



Dear clients,

The autumn is already in full swing and 2023 is coming to an end. From January 2024 onwards, a number of changes in the tax area are expected as part of the recovery package, and in order to prepare you for them, we bring a summary of the most important news. The recovery package has successfully passed the

Chamber of Deputies and now awaits approval by the Senate.

If it passes, we will see changes to the corporate income tax rate and a reduction in the limit for applying the higher tax rate to individuals. The package introduces limits on benefits and changes to the regime regulating employees' tax-exempt income, as well as the possibility to exclude exchange-rate differences from the tax base and the possibility to allow for (when drawing up one's accounts) the newly introduced "functional currency". If you have given bottles of still wine to your clients, then you had better beware: the tax deductibility of the wine will be abolished. There will also be changes to the depreciation limit in respect of M1 vehicles, the taxation of employee benefits, self-employed taxpayers' assessment base, VAT rates and many other areas.

We will be happy to help you review in a timely manner whether and to what extent the changes below affect you and how best to respond to them. We wish you a peaceful end of the year and we look forward to working with you again if you have any questions.

Bohdana Pražská and the KempHoogstad Team

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## Changes to income tax

### **Increase in the corporate income tax rate**

The corporate income tax rate increases from the current 19% to 21%.

### **Cap on exempt income from sale of shares and securities**

A cap on the exemption of income from the transfer of securities is introduced. The limitation applies to the transfer for consideration of shares in corporations and securities from personal income tax to CZK 40 million per taxable year, with deferred effect from 1 January 2025.

### **Introducing the possibility to withdraw unrealised exchange rate differences from the tax base**

Unrealised exchange rate differences can be excluded from the tax base in respect of the period in which they arise (i.e. are recorded in accounting), and they can be included in the tax base in the period in which the exchange rate difference is realised. At the same time, the entity concerned is obliged to notify the tax administration that it has availed itself of this possibility.

### **New limit on employee benefits**

Non-monetary benefits provided to employees in the form of contributions regarding cultural events, package tours and sporting events and the possibility to use recreational, sporting and health facilities will not be tax deductible for employers if they are also tax exempt for the employees concerned. On the other hand, the employer's expenditure on selected employee benefits provided not only to the employer but also to members of the employer's family will be tax deductible under certain conditions.

### **Extension to the tax deductibility of meal allowances**

On the employer's side, the tax deductibility of meal expenses will now be based on the provisions of Section 24(2)(j)(5) of the Income Tax Act. In "real life", this means that meal expenses will be deductible if they are incurred in the fulfilment of employees' rights relating to their working and social conditions, as set out in a collective agreement, internal regulation or employment contract.

### **Introduction of a new income tax and sustainability report**

Selected entities are now required to prepare and make available an income tax report. This innovation follows the European directive on so-called "public CbC reporting". This new kind of income tax report will be compiled for the first time for accounting periods starting from 22 June 2024.

In addition, selected entities are required to draw up and publish a sustainability report. In the first phase, this obligation will apply only to entities that (i) are a corporation or a public-interest entity, (ii) would be a large entity even if it were not a public-interest entity, and (iii) have more than 500 employees (on average) per financial year, as at the balance sheet date.

The term "sustainability" refers to environmental, social, human rights, compliance, governance, employment, corruption and anti-bribery issues. The sustainability report constitutes a separate section of the annual report.



## **Limitation of depreciation for vehicles and extension of extraordinary depreciation for emission-free vehicles**

A limitation of the entry price for vehicles in the M1 category has been introduced, so that only a proportional part of the depreciation corresponding to the entry price of CZK 2 million is included as a tax-deductible expense. At the same time, the possibility of applying extraordinary tax depreciation has been extended to include emission-free road motor vehicles acquired in the period from 1 January 2024 until 31 December 2028.

## **Simplification of the notification of foreign income**

The taxpayer's obligation to report income received by a non-resident taxpayer that is exempt from withholding tax or not subject to taxation in the Czech Republic on the basis of an international double taxation treaty has been reduced to cover only selected passive types of income: so royalties and profit shares must be reported. The new regulation can be applied already to income received in 2023.

## **Exclusion of still wine from promotional items**

The tax deductibility of still wine as an advertising item up to CZK 500 has been abolished.

## **Reduction of the threshold for the higher tax rate of 23% on personal income**

The taxable base of a taxpayer exceeding 36 times the average monthly wage will now be subject to a 23% tax rate (as opposed to the current 48 times the average wage). In 2023, 48 times the average wage amounts to CZK 1,935,552; in 2024, 36 times the average wage should amount to CZK 1,582,812.

