Tax Agenda Czechia

October 2023

No.	Fact	Action
1	**Carbon duty mechanism in force from 1 October 2023** The EU Council and Parliament have agreed on the Carbon Border Adjustment Mechanism (CBAM), effective as of 1 October 2023. The new obligations will impact carbon-intensive product imports accompanied by the reporting rules for the transitional period.	Review the potential impact of implementing a carbon duty on the company and if it affects it, start preparing for the new rules.
2	**Updated guideline on the application of certain provisions of the Income Tax Act** 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. The new guideline is effective as of 1 January 2023.	Review the updated guideline and consider its potential impact on the company.
3	**Tax consolidation package** The government has published a set of intended measures to help consolidate public finances. The tax consolidation package will bring significant changes, mainly in the area of corporate income tax, value added tax, and personal income tax (e.g., changes in tax rates, tax exemption, etc.). The law is expected to be effective from 1 January 2024.	Review the proposed changes in detail and consider their potential impact on the company.

Oct Nov Dec Jan

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

Compliance | Risk management | Cash-flow and ETR impact

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4	**Change in taxation of employment benefits** A legislative change may be expected to be adopted that would significantly influence taxation of employment benefits. Currently, employers can provide to employees a wide range of benefits that are tax free with no limit. As of 2024, the tax free amount should be capped per employee on annual level of one half of monthly average wage. Consequently, tax deductibility of such benefits should be observed as well.	Prepare for the upcoming change and review internal benefit scheme to be able to react flexibly to the significant change as of January 2024.
5	**New Accounting Act** The Ministry of Finance is preparing a brand new Accounting Act. This new act should significantly shift Czech accounting practices to align with IFRS standards and introduce possibility to use functional currency other than CZK. The new Accounting Act is expected to come into force on 1 January 2025.	Monitor the latest updates on the new Accounting Act. Consider potential changes before investment into accounting system or tools.
6	**The Whistleblower Protection Act was published in the Collection of Laws** The adopted Whistleblower Protection Act regulates the procedure for reporting and assessing the reports of illegal acts. The regulation includes the obligation of establishment of internal reporting system and other legal means to ensure the necessary protection of the whistleblower. The Act became effective on 1 August 2023.	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. If the obliged entity fails to comply with its obligations, the company may be fined up to CZK 1,000,000.
7	**Proposed changes to the Labour Code** The most significant amendment to the Labour Code includes, e.g., 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. 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. The proposed amendment to the Labour Code is still in the legislative process, however, it is expected to become effective from 1 January 2024.	Review the proposed amendment in detail, consider the potential impact on the company and monitor the development of this amendment.
8	**Guidelines of the GFD regarding the VAT treatment of free of charge supply of goods** The new guideline of the General Financial Directorate (GFD) comments on a wide range of cases of donations and provides related instructions to calculate the taxable amount for VAT purposes.	In case of donation, obtain sufficiently robust documentation to evidence the condition of the donated goods and support for ascertaining the taxable amount.
9	**Services from the related parties and tax audits** Tax audits focus on intra-group services. Czech tax authorities expect robust documentation for deductible inter-company expenses beyond contracts and invoices. This position of tax authority was approved by the Supreme Administrative Court.	Maintain records of supporting documentation especially concerning cooperation with the group, so the company would be able to fully substantiate the scope of the charges and their link to the taxable income of the company.
10	**Transfer pricing audits** According to the published statistics of the tax authority on tax audits, transfer pricing setup stands out as one of the main focuses for Czech tax authorities. This trend may continue with the increasing use of analytical tools.	Ensure that the company has transfer pricing documentation available and act in accordance with it. Regular review of TP documentation is strongly recommended.

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11	**Czech Mandatory Disclosure Rules (MDR) legislation** Certain cross-border transactions and arrangements may be subject to the reporting under the Czech MDR measures implementing DAC6. The General Financial Directorate updated FAQs with practical examples of reporting.	Consider the potentially eligible cross-border arrangements from the MDR perspective. Evaluate the impact of MDR measures on individual arrangements. Notify the tax authorities when required.
12	**Pillar 2 of BEPS 2.0** Approved Pillar 2 of BEPS 2.0 enforcing a 15% minimum effective taxation globally for eligible groups with over EUR 750 million turnover. Although the Czech statutory tax rate exceeds 15%, calculating effective tax under Pillar 2 is complicated due to many exceptions and deviations and may result in additional taxation. The Czech implementation of the EU directive is expected to enter into force in 2024.	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.
13	**New reporting obligation for digital platform operators (DAC7)** The digital platform operators will be required to report selected information to the tax authorities yearly based on the local implementation of the EU Directive (DAC7). The General Financial Directorate has published a Q&A about the new obligations. The year 2023 will be the first period for which reporting is to be done (i.e., in January 2024).	For digital platform operators: Review the possible obligation to report information to tax authorities and set-up respective due diligence, collection of information, reporting and monitoring procedures. For sellers: Be aware of increased probability of potential tax inspections of income realized via digital platforms from the tax authorities.
14	**Evidencing beneficial ownership** Following the judgments of the Court of Justice of the EU (CJEU), the onus of proof for evidencing beneficial ownership of dividend, royalty or interest payment is expected to be higher in cases when claiming the reduced withholding tax rates or exemptions, especially with respect to intra-group transactions.	Ensure that the company is able to evidence the beneficial ownership of the royalty, dividend and interest payment when applying the withholding tax reduced rates or exemptions.
15	**New reporting obligation for Payment Service Providers (CESOP)** Payment Service Providers will be required to report selected information to the tax authorities on a quarterly basis following the local implementation of the EU Directive 2020/284. This obligation will arise when the number of cross-border payments per payee exceeds 25 per calendar quarter. Reporting requirements start from 1 January 2024.	For payment service providers: Review the possible obligation to report information to the tax authorities and set up respective processes.

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