



Dear clients,

Even now, we keep monitoring the current tax developments. Several interesting amendments were approved and signed by the president in September and October, and we would like to inform you about them.

The first amendment introduces the re-classification of some articles to the lower, **ten-percent VAT rate**, among those articles are, for example, audio books and beer. The relevant

information is in our first article.

The same tax package also introduces the extension of the electronic registration of sales (ERS). The reporting duty will be extended to doctors, lawyers, and craftsmen. **The respective act will become effective from 1 May 2020**, and we provide more details in our second article.

The third piece of news will please all those who want to buy a flat in a family house. Such buyers will be exempt from the real estate acquisition tax. **You can find more information here.**

The last piece of news informs about the blanket implementation of the reverse-charge regime for all transactions over CZK 450,000. **The European Commission approved using the reverse-charge regime by the Czech Republic for a limited period of two years. This starts from 1 July 2020.**

The executive monitoring was prepared for you by the KempHoogstad team.

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Ten-percent VAT rate on some goods and services

With respect to the amendment to the Electronic Registration of Sales Act (the ERS or the ERS Act), an amendment to the VAT Act was approved. According to the amended VAT Act, some services and goods, such as water and sewage charges, audio books, and draft beer, were moved to the lowest, ten-percent VAT rate.

The change in the VAT rate is a part of the amendment to the ERS, and it should be effective from the same date as the amended ERS Act, most likely from 1 May 2020.

Extension of the electronic registration of sales (the ERS) to other branches

The amendment to the Electronic Registration of Sales Act extends the obligation to use electronic registration to the rest of the branches that were exempt so far. The affected ones are craftsmen, lawyers, accountants, doctors or taxi drivers. It is the third and fourth phases of the ERS.

According to the information provided by the Ministry of Finance, the ERS will apply to all activities where there are cash sales with the exception of those where the ERS would prevent the smooth performance of a business activity or where the tax administration can obtain relevant data about the sales of the respective payers from other sources (e.g. entities managing public sources, such as municipalities, districts, non-profit organisations, and also regulated sectors (financial institutions, the energy industry) etc.).

The only exceptions from the ERS are the following:

- Telecommunication services – prepaid cards;
- Gambling games;
- Commercial air transport;
- Blind payers;
- Sale of Christmas fish; and
- Providing social services.

Further, the amendment enables the recording of sales in an off-line regime. The off-line regime enables some entrepreneurs (who fulfil specific conditions) to issue receipts using a pre-printed notebook instead of regular ERS tickets. Subsequently, they will report their sales quarterly in a special regime.

Subjects that can issue receipts using a pre-printed notebook must fulfil the following conditions:

- (i) They are physical persons and non-payers of VAT;
- (ii) They do not employ more than two employees; and
- (iii) The amount of recorded sales did not exceed CZK 600,000 in the last four calendar quarters.

The entrepreneurs affected by the third and fourth phases will record sales in one period, which will start six months after the act is effective. The amendment was signed by the president on 24 September 2019, and it should be



published in the Collection of Laws in October 2019. This is expected to start (the same as VAT changes) on 1 May 2020.

The Ministry of Finance and the Tax Administration are preparing a communication campaign in the following months which will focus on keeping business entities informed and the technical part of the ERS. Entrepreneurs can find more information about the ERS on the official web sites of the Ministry of Finance and the Tax Administration of the Czech Republic (<https://www.etrzby.cz>).

Do you plan to buy a flat in a family house? You can claim exemption from real estate acquisition tax

On 24 September 2019, the Chamber of Deputies approved the original version of the proposed amendments to the extension of exemption from real estate acquisition tax to the first paid acquisition of a unit (a flat) in a family house. Because of the amendment, those who buy a new flat in a family house can claim exemption from real estate acquisition tax. So far, the exemption from real estate acquisition tax applies only to the first paid acquisition of the right of property to a completed or used unit in a residential house. The act will become effective the first day of the calendar month following the day it is published in the Collection of Laws.

The tax rate for real estate acquisition tax is 4 per cent, and the payer is the buyer (since 2016).

The purpose of the amendment is unification of the exemption of units in residential houses and family houses defined by building regulations. The Ministry of Finance clarifies that it is a reaction to the long-term tendencies to define units in family houses because of various construction obstructions and the limited building of residential houses.

Implementation of the blanket reverse-charge regime from 1 July 2020 to 30 June 2022

The European Commission approved using the blanket reverse-charge regime by the Czech Republic for a limited period which starts from 1 July 2020 and lasts until 30 June 2022. All taxable supplies regarding goods and services where a single transaction is over CZK 450,000 (EUR 17,500) will be subject to the regime.

The reverse-charge regime (which signifies a transfer of the tax duty) means that, between VAT payers, the obligation to report and pay output VAT for the realised taxable supply with its place of supply in the Czech Republic is transferred from the provider of the supply (the supplier) to the receiver of the supply (the customer). The system will not apply if the customer is not a VAT payer; in such a case, the VAT is paid by the provider. Currently, the Czech Republic uses the system everywhere where the current EU law allows it.



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