Tax Agenda Czechia

March 2024

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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 effective as of 1 January 2024.	Review the changes in detail and consider their potential impact on the company.	●	●	☐

Mar | Apr | May | Jun

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

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

No.	Fact	Action
4	**Change in taxation of employment benefits** A legislative change significantly impacts the taxation of employment benefits. Until the end of 2023, employers could provide to employees a wide range of benefits that were tax free with no limit. As of 2024, the tax-free amount is capped per employee on annual level of one half of monthly average wage. Consequently, tax deductibility of such benefits should be observed as well.	Review internal benefits scheme to be able to react flexibly to the significant change since January 2024. Methodical information on the taxation of benefits has been published.
5	**Functional currency** Based on the consolidation package the Czech accounting entity can keep accounting books in the Czech crowns, the euro, the US dollar or the British pound. The functional currency (other than CZK) should be the currency of the primary economic environment in which the entity operates.	Consider the right of using the functional currency other than CZK, as this could simplify the administration of Czech entities and branches from the accounting and corporate income tax perspective. The change in currency is possible only on the first day of the accounting period.
6	**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.
7	**Changes to the Labor Code** The most significant amendment to the Labor Code includes, e.g., the regulation of remote work and related employers and employee's 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 is not subject to personal income tax or to the social and health insurance contributions. At the same time, the cost of expense is considered tax deductible for the employer. The majority of the amended provisions is effective as of 1 October 2023.	Review the amendment in detail and consider the potential impact on the company, e.g. obligation to sign remote work agreement.
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.

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9	**Proposed amendment to the Investment Incentives Act** Based on the proposed amendment to the Investment Incentives Act, the obligation to submit each application for an investment incentive to the government for consideration is abolished. The decision should be made again by the Ministry of Industry and Trade based on the opinions of the ministries concern. Only applications relating to strategic investments should continue to be submitted to the Government. The law is effective since 1 January 2024.	Review the changes based on the amendment of the Act on Investment Incentives. Check the EY Worldwide R&D Incentives Reference Guide 2023 for more information about incentives.
10	**Taxation of employee share plans** It is approved that the taxation of income in the form of the difference between the price paid by the employee to the employer for the share in the company and the market price of that share should be deferred (when specific conditions are met). The latest taxation of that income by the employee would be 10 years after the acquisition of the share. The Ministry confirms that the deferral of the time of taxation of income from stock and option plans relates solely to income tax. By contrast, the social security and health insurance contributions are not deferred yet, however, the draft amendment of law regarding the postponement of these is in progress already. The law is effective since 1 January 2024.	Consider impact of amendments as they may apply also to the purchase of shares in (i) the employer's parent company or (ii) employer's subsidiary or (iii) a company related to the employer by capital.
11	**Long-term investment product (LIP)** The LIP should provide for more flexibility in choosing the right investment strategy for each individual. The contribution from the employer is exempt from payroll tax and the employee can also claim deductions of its contributions from the tax base. The LIP is effective since 1 January 2024.	Consider the possible advantages of the new investment product.
12	**Change in the definition of net turnover and impact on the tax return deadline** After amendment of the Accounting Act, the net turnover will only include revenues from the sale of goods and services. This change in the definition may exclude some entities from the obligation to have their financial statements audited and that may have an impact on the deadline for filing the corporate income tax return.	Review whether there will be a change in the obligation to audit the financial statements and therefore a change in the deadline for filing the corporate income tax return.
13	**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.
14	**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.
15	**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.

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16	**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 entered into force in January 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.
17	**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 is 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.
18	**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.
19	**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, i.e. the deadline for the first notification will be 30 April 2024.	For payment service providers: Review the possible obligation to report information to the tax authorities and set up respective processes. Familiarize with the guidelines issued by the tax authorities.

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EYG no. 001762-24Gbl
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