

Czech Republic publishes revised proposal for introduction of new digital tax

NEW! EY Tax News Update: Global Edition

EY's new Tax News Update: Global Edition is a free, personalized email subscription service that allows you to receive EY Global Tax Alerts, newsletters, events, and thought leadership published across all areas of tax. Access more information about the tool and registration [here](#).

Also available is our [EY Global Tax Alert Library](#) on ey.com.

The Czech Government published, on 5 September 2019, a revised draft of its proposal regarding a new digital tax (the revised bill). The first draft bill was published in July 2019. The revised bill is based on the European Union (EU) model of the Digital Services Tax (DST). The Czech Ministry of Finance's goal is for the new DST to come into force mid-2020. However, currently, the revised bill presents many issues regarding its practical implementation.

This Alert summarizes the key provisions of the proposed DST.

Key highlights of revised bill

Rate and period

- ▶ The proposed tax rate is 7%.
- ▶ The tax period would be the calendar year.

Scope of DST

- ▶ The DST would apply to the provision of a taxable service for consideration in the Czech Republic (CR).
- ▶ Taxable service is defined as:
 - A targeted ad campaign provision
 - Use of a multilateral digital interface
 - Provision of user data

- ▶ These digital services are characterized by value creation by users.
- ▶ Provision of a taxable service to another member entity within a group would be exempt from the tax.

Persons subject to DST

- ▶ Obligated person is a member entity of a group that provided a taxable service during the effective period (previous year for which financial statements were already finalized), if:
 - Total (consolidated) group revenues were more than €750m annually and
 - The remunerations for the provision of taxable services attributable to the CR were more than CZK50m annually (approx. €2m).
- ▶ Payer of partial tax is an obliged person that carried out in the CR during the effective period the provision of:
 - A targeted ad campaign with a tax base exceeding CZK5m, or
 - Use of a multilateral digital interface with the total number of user accounts above 200,000, or
 - User data with a tax base exceeding CZK5m.

Targeted ad campaign

- ▶ Placement of a targeted ad on a digital interface with the provision of a service supplementary to the targeted ad placement (e.g., marketing evaluation of an ad campaign).
- ▶ A targeted ad is an ad targeted at a user of a digital interface based on data collected about this user (or his technical device).

Use of multilateral digital interface

- ▶ Digital interface represents software accessible to a user, in particular a website, app, or mobile app.
- ▶ Multilateral digital interface enables the user to search for and interact with other users.

- ▶ Use of multilateral digital interface is:
 - Executing a transaction between users of a multilateral digital interface enabling related supplies of goods or services and
 - Affording access to the multilateral digital interface by users.
- ▶ Use of multilateral digital interface is not:
 - Providing a regulated financial service by a regulated financial entity
 - Operating gambling activities
 - Providing accessibility to a multilateral digital interface, if the main objective is the provision of:
 - a. Digital content to users
 - b. Computer game-playing or use of other similar interactive software for leisure and entertainment
 - c. Communication services to users
 - d. Payment services to users

Provision of user data

- ▶ Provision of user data is a provision of data set collected about digital interface users and acquired (or created) on the basis of their activity on this interface, with the exception of the provision of data
 - Obtained from a sensor, or
 - By a regulated financial entity

Other considerations

- ▶ The Ministry of Finance states in the Explanatory Memorandum that double tax treaties will have no impact on the proposed tax.

For additional information with respect to this Alert, please contact the following:

Ernst & Young, s.r.o., Prague

▶ Lucie Rihova

lucie.rihova@cz.ey.com

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Indirect Tax

© 2019 EYGM Limited.
All Rights Reserved.

EYG no. 001180-19Gbl

1508-1600216 NY
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com