## **New limit for exempt income**

A single limit of CZK 50,000 (in a given tax period) has been introduced; where some other income of the same type will be tax exempt.

## **Abolition of a number of income exemptions**

A number of income exemptions – such as tax exemptions for prizes awarded in public competitions, and in advertising and sports competitions – have been abolished. The exemption in respect of non-cash benefits provided by employers from the FCSN (the fund for cultural and social needs) to bereaved persons and the exemption in respect of the state contribution to building savings are also abolished. There are also changes to the definition of employee income.

## **Changes to tax discounts**

The conditions for claiming the spouse's discount will be tightened, with the addition of a condition that the spouse must live in a jointly managed household with the taxpayer's child (who must be under the age of 3 years), in addition to the condition that the spouse's income not exceeding CZK 68,000 for the whole of the tax year.

The amendment also abolishes the student tax discount and the tax discount for placing a child in a nursery.

## **Changes to employee benefits**

- Section 6(9)(d) of the Income Tax Act (ITA) introduces an aggregate limit for tax and insurance exemption that equals to a half of the average monthly wage. Thus, for 2023 the limit would correspond to CZK 20,162 per year' the amount for 2024 would be CZK 21,983.
- Income received by an employee and his/her family member for participating in a sporting or cultural event organised by the employer is excluded from the limitation, provided that it can be regarded as usual and reasonable.



- The conditions of exemption for the provision of meals to employees have been unified, whereby the exemption in respect of the meal voucher lump sum also applies to meals provided in a non-monetary way.
- The exemption in respect of managerial flats is abolished, but this should not affect persons who were residing in such flats before the date of the amendment.
- If an employee uses an emissions-free vehicle for business and private purposes, the non-cash income will be only 0.25% instead of 1% of the entry price of the vehicle.

## Changes to VAT

Two VAT rates are introduced: the basic rate of 21% and the reduced rate of 12%. The 10% rate has been abolished. The percentage of VAT levied will change in respect of drinks, books, magazines and periodicals; the changes will also affect transportation, health care, diagnostics and the liquidation of waste. The VAT changes will also impact the importation of works of art, collectibles and antiquities, supplies of firewood, domestic scheduled air transport, delivery of cut flowers and decorative foliage.

A limitation of the right to a deduction in respect of "passenger cars" has been introduced, setting the limit of the amount of input VAT that can be applied to the acquisition of a passenger car that is a fixed asset at CZK 420,000; this limit includes any technical improvements made. The limitation does not apply to taxpayers who acquire passenger cars for the purpose of resale.

## Increase in the real estate tax rate

Municipalities were given greater powers to regulate the taxation of agricultural land and a new inflation coefficient was introduced. On average, property taxes have increased by a factor of about 1.8.

## Increase in the excise tax on tobacco products

The excise duty on cigarettes, cigars, cigarillos and smoking tobacco has been increased by 10% for 2024 and then by 5% each year from 2025 until 2027. New taxes have been introduced on special types of tobacco, such as shisha, chewing and snuff tobaccos.

Changes have also been made to excise duties on alcohol, mineral oils and green diesel and to energy taxes.

## Increase in the assessment base for insurance for self-employed persons

The self-employed person's assessment base for pension insurance has been increased from the current 50% of the partial tax base to 55% from 2024. At the same time, it has been proposed that the monthly assessment base for taxpayers who are in the flat-rate scheme be increased.

## Other changes

### **Introduction of the “functional currency”**

The possibility to keep accounting records in a currency other than the Czech currency has been introduced; the currency may be the euro, the US dollar or the British pound, in addition to the Czech crown, provided that this currency is also the functional currency of the accounting entity (i.e. the currency of the primary economic environment of the entity). A change in the accounting currency may be made only on the first day of the accounting period in question.

### **Extension of measures concerning Ukraine**

The current provisions in respect of the situation in Ukraine have extended for 2023 under the existing conditions.

### **Tightening of the rules on contractual work**

The rules for work based on contracts for work in relation to the payment of insurance premiums have been tightened, abolishing the fixed limit of CZK 10,000 for the employee's participation and for the application of withholding tax, and introducing two new participation limits.

**Bohdana Pražská**  
**Filip Dostál**

[bohdana.prazska@kemphoogstad.cz](mailto:bohdana.prazska@kemphoogstad.cz)  
[filip.dostal@kemphoogstad.cz](mailto:filip.dostal@kemphoogstad.cz)

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