



Dear clients,

The upcoming months will bring a few very important amendments to key tax and accounting laws.

The VAT Act will undergo several significant changes – for example, in respect of entitlement to tax deductions, adjustments to tax base and tax on irrecoverable debts. We will also see the introduction of

a second turnover limit for mandatory VAT registration, and the special procedure for the taxation of assets created by own activities is abolished.

The proposed amendment to the Accounting Act should change the conceptual framework of the Act significantly. The amendment to the Accounting Act was closely followed by an amendment to the Income Tax Act, which introduces several significant changes to, for example, tax depreciation of assets. Changes will also affect financial leasing, the determination of the taxable period for legal entities, the valuation of assets and debts and the determination of the tax base for foreign entities. There will also now be the possibility of reporting and paying tax in euros, and the abolition of tax deductibility of contractual penalties and social and health insurance paid for employees only after payment. Amendments to the Tax Code and customs regulations are also expected. We would be happy to assist you with checking whether and to what extent you are affected by these changes and how you can prepare for them. We will monitor the development of the amendments and will keep you informed. Wishing you a nice autumn and do not hesitate to contact us should you have any questions. Looking forward to hearing from you.

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VAT news

An extensive amendment to the VAT Act is currently in the process of securing approval in Parliament, it should be effective from 1 January 2025. There are many other changes to the amendment that will become effective from 2028. Some of the main changes, which will take effect relatively soon, concern the taxation of real estate transfers. As of 1 July 2025, the rules for the determination of the period in which real estate transfers would be exempt will be significantly amended. Moreover, the definition of building land from the VAT point of view will likely be changed. We describe other changes below.

Turnover and VAT registration

One fundamental change will be a completely new approach to determining the turnover for mandatory registration as a VAT payer. In addition to the current single limit of CZK 2 million for the last 12 consecutive months, tax subjects will also face a second limit of CZK 2,536,500. The potential obligation to register as a VAT payer will have to be addressed by monitoring both of these thresholds. Furthermore, a completely new approach will also be taken to the determination of the period for monitoring the thresholds, and different dates will be set for when the relevant person will become a VAT payer after exceeding one of those thresholds. The changes will also affect persons who provide only exempt supplies.

Currently, the turnover is calculated over a period of 12 consecutive calendar months. It will now also be calculated on a calendar year basis. If turnover exceeds CZK 2 million, VAT liability will arise from 1 January of the following calendar year, but if the turnover exceeds CZK 2,536,500 (the standard EU amount of EUR 100,000), the entity will become VAT-liable immediately (on the following day).

Entitlement to tax deductions

The time limit for claiming a tax deduction will be shortened from the current three years from the date of the taxable supply received. It does not affect all input tax deductions - the amendment treats deductions differently depending on the period in which the right to claim them arose.

The key change is the obligation to repay a VAT deduction that has already been properly claimed once the customer in question fails to repay within a certain period of time his liability for the purchase of goods or receipt of services. The amendment provides for a basic period of six months of delay; however, this may be partially extended.

Adjustments to tax base

The extension of the time limit for adjusting the tax base to seven years is a slightly overlooked change, but one that has significant practical implications. It will be difficult to deal with business cases more than three years old outside the VAT system anymore if there has been some price adjustment. The amendment even stipulates that each supplier of a supply is obliged to correct the taxable amount – even after its registration as a taxable person has been revoked. Hypothetically, up to seven years after deregistration, it will still be necessary to issue corrective tax documents under the VAT Act and to file VAT returns. However, the amendment introduces exceptions, and there will be cases where the current three-year period will be maintained.



Tax adjustment to irrecoverable debts

After the amendment, the VAT Act will contain additional options for recovering VAT from the tax office in the event that a receivable becomes irrecoverable. An interesting option will be the possibility to adjust so-called small receivables up to CZK 20,000 (of course, subject to certain conditions). Unfortunately, the current wording of the draft amendment extends the possibility of correcting VAT only in respect of receivables arising in 2025 at the earliest.

Abolition of the special procedure for taxation of “assets created by own activities”

The specific approach currently applied to assets created by the taxpayer through his own activities is abolished by the amendment and is replaced only partially by new procedures for the recalculation of input tax deductions. This issue could have a significant impact on companies that build assets with the intention of using them for purposes giving rise only to a reduced entitlement to deductions.

