Rödl & Partner

NEWSLETTER CZECH REPUBLIC

Issue:
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Information on Law, Taxes and Economics in the Czech Republic

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Czech Law Firm of The Year 2024

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Rödl & Partner

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Issue:
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Content:

→ Taxes

VAT Act amendment came into effect on 1 January 2025

The amendment to the VAT Act was approved by the Senate and signed by the President on 18 December 2024, coming into effect on 1 January 2025. It brings numerous changes, some of which will become effective on 1 July 2025, 1 January 2026 and 1 January 2027 respectively.

The amendment not only implements the EU VAT Directives and recent case law but also significantly changes:

- VAT registration conditions and turnover calculation
- Place of supply for selected services
- Tax base assessment in special cases
- Tax scheme for real property

For more information, please refer to our previous newsletters.

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→ Taxes

Record-keeping obligations for employee benefits

The amendment to the Income Tax Act (ITA) from 2024 and 2025 introduced new limits for the tax exemption of employee benefits. With the introduction of these new limits, maintaining proper records of benefits becomes increasingly important. Although the obligation to keep records of benefits is not new, this area was not previously under the close scrutiny of the tax authorities. Given the limitations on the amount of tax-exempt benefits for employees, it can be expected that tax administrators will focus on compliance with proper reporting and record-keeping of benefits.

Markéta Čonková, Josef Krátký
Rödl & Partner Prague

Incorrect or incomplete record-keeping may result in a fine of up to 50 thousand crowns for failure to fulfill a non-monetary obligation, and in extreme cases, additional tax assessment.

Tax-exempt benefits to be recorded in payroll records

The aforementioned record-keeping obligation applies to all tax-exempt benefits listed in Section 6(9)(d) of the ITA, which include so-called health benefits (goods and services of a health and medical nature, etc.) and leisure benefits (such as multisport cards, various flexi passes, recreation contributions). From 1 January 2025, the limit amounts for health and leisure benefits now differ. Health benefits are exempt from employment income tax up to the amount of the average wage (46,557 CZK for 2025), while leisure benefits are exempt up to half of the average wage (23,279 CZK for 2025) per tax period.

It is also necessary to keep records of employee meal allowances. The allowance is exempt from employment income tax up to 70% of the upper limit of meal allowances that can be provided to employees remunerated by salary during a business trip lasting 5 to 12 hours (i.e., up to 123.90 CZK in 2025).

Other tax-exempt benefits that need to be individually recorded for employees include non-monetary benefits spent on professional development of employees according to Section 6(9)(a) of the ITA (typically professional training).

These types of benefits must be recorded monthly for each individual employee on their payroll record. This obligation is imposed on employers by Section 38j(2)(f) of the ITA.

Benefits not recorded in payroll records

On the other hand, employee participation in social events organized by the employer (Section 6(9)(g) of the ITA) does not need to be recorded in the payroll record. This was confirmed by the General Financial Directorate, reasoning that such benefits cannot be attributed to individual employees, or doing so would be extremely difficult. Similarly, income that is not subject to tax (Section 6(7) of the ITA) is not recorded on the payroll record. This includes travel expense reimbursements according to the Labor Code, the value of personal protective work equipment, work clothing, and similar items.

We recommend reviewing your current system for recording employee benefits and making necessary adjustments if required. We would be happy to assist you.

