Tax News February 2025

Dear clients,

The first two months of this year have passed, and the beginning of the year ushed in a lot of tax-related developments. Many of those developments will impact the tax returns that are ahead of us soon. Please allow us to flag up the most important of those developments, because there have been changes to almost all of the most important tax laws: the Value Added Tax Act, the Income Tax Act, the Customs Act … not to mention the Tax Code.

We will be happy to help you assess whether and to what extent those changes apply to you and how best to respond in a timely manner. We wish you a pleasant and peaceful tax season and a successful implementation of all the recent developments.

Please do not hesitate to contact us should you have any queries, and we look forward to working with you again. Bohdana Pražská and the KempHoogstad Team

Contents

Value Added Tax

An extensive amendment to the Value Added Tax Act came into effect at the start of January 2025. The main new changes are:

- The date of becoming a taxpayer and the calculation of turnover changes. From now on, this will be based on the calendar-year turnover. If the turnover is over CZK 2,000,000, the taxpayer shall be liable from 1 January of the following year – assuming the second limit of CZK 2,536,500 will not be exceeded in that year. If the second limit is exceeded, the taxpayer shall immediately be liable from the next day.
- If the turnover of CZK 15 million was not exceeded in 2024, the taxpayer may indicate in its December 2024 tax return that it wishes to be a quarterly VAT payer. **But beware:** VAT statements ("kontrolní hlášení") should be submitted monthly – regardless of the tax period that is applicable to the payer.
- There is a new obligation to return any granted VAT deduction in the event of an unpaid liability arising (after 1 January 2025) six months after the due date. Moreover, if the customer pays the invoice in question, the supplier can claim the deduction in the tax period during which the liability was paid.
- A new regime for small enterprises is introduced. This offers a choice to entities from other EU in respect of whether or not to pay the Czech VAT and act as a VAT non-payer in the Czech Republic. However, this option is possible only if the turnover of such an entity in the whole EU does not exceed EUR 100,000.
- The range of entities that can form a group for VAT purposes has been expanded. From now on, municipalities (and their contributory-based organisations) may from a VAT group.
- The deadline for issuing a corrective tax document has been extended until the end of the seventh year after the year in which the original supply took place. This applies to taxable supplies carried out from 1 January 2025.
- The deadline for claiming deductions has been shortened to the end of the second calendar year after the year in which the deduction claim originated.
- The possibility to correct a tax base has been extended to former VAT payers.
- A VAT non-payer may become an identified persona upon receiving or making an advance payment – namely, in relation to cross-border services.
- VAT on real estate will change from 1 July 2025. The changes include the clarification of definitions of terms, clarifications of controversial cases and the implementation of the new concept of exemption of the first supply of completed real estate or real estate after a substantial alteration of the given real estate. The tax rates on building constructions have changed and the tax exemption of the supply of land and other kinds of real estate and the rent in respect thereof has also changed.
- The range of financial services exempted from tax has also been narrowed.
- Other changes relate to events in the fields of culture, art, sport, science, education and entertainment, which may be provided online. These changes also have an influence on the following: advisory and similar activities invoiced by non-entrepreneurs; the determination of the tax base of non-monetary gifts and contributions; the determination of the tax base of an exchange with a surcharge; the determination of the tax base in respect of the supply of real estate to an employee; corrections to the tax base of bad debts; corrections to the tax base; corrections to tax deductions applied to a person who ceased to be a taxpayer or to another identified person; extension of exemptions applied to educational activities; and the exemption of handout supplies.

Income taxes

Limited exemptions for the sale of securities and shares

The unlimited exemption of income from the sale of securities and shares has been terminated. As of 1 January 2025, this type of income is exempt from personal income tax only up to the amount of CZK 40,000,000 per taxpayer within any given tax period – provided that the time test (of three and five years) in respect of shares in companies is met. If this type of income exceeds CZK 40,000,000, it shall be tax exempt only partially, and only up to the amount of CZK 40,000,000. Income above this threshold shall be considered taxable; however, it will be possible to deduct the costs provably incurred when generating such income in the ratio by which the income exceeds CZK 40,000,000.
We recommend securing an expert assessment of such value as at 31 December 2024 in order to ensure that in the future, only the increase in value from 1 January 2025 will be taxed. The amount resulting from the expert's evaluation can be used as a tax expense.

Exemption of income from crypto-assets

As of 1 January 2025 the income from sale of crypto-assets or crypto-currencies is exempt from personal income tax under similar conditions as those that apply to securities. Until the end of 2024 such income was not exempt.
The conditions for tax exemption are similar to those applicable to securities – namely, if crypto-currencies are held for more than three years, their sale will not be taxed. The same limit as that which pertains to the sale of securities shall apply – CZK 40,000,000. Moreover, sales under CZK 100,000 are tax exempt and do not have to be recorded in the tax return.

Increased tax deduction of donations is effective until 2026

The increased limit on tax deductions (up to 30 per cent of the tax base) has been prolonged until 2026 and may be applied to all kinds of donations – for example, it can be applied to donations aimed at the repair of flood damage from 2024. The tax advantages regarding donations supporting the Ukraine shall remain in place.

Depreciation of photovoltaic power plants

The special regime provided for the even depreciation of photovoltaic power plants over a period of 240 months has been revoked. Assets that were subject to the regime shall be depreciated according to their classification in the appropriate depreciation group.

