, transport, disposal and treatment, services of authors and performers, cleaning and hairdressing services, shoe and clothing repairs to the standard VAT rate ▶ Transfer of imports of works of art, collectibles and antiques, supplies of firewood, and supplies of cut flowers and decorative foliage to the standard rate of VAT ▶ Limitation of the tax deduction entitlement for M1 cars to a maximum amount of CZK 420,000 	<p>Review the proposed changes in detail and consider their potential impact on the company.</p>
9	<p>New Accounting Act</p> <p>Below are examples of proposed aspects of the new Accounting Act that is currently being prepared:</p> <ul style="list-style-type: none"> ▶ The new law places more emphasis on the principles, definitions, and approximations to IFRS. ▶ The new law introduces changes in technical appreciation incorporating a percentage threshold for its application. ▶ There should be explicit provisions for FIFO and weighted arithmetic averages for securities disposals in the new law. ▶ The effective date of the new Accounting Act is expected to be 1 January 2025. 	<p>Monitor the latest updates on the new Accounting Act.</p>
10	<p>The Whistleblower Protection Act was published in the Collection of Laws</p> <p>The adopted Whistleblower Protection Act regulates the procedure for reporting and assessing the reports of illegal acts through the internal reporting system and other legal means and ensuring the necessary protection of the whistleblower.</p> <p>The Act will become effective on 1 August 2023. By that date, obliged entities are required to establish an internal reporting system and designate a competent person to ensure the functioning of the obliged entity's internal reporting system. If the obliged entity fails to comply with any of the selected obligations, the company may be fined up to CZK 1,000,000.</p>	<p>Review the new Whistleblower Protection Act and if you belong to the obliged entities, start establishing an internal reporting system as soon as possible.</p>

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