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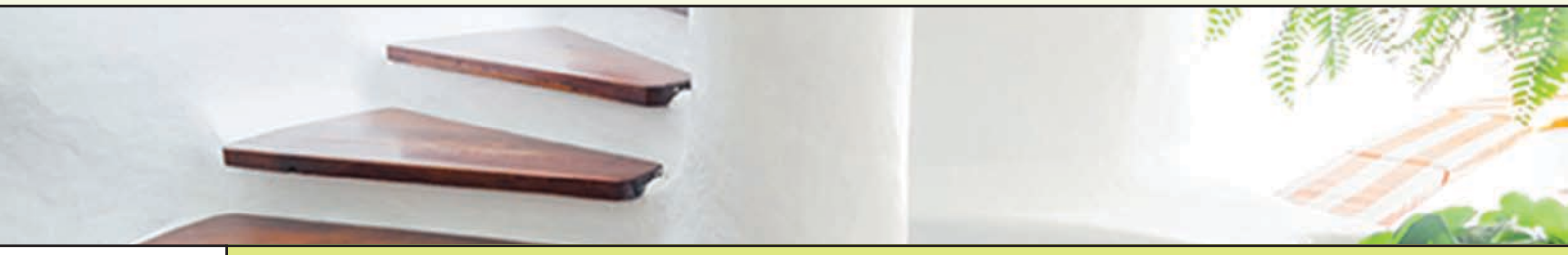

→ Taxes

Tax exemption after floods: What is possible?

According to Section 17a of the Real Estate Tax Act, when addressing the consequences of an extraordinary event, particularly a natural disaster, a municipality may fully or partially exempt real estate affected by the extraordinary event from real estate tax in its territory for a period of up to 5 years.

An extraordinary natural disaster that we experienced last year was flooding. The question remains whether taxpayers who own real estate affected by the floods can hope for a tax exemption.

Municipalities can establish this exemption by issuing a generally binding ordinance or a measure of a general nature. The exemption from real estate tax can be adopted for a tax period that has already passed, provided that the generally binding ordinance or measure of a general nature is issued and takes effect by March 31, 2025.

Surprisingly, this information is not commonly publicly available.

All generally binding ordinances can be found in the Collection of Legal Regulations of Territorial Self-Governing Units and Certain Administrative Authorities: https://sbirkapp.gov.cz/vyhledavani/pravni-predpisy

As of today, no such generally binding ordinance or measure of a general nature has been issued in relation to the last year's floods.

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→ Taxes

ECJ ruled on VAT deduction entitlement for intra-group services

We are more familiar with the issue of intra-group services from the perspective of income tax and transfer pricing. However, the Romanian tax administrator took a more comprehensive approach to this issue and, during a tax audit of received services, focused on the question of VAT deduction entitlement.

Petr Tomeš, Michael Pleva
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In the dispute in question, the tax administrator refused to recognize a Romanian oil services company's entitlement to input VAT deduction for administrative services (IT, human resources, marketing, accounting) received from a foreign related entity. The same services were also provided to other entities within the group.

The tax administrator did not challenge the existence of the services but their connection to the taxable supplies of the audited company, or in transfer pricing terminology, they challenged the benefit test. The main problem they saw was in providing such services to multiple group companies, which also benefited from the services. According to the tax administrator, the services were neither necessary nor appropriate for the audited company.

After an unsuccessful appeal, the audited company filed a legal action. The relevant court suspended the proceedings and referred preliminary questions to the Court of Justice of the EU, asking EJC, among others, whether group services provided to multiple group members can be considered for each group member as services used for the purposes of taxable supplies, i.e., for their own needs.

The Court of Justice found that the matter did not turn on whether the services were provided to multiple group recipients or whether they were necessary or appropriate for the recipient. The only important thing was to prove whether the services were provided by a taxable person and simultaneously used by the recipient for the purposes of its taxable supplies. The burden of proof in this matter lies with the service recipient, who must prove that the received services were objectively related to its taxable outputs and were not supplies used by third parties. In this case, the assessment of evidence must be carried out by the national court.

This case shows that taxes are a very complex discipline and that taxation of related entities in multinational groups can also extend to value added tax. Although this case arose as a consequences of a tax audit in Romania, this case is still very relevant for members of multinational groups in the Czech Republic, where, according to early signals, tax administrators are focusing not only on the tax deductibility of costs for group services from an income tax perspective but also on claiming VAT deduction. Recipients of these services therefore generally face significant risk.

