



Tax Agenda Czechia

February 2025

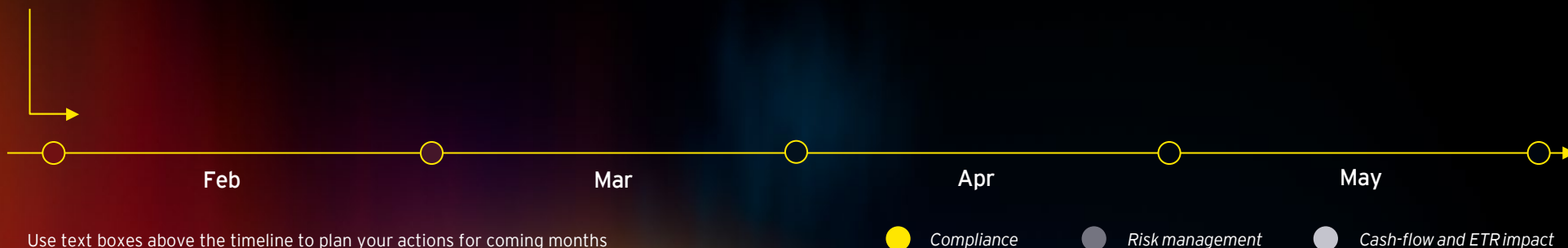


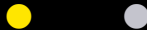
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No.	Fact	Action
1	Carbon duty mechanism in force The EU Council and Parliament have agreed on the Carbon Border Adjustment Mechanism (CBAM), which applies from 1 October 2023. The new obligations affect imports of carbon-intensive products and are 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, prepare for the new rules. Be aware, that all CBAM reports from Q3 2024 onwards (inclusive) must include the actual values of the emissions embedded. If applicable, apply for the Authorized Declarant status in the first half of 2025 to mitigate the risk that goods subject to CBAM cannot be imported into the EU from 1 January 2026.
2	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.
3	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. Further, from 1 January 2025, the separate limit for the exemption of health benefits up to the amount of the average wage for a particular year is effective.	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.
4	I-50: Deferred tax and foreign exchange differences excluded from taxation Since 2024 there is a possibility to exclude realized exchange differences from the tax base. Following that, the new interpretation of the National Accounting Council (NAC) I-50 has been released.	If the company decides to apply the new tax regime, the new interpretation should be reviewed, as it provides important guidance with respect to deferred tax caused by foreign exchange differences excluded from taxation.



No.	Fact	Action
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 it will also have a significant impact on the Income Tax Act. As the additional EU law needs to be implemented, the effectiveness of the new Accounting Act will be postponed to 1 January 2026.	Monitor the latest updates on the new Accounting Act and related proposed changes in the Income Tax Act. Consider potential changes before investment into accounting system or tools. 
7	Proposed amendment to the Investment Incentives Act Based on the 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. 
8	Taxation of employee share plans It is approved that the taxation of income (and social security and healthy insurance) 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 amendment to the Income Tax Act is effective since 1 January 2024 and related amendments of the Social Security and Healthy Insurance Acts are effective since 1 July 2024. A newly proposed amendment currently in the legislative process further suggests that the deferred taxation will be an option (not obligation), i.e., companies may choose immediate taxation upon share allocation (the same as before 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. 

No.	Fact	Action		
9	Limitation of exemption for sale of securities, shares and crypto-assets As of 1 January 2025, the exemption for individuals on income from the sale of securities and company shares (currently subject to a time test of 3 years or 5 years between acquisition and sale) will be capped at CZK 40 million. The amended law also permits the revaluation of the tax base for shares and securities to their market value as of 31 December 2024 for tax purposes. Similar rules for revenue from the sale of crypto-assets are going through the legislative process.	Assess the application of the exemption and the possibility of revaluing the tax base. Ensure that related documentation is prepared before the planned sale.	●	●
10	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.		●
11	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.	●	●
12	Increase of limits for categorization of accounting units The amendment to the EU Directive requires member states to increase the limits for assets and net turnover by approximately 25% within each accounting unit category. The criterion for the average number of employees remains unchanged. In the Czech Republic, the Chamber of Auditors expects amendments to the current Accounting Act as well as amendments to the draft of a new Accounting Act.	Review whether a change in the value of these two limits will alter the accounting unit category of your company, as it could impact the accounting and financial obligations of the company.	●	●
13	Amendment to the VAT Act The Ministry of Finance has submitted a very extensive draft of amendment to the VAT Act which came into force (with minor exceptions) on 1 January 2025. Further significant changes regarding VAT in connection to real estates will come into force in July 2025.	Review the amendment and consider the potential impact of on the company.	●	●
14	Amendment to the Excise Duty Act The amendment introduces a number of substantial technical changes, e.g., the digitalization of processes, adjustments for small breweries, storage and sale of raw tobacco, waste oil management and cigarette pricing procedures. The amendment is expected to be effective from 1 January 2025.	Review the amendment and consider the potential impact of on the company.	●	

