

Tax Agenda Czechia

September 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>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>
3	<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>
4	<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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5	<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>
6	<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>
7	<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 became effective on 1 August 2023. Since that date, obliged entities are required to have 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, establish an internal reporting system and designate a competent person as soon as possible.</p>

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8	<p>Proposed changes to the Labour Code</p> <p>The most significant amendment to the Labour Code includes the regulation of remote work and related employers and employees rights and obligations, including the obligation to conclude a remote work agreement or employer's obligation to reimburse the employee for the costs associated with the remote work either based on the demonstrated incurred costs of the employee or in the form of a lump-sum specified in the regulation of the Ministry of Labour and Social Affairs for each hour of the remote work.</p> <p>The proposed amendment to the Labour Code further includes changes in the following areas:</p> <ul style="list-style-type: none"> ▶ Information obligation of the employer ▶ Agreements on work performed outside the employment relationship ▶ Delivery of employment documents to the employees ▶ Delivery of employment documents to the employer <p>The corresponding amendment of the Income Tax Act suggests that the statutory minimum lump-sum compensation will not be subject to personal income tax or to the social and health insurance contributions. At the same time, the cost of expense will be considered tax deductible for the employer.</p> <p>The proposed amendment to the Labour Code is still in the legislative process, however, it is expected to become effective from 1 January 2024.</p>	<p>Review the proposed amendment in detail, consider the potential impact on the company and monitor the development of this amendment.</p>

Contacts:

Rene Kulinsky
Partner
Ernst & Young, s.r.o.
Prague, Czech Republic
rene.kulinsky@cz.ey.com

Martina Kneiflova
Partner
Ernst & Young, s.r.o.
Prague, Czech Republic
martina.kneiflova@cz.ey.com

Ondrej Havranek
Partner
EY Law advokátní kancelář, s.r.o.
Prague, Czech Republic
ondrej.havranek@cz.ey.com

Karel Hronek
Partner
Ernst & Young, s.r.o.
Prague, Czech Republic
karel.hronek@cz.ey.com

Lenka Miskova
Tax Senior
Ernst & Young, s.r.o.
Prague, Czech Republic
lenka.miskova@cz.ey.com

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