If you are among the companies that have invoices for intra-group services recorded in your expenses and are not sure whether you have sufficient evidence to defend them, both in terms of income tax and VAT, please contact our specialists with confidence.

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→ Taxes

Cryptocurrencies and the new income tax exemption

As part of the proposed amendment to laws concerning financial market digitalization and sustainability financing (Chamber of Deputies Document 694, Senate Document 31), an exemption for profits from cryptocurrencies has been proposed.

The amendment was already approved by the Chamber of Deputies at the end of 2024 and approved by the Senate on 22 January 2025.

The amendment introduces the same rules for exempting income derived from cryptocurrencies as the current rules for securities exemption. This means exemption of income from crypto assets up to 100 thousand korunas per year, or alternatively, exemption of income up to 40 million if the crypto asset was held for at least three years. Given the absence of transitional provisions, this exemption will also apply to income from crypto assets that were acquired in the past.

What's interesting about the amendment is the justification for this exemption: the main argument for the exemption is that ETFs (a form of securities) are issued on crypto assets, which can be exempt, and therefore it is necessary to exempt the crypto assets themselves. We would like to point out that ETFs are also issued on precious metals, agricultural commodities, or currencies and currency baskets, yet no one is discussing exempting income from these assets; in fact, the exemption for income from currency exchange was recently abolished, or significantly limited, as part of the consolidation package.

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→ Taxes

Regional court invalidates local coefficient in Lovosice

There's a saying "Each year's regrets are envelopes in which messages of hope are found for the new year." The case that I would like to discuss does not give much hope but certainly gives plenty to regret. I refer to the conclusions of the Regional Court in Ústí nad Labem in its judgment no. 40 A 6/2024-25 from 5 November 2024.

Petr Koubovský
Rödl & Partner Prague

This case involved a dispute between the company Lovochemie, which filed a lawsuit with the regional court against the method by which the Lovosice town hall increased the real estate tax for some local companies, specifically the so-called local coefficient. The tax increase targeted specifically defined plots of land and taxable buildings in the city of Lovosice located in the most exposed industrial zones. According to the company's repre-

sentatives, the town had acted in a discriminatory manner. The Regional Court upheld the company's lawsuit and ruled that the measure of a general nature establishing the local coefficient for real estate tax for specified properties, issued by the Lovosice City Council on 19 June 2024 under no. 051/4/2024, is invalid.

According to current unofficial information, the state administration will file a cassation complaint in this case, so it is important to monitor how the Supreme Administrative Court will address this matter.

The fundamental question is the applicability of the measure of a general nature prior to the effectivedate of the corresponding statutory regulation, or in other words, whether a previously issued measure of a general nature can be effectively valid and effective at a later date. For binding ordinances, this process is almost standard, but not for measures of a general nature, which are subject to specific legislative rules.

The affected taxpayers in Lovosice will certainly not hide their satisfaction, as the regional court's decision has already become legally binding and even a potential cassation complaint has no suspensive effect, which means only one thing – tax savings for the companies and, conversely, a significant reduction in the Lovosice municipal budget in 2025.

However, the judgment could be an unpleasant precedent in cases of similar measures of a general nature issued by other municipalities. Any subsequent uncertainty, especially for taxpayers and municipalities, will certainly create pressure for the Supreme Administrative Court judges to express their opinion as quickly as possible. So let's wait and see how it all ends.

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→ Taxes

Domestic meal allowances and basic vehicle usage reimbursement rates for 2025

The Ministry of Labor and Social Affairs Decree establishes new limits for domestic meal allowances, basic reimbursement rates for using road motor vehicles, and average fuel prices for 2025, which are mostly used to calculate reimbursements when employees use their own vehicles for business trips.

Domestic meal allowances

Meal allowance amounts for business trips lasting:
- 5 to 12 hours: 148 CZK
- More than 12 hours, but not exceeding 18 hours: 225 CZK
- Over 18 hours: 353 CZK

Basic vehicle usage reimbursement rates

For private car use, the basic reimbursement rate increases to 5.80 CZK/km, and for motorcycles and three-wheeled vehicles to 1.60 CZK/km.