Accounting news

From January next year, a major amendment to the Accounting Act is planned, which should significantly change the conceptual framework of this law; this is why it is sometimes said that it is not an amendment, but a completely new law. The amendment has been approved by the government, and the new regulation should bring the law significantly closer to IFRS – especially in the areas of the precise definition of assets, liabilities, debts (which will replace the current liabilities and will now include provisions and accruals accounts), equity, contingent assets and debts, expenses and income.

The amendment should reduce the administrative burden on entities and improve the usability of financial statements. The proposed effective date is 1 January 2026, but owing to transitional provisions, some of the new rules will apply to previous accounting periods. Below is a summary of the most significant proposed changes.

Accounting reporting

The new accounting system should focus more on the information it provides to users. The primary concern will therefore be the preparation of financial statements in such a way that they give a true and fair view, with the actual bookkeeping technicalities taking second place.

A true and fair view is to be achieved through the quality of the accounting information provided. The amendment therefore focuses on the quality of accounting information so that it is relevant, credible, timely, understandable, reliable and comparable.

It should therefore take the form of modern financial accounting methods, which are designed to give a true picture of the situation of the entity in question, but also to show and predict the future development of that entity – not only for internal management use but also for benefit of external users such as creditors, banks or investors.

Fewer accounting units

The new rules change the categorisation of accounting units and reduce the number of entities that are required to keep accounting records. In the future, this obligation should not apply to organisational units of foreign entities, natural persons or small non-profit organisations that are not VAT payers and have annual revenues and total assets



of less than CZK 3 million. However, these entities will still be required to keep records for the purposes of calculating tax obligations, or they may choose to keep accounting records voluntarily.

Mandatory audit for fewer companies

Under the amendment, the limits for mandatory audits will be significantly increased compared to the current conditions on almost all points except the number of employees. An audit will now be mandatory for entities that meet at least two of the three criteria – namely, a turnover exceeding CZK 240 million, a value of assets exceeding CZK 120 million, and a number of employees exceeding 50.

Accounting in functional currency

A recent innovation regarding functional currency will also be included in the planned amendment and introduces the possibility to keep accounting in a “functional currency” (US dollar, euro or British pound) if it is the currency of the entity's main economic environment. The Czech crown will then become a foreign currency for such an entity. With the amendment to the Act, the number of permitted currencies is to be expanded. For accounting entities, this change will mean easier financial reporting and budgeting, lower currency risks and simpler preparation of financial statements.

Leasing

Newly, long-term leases and rentals (longer than one year) will be reported as a way of acquiring the asset or “right to use”. The specific method of recognition and accounting should then be based on the concept of a lease according to international accounting standards.

Goodwill

Under current legislation, the equivalent of goodwill is recognised as a valuation difference to the acquired assets or as a consolidation difference. The draft amendment provides for the unification of the procedures, whereby this difference will be recognised in intangible assets as goodwill and will be amortised over the period specified in the Decree.

Current or fair value

According to the draft amendment, all assets and debts will be reported at either current value or fair value. The current value is the valuation at the discounted value of future net cash flows. Fair value will be specified in more detail under IFRS 13. In other words, it will not be possible to value in the accounts assets and debts according to their initial assessment. The methods for valuing assets and debts should be further specified in a separate decree.

Provision for liquidation

If an entity has information about the disposal of an asset after the termination of its activity or its lifespan, it may be able to include the disposal cost in the input price of the asset through a disposal provision.



Sustainability Report

Another important change is the gradual extension of the obligation to prepare a so-called sustainability report. In addition to the companies that already have this obligation – that is, listed companies and large companies with more than 500 employees, which will already report information in their annual report for 2024 (published in 2025) – the obligation will be extended to all large companies that meet at least two of the following criteria in 2026 (when 2025 accounts will be reported): (i) they have more than 250 employees, (ii) they have a turnover of at least EUR 50 million and (iii) their total assets are at least EUR 25 million.

In subsequent phases, small- and medium-sized companies listed on the stock market and non-EU companies will also be obliged to report. Some Czech companies will have this obligation indirectly as part of a corporate chain that will have this obligation. In addition, the scope of information that companies will disclose about themselves or their corporate chain will be extended and will be a mandatory part of the annual report.

Amendment to the Income Tax Act in response to the amendment to the Accounting Act

A draft amendment to the Income Tax Act is being prepared in response to the draft amendment to the Accounting Act. The proposed effective date is currently set for 1 January 2025; below are the main proposed changes.

