

# Tax Agenda Czechia

September 2024

No.	Fact	Action
1	<p><b>Carbon duty mechanism in force</b></p> <p>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.</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. Be aware, that all CBAM reports from Q3 2024 onwards (inclusive) have to include the actual values of the emissions embedded.</p>
2	<p><b>Tax consolidation package</b></p> <p>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.</p>	<p>Review the changes in detail and consider their potential impact on the company.</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

#### Change in taxation of employment benefits

3 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.



#### Functional currency

4 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.



#### New Accounting Act

5 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. The new Accounting Act is expected to come into force on 1 January 2025. However, as the additional EU law needs to be implemented, the effectiveness of the new Accounting Act could be postponed to 1 January 2026.

Monitor the latest updates on the new Accounting Act. Consider potential changes before investment into accounting system or tools.



#### Proposed amendment to the Investment Incentives Act

6 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.



#### Taxation of employee share plans

7 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.

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.



#### Long-term investment product (LIP)

8 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.



No.	Fact	Action
9	<b>Change in the definition of net turnover and impact on the tax return deadline</b>	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.
10	<b>Increase of limits for categorization of accounting units</b>	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.
11	<b>Amendment to the VAT Act</b>	Review the draft amendment and consider the potential impact on the company.
12	<b>New EU legislation to combat deforestation</b>	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.
13	<b>Amendment to the Labor Code</b>	Review the proposed changes to the Labor Code and prepare to comply with the new legal requirements as an employer.
14	<b>Public CbCR Tracker - the implementation of the EU Directive</b>	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 <a href="#">here</a> .
15	<b>Use of the deduction for research and development</b>	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.

No.	Fact	Action
16	<b>Amendment to the Act on Transformations</b>	Review the changes to the Transformations Act and consider their impact on the potential company's planned transaction.
17	<b>Services from the related parties and tax audits</b>	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.
18	<b>Transfer pricing audits</b>	Ensure that the company has transfer pricing documentation available and act in accordance with it. Regular review of TP documentation is strongly recommended.
19	<b>Czech Mandatory Disclosure Rules (MDR) legislation</b>	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.
20	<b>Pillar Two of BEPS 2.0</b>	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.
21	<b>New reporting obligation for digital platform operators (DAC7)</b>	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.
22	<b>Evidencing beneficial ownership</b>	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.
23	<b>New reporting obligation for Payment Service Providers (CESOP)</b>	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.

## Contacts:

### Karel Hronek

Partner

Ernst & Young, s.r.o.

Prague, Czech Republic

[karel.hronek@cz.ey.com](mailto:karel.hronek@cz.ey.com)

### Jana Wintrova

Partner

Ernst & Young, s.r.o.

Prague, Czech Republic

[jana.wintrova@cz.ey.com](mailto:jana.wintrova@cz.ey.com)

### Martina Kneiflova

Partner

Ernst & Young, s.r.o.

Prague, Czech Republic

[martina.kneiflova@cz.ey.com](mailto:martina.kneiflova@cz.ey.com)

### Ondrej Havranek

Partner

EY Law advokátní kancelář, s.r.o.

Prague, Czech Republic

[ondrej.havranek@cz.ey.com](mailto:ondrej.havranek@cz.ey.com)

### Lenka Miskova

Tax Senior

Ernst & Young, s.r.o.

Prague, Czech Republic

[lenka.miskova@cz.ey.com](mailto:lenka.miskova@cz.ey.com)

EY exists to build a better working world, helping create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

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. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](http://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](http://ey.com).

© 2024 EYGM Limited.  
All Rights Reserved.  
EYG no. 007386-24Gbl  
ED None

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

[ey.com](http://ey.com)