Accounting

No new Accounting Act for 2025 has been approved so the existing one will be valid until 1 January 2028. We take this opportunity to remind readers that as of 1 January 2024, it has been possible for accounting to be kept in euros, US dollars or British pounds – provided that one of the foreign currencies is a "functional currency" for the entity (that is, the currency of its main economic environment).

Payroll and dependent activities

Preparation of the employer's single monthly report

Apart from the adopted changes, we would like to inform you also about preparations that are underway in respect of a new proposed initiative – an employer's single monthly report. The purpose of the proposed change is to simplify the administrative duties of employees by ending the current requirement that 25 various regular monthly reports be submitted to authorities; instead, just one submission would be required. Under the suggested plan, a test run should start on 1 July 2025 and the project itself should start from 1 January 2026; if implemented, it would be mandatory for all employers.

Contract for work (the "CfW")

The widely discussed and criticised draft of an amendment which introduced the "regime of notified contract" has been revoked. Nevertheless, employers are obliged to report all CfWs to the social security authority.

Furthermore, as of 1 January 2025, income based on a CfW is no longer subject to health insurance and social security contributions if it does not exceed the amount of 25 per cent of the average wage in one calendar month per one employer – CZK 11,500 in 2025. The same limit applies to taxation of income with withholding tax.

New limits for health benefits

Until the end of 2024, the income tax exemption for leisure benefits for employees amounting up to one half of the average annual income was limited. Now, health benefits are also covered by an income tax exemption – namely, up to the amount of the average salary. In 2025, the limit shall be CZK 46,557. Benefits in this amount can be used for payments for healthcare products or services or similar (for example, premium medical care). Employers can still pay for vaccination, rehabilitation, vitamins supporting immunity or psychological treatment provided by medical facilities up to the given limit and without tax consequences for the employees.

Exemptions in respect of other benefits are still limited to the amount of half of the average salary, which is CZK 23,278 in 2025. Both limits should be recorded independently.

The limits for meal allowance are regulated by law apart from the other leisure benefits.

Provision of meals to former employees

Until the end of last year, the provision of meals to former retired employees was complicated because of the condition which stipulated that each employee had to work at least three hours in a given shift to be eligible (a condition that could not be met by) former employees. That is why an amendment has been approved (with a retroactive effect for 2024). The amendment clarifies that provision of meals to retired former employees by an employer is exempt from income tax.

Stock option plan

After almost a year of ambiguity, in 2025, the taxation of employee stock and option plans was returned to the regime that was effective before 2024 (taxation based on acquisition). Furthermore, the taxation of such income may be postponed to a future date (according to the rules effective from 2024) if the employer notifies the tax administrator of this before the 20th day of the calendar month following the month in question.

Social security

At the start of the year, a new social security regulation came into effect in respect of retired people who continue to work. Retired employees or self-employed persons may benefit from relief from pension insurance contributions in the amount of 6.5 per cent. If the retired person applies the relief, his net income shall increase.
The new maximum assessment base in 2025 is CZK 2,234,736 so – CZK 124,320 more than last year. Income that exceeds this limit is exempt from social security contributions.

Excise duties

The excise tax rates on cigarettes and selected tobacco products have been raised by 5 per cent as of 1 January 2025. The tax rates on such products will, moreover, rise by the same amount in 2026 and 2027. Furthermore, the excise tax rates on heated tobacco will rise each year by 15 per cent between 2025 and 2027.

Tax Code

On 1 January 2025, new changes came into effect regarding interest payments and penalties. The possibility of imposing a penalty in the form of "interests on interest" has been excluded; moreover, there is a new possibility to waive a penalty in its whole amount (not just in the amount of 75 per cent, as previously). Furthermore, a collective waiver of tax, tax accessions or tax deferrals is now possible. This will be made possible by government measures based on proposals to be made the minister of finance. Other changes include: a new way of submitting an appeal against a tax administrator's decision on a taxpayer's objection; new rules governing the administration of tax liability and the transfer of tax liability upon the termination of a trust; and new rules concerning the delivery of mail abroad.

Other taxes and regulations

Compensatory tax

We would like to remind you that the Compensatory Tax Act was approved in 2024 as a part of plans for the blanket taxation of big multinational corporations. Such groups should be effectively taxed minimally at the rate of 15 per cent on their accounting profit. If a company is a payer of compensatory tax, it is now necessary to mention it in the appendix to its financial statements.

ESG reporting

The obligation of ESG reporting (i.e. the obligation to report on sustainability in the firm's annual report) has been extended as of 1 January 2025. From 2025, ESG reporting will concern big companies that comply with at least two of the three following conditions: net turnover of least EUR 50 million, an average number of employees at least 250, and assets amounting to at least EUR 25 million. In the future, other big firms will be obliged to publish their sustainability reports.

The ViDA directive and the modernisation of the rules for the digitalisation of VAT in the EU

The European Union has approved the ViDA directive (VAT in the Digital Age). By 2030, a new system of digital VAT reporting in "real time" via electronic invoicing for intra-community transactions will be introduced. This will replace the recapitulative statement to VAT. Domestic transactions will be affected by this from 2035 at the latest, and this will replace the VAT statement ("kontrolní hlášení"). The state administration will be able to monitor the flow of goods and services faster and more precisely. Relevant data will have to be entered in the system no later than ten days after the realisation of a transaction or by the end of the month in question.

Bohdana Pražská bohdana.prazska@kemphoogstad.cz
Filip Dostál filip.dostal@kemphoogstad.cz