Simplification of tax depreciation

The draft contains a significant simplification of the tax depreciation method. Depreciation groups should be abolished and the amount of the tax value should be decisive for determining both the depreciated asset and the depreciation period. The depreciation limit should be increased to CZK 100,000 and three main tax depreciation periods should be introduced, with a minimum length of time over which an asset is allowed to be depreciated: (i) 60 months for movable and immovable assets with a value of up to CZK 2,000,000, (ii) 360 months for other immovable assets and (iii) 180 months for goodwill.

Tax depreciation will be applied on a monthly basis. The straight-line and accelerated depreciation methods should be abolished; so too will the possibility to discontinue tax depreciation. The depreciation period will be extended if the asset in question appreciates in value.

New determination of the tax period for legal entities

Under the new regulation, the tax period for corporate income tax will be linked to the accounting period and may therefore in some cases be determined by calendar weeks. If the taxpayer is not deemed to be an accounting entity under the Accounting Act, its tax period will always be the calendar year. Foreign taxpayers with limited income from sources within the Czech Republic will have this option if they keep their accounting abroad and their accounting period is not the calendar year.



Changes in valuation of assets and debts

A new concept of "tax value of an asset" is introduced, which represents the maximum amount that can be claimed as an expense for the purposes of the Income Tax Act. The term "technical appreciation" is replaced by "additional appreciation", which will be applied in cases when the higher amount is more than CZK 100,000 or 10% of the value of the asset. For a value above CZK 10 million, it should always take the form of an additional appreciation of the asset. The tax value of debt and the tax value of receivables are also newly defined.

New rules for financial leasing

The new accounting rules will consider financial leasing in a similar way to international accounting standards – that is, the user will have an asset in the form of a right of use with a subsequent purchase. This asset will then be tax depreciated if the legal conditions are met. The amendment contains special transitional provisions under which the new rules for determining the tax depreciation period and the financial leasing will also apply to assets acquired before the amendment takes effect.

Application of international accounting standards

It will now also be possible to use profit or loss determined in accordance with international accounting standards to determine the tax base. However, the economic result according to IFRS will have to be adjusted for permanent differences in relation to Czech accounting and to take into account in the tax base operations that were accounted for in IFRS on the balance sheet and in Czech accounting on the basis of results. When switching from one system to the other, differences in the tax value of assets and debts under each accounting system will need to be determined and taken into account in the tax base over a 10-year period.

Determination of the tax base of foreign tax payers

Foreign corporate taxpayers (including those with permanent establishment in the Czech Republic) will not be newly considered an accounting entity and will not be obliged to keep accounting records under the Accounting Act.

Companies having a permanent establishment in the Czech Republic (except for a permanent establishment established on the basis of the duration or conclusion of contracts) will keep accounting only to the extent necessary for determining the tax base on the basis of Czech accounting or international accounting regulations, or on the basis of the accounting of a foreign taxpayer.

Companies that establish a permanent establishment by providing services, by continuing a construction and assembly project or by concluding contracts (including those that still have income from other sources such as the sale of securities or real estate) may choose whether or not to use this procedure.

Option to report and pay tax in euros

Taxpayers keeping their accounting in euros will be able to stipulate the tax base and tax in their tax return directly in euros without the obligation to convert it into Czech crowns. The same applies to other foreign currencies if they are the company's functional currency. They will also be able to pay the tax in this other currency.



Tax deductibility only after payment is cancelled

In the case of social security contributions and contractual fines and penalties, tax deductibility linked to payment is abolished; the decisive factor will now be when the case was recorded in the accounting.

Amendment to the Tax Code

The government has approved a major amendment in the area of tax administration and customs administration that also changes related provisions in the Tax Code. The amendment is expected to be effective from 1 July 2025, with some provisions only effective from 1 January 2026.

The amendment includes changes in the area of interest and penalties and the possibility to file an appeal against a tax administrator's decision on a taxpayer's objection. It also: modifies the procedure to be followed in the event that the Supreme Administrative Court reverses a decision of a regional court; specifies the provisions concerning the cancellation of tax registration; introduces rules for the administration of tax liability and the transfer of tax liability upon the termination of a trust fund; newly regulates the issue of service abroad; clarifies the structure of form submissions; and modifies the area of tax execution.

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