No.	Fact	Action	
15	New EU legislation to combat deforestation The new rules target operators who place selected products (e.g., cattle, cocoa, coffee, palm oil, rubber, soya, wood) on the EU market or export from the EU. Obligated entities will be required inter alia to report on a regular basis the geolocation of all land on which the selected products are produced. The main part of the regulation should have entered into force on 30 December 2024, but the applicability of the Regulation has been postponed by 12 months.	Review if the regulation is applicable for the company and if yes, start preparing for the potential impact of new rules. Bear in mind that if the production of the products results in deforestation or degradation of land or forests, the products cannot be placed on or exported from the EU market at all.	●
16	Amendment to the Labor Code The upcoming amendment to the Labor Code aims to enhance labor relations flexibility for both employees and employers. It will introduce changes such as extended trial periods, revised notice periods for termination, and measures to support work-life balance for parents. The amendment should become effective in January 2025.	Review the proposed changes to the Labor Code and prepare to comply with the new legal requirements as an employer.	●
17	Public CbCR Tracker - the implementation of the EU Directive The EU Directive on Public Country-by-Country Reporting (PCbCR) mandates multinational companies with consolidated revenues exceeding EUR 750 million to disclose specific financial data. Implemented into Czech law via an amendment to the Accounting Act, PCbCR requires these groups to publish an income tax report with detailed financial and operational information. This report must be released within 12 months after the fiscal year-end, for periods starting from 22 June 2024. Non-compliance could lead to significant penalties.	Multinational groups should promptly review their reporting obligations under the new PCbCR requirements. It is crucial to identify all entities and countries that must be included in the income tax report and begin preparations to ensure accurate and timely disclosure of the required information. To assist with this, a tracker summarizing the PCbCR rules and the current status of implementation in each country is available here .	● ●
18	Use of the deduction for research and development The Czech government proposes an amendment to the Income Tax Act, aiming to ease the strict formalistic approach of tax audits for research and development (R&D) claims. This change would allow for additional evidence to substantiate project documentation in cases of doubt. One of the means should be the involvement of experts in tax proceedings and allowing alternative evidence for project documentation.	Consider the potential benefits of the R&D tax deduction against the costs of compliance, including the preparation of necessary documentation and the establishment of robust internal systems.	● ● ●
19	Amendment to the Act on Transformations The Amendment extends the possibility of cross-border conversions, mergers and divisions, and further clarifies some of the shortcomings of the existing legislation which caused difficulties in practice. The amendment is effective from 19 July 2024.	Review the changes to the Transformations Act and consider their impact on the potential company's planned transaction.	●
20	The EU adopts the Artificial Intelligence Regulation (AI Act) The Regulation lays down harmonised rules in particular for the development, placing on the market, putting into service and use of AI systems in line with EU values. The Regulation applies to providers placing on the market or putting into service AI systems in the EU, whether established or located within the EU or in a third country. However, the Regulation applies to importers or distributors of AI systems and others as well.	The Regulation is binding and directly applicable in all EU Member States. Accordingly, affected entities will need to revise their practices and systems to comply with the new legislation.	● ●

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	Services from the related parties and tax audits			
21	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.	●	●
	Transfer pricing audits			
22	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.	●	●
	Czech Mandatory Disclosure Rules (MDR) legislation			
23	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.	●	●
	Pillar Two of BEPS 2.0			
24	Approved Pillar Two 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 Two 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. However, there is currently an amendment pending in the legislative process that deals with the postponement of the deadline for filing the initial information statement/top-up tax return in the Czech Republic to 2026.	Review the applicability of Pillar Two rules for the group, individual entities, and jurisdictions, assess the potential impact, develop the model for the calculation, prepare for reporting, monitoring, and compliance. Be aware that it will be necessary to demonstrate during the preparation of the financial statements and subsequent audits of 2024 whether additional taxation will arise or the safe harbour conditions will be met.	●	●
	Reporting obligation for digital platform operators (DAC7)			
25	The digital platform operators are required to report selected information to the tax authorities yearly based on the local implementation of the EU Directive (DAC7) since 2023. The General Financial Directorate has published a Q&A about the new obligations.	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.	●	
	Reporting of crypto-asset transactions (DAC 8)			
26	The European Commission has presented a Directive (DAC8) for another reporting obligation, now with respect to the automatic exchange of information between Member States in the following areas: crypto-asset transactions, advance cross-border rulings for high net worth individuals, and 'non-custodial' dividends. A draft of the Czech implementation of DAC 8 was published and will now be discussed in the Chamber of Deputies.	Review the possible new obligation to report additional information to tax authorities.	●	

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27	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. 
28	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 started from 1 January 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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