Fuel reimbursement rates are 35.80 CZK/liter for 95-octane gasoline, 40.50 CZK/liter for 98-octane gasoline, 34.70 CZK/liter for diesel, and 7.70 CZK/kWh for electricity.

Foreign meal allowances for 2025

the Ministry of Finance Decree No. 373/2024 Sb. has announced foreign meal allowance rates for 2025. For European countries, increases apply to:

- Denmark: from 60 to 65 EUR/day
- Finland: from 55 to 65 EUR/day
- Croatia: from 45 to 50 EUR/day
- Ireland: from 50 to 55 EUR/day
- Italy: from 50 to 55 EUR/day
- Hungary: from 45 to 50 EUR/day
- Poland: from 45 to 50 EUR/day

– Portugal: from 40 to 45 EUR/day
– Romania: from 40 to 45 EUR/day

Remote work expense reimbursement

The flat-rate reimbursement for remote work expenses (home office) according to the Labor Code is 4.80 CZK per hour.

This flat-rate amount is established by the Ministry of Labor and Social Affairs through a decree based on data published by the Czech Statistical Office on household consumption, adjusted for the remote work model for one adult in an average household in the Czech Republic per hour.

Another option for employers to compensate these expenses is to reimburse costs that employees can actually document.

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→ ESG Insights

ESRS G1 – Business conduct

With today's article, we conclude our series introducing individual ESRS standards, which are essential for preparing sustainability reports. The last of these standards is ESRS G1, which aims to specify disclosure requirements that enable users of sustainability reports to understand the undertaking's strategy and approach, processes and procedures in the area of business conduct.

Ivan Brož
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Unlike other areas (E and S), the "G" pillar has only one standard, and it should be noted that it is among the shortest. This is primarily because ESRS G1 only marginally requires disclosure of information about the value chain, and none of the datapoints are subject to the phase-in arrangements set out in Appendix C to ESRS 1. What does the letter G actually stand for? It represents the now commonly used term governance, which can be simply translated as administration and management.

Through its disclosure requirements related to corporate governance, ESRS G1 essentially tries to motivate companies to establish, comply with, and enforce ethical procedures, anti-corruption measures, and responsible business principles that should lead to maintaining good reputation, preventing financial sanctions, and avoiding loss of stakeholder trust.

In addition to general requirements that are significantly linked to the cross-cutting standard ESRS 2, such as the role and responsibilities of administrative and management bodies and their competencies and access to information, ESRS G1 contains these key disclosure requirements:

Management of impacts, risks and opportunities

– G1-1 – Policies related to business conduct and business culture
– G1-2 – Management of relationships with suppliers
– G1-3 – Prevention and detection of corruption or bribery

Metrics and targets

– G1-4 – Confirmed incidents of corruption or bribery
– G1-5 – Political influence and lobbying activities
– G1-6 – Payment practices

In the area of managing impacts, risks, and opportunities (IRO), ESRS G1 requires disclosure of information about, for example:
– mechanisms for identifying, reporting, and investigating concerns about unlawful behavior or conduct that violates internal rules

- measures in the area of whistleblower protection
- how social and environmental topics are considered when selecting suppliers
- the system of preventive measures against corrupt behavior, whether through appropriate training programs or information channels

A very specific requirement is information on policies regarding animal welfare.

The standard references numerous international documents, particularly the UN Convention against Corruption, the European Parliament and Council Directive on the protection of whistleblowers, and others. It can be estimated that many of the requirements will have long been implemented in large companies, either due to corporate measures or compliance with legislative requirements. On the other hand, some topics or indicators, such as lobbying activities or corruption cases, will be rather rare. In our audits, we increasingly encounter the implementation of codes of ethics, information channels, and training in the area of corruption.

It might therefore seem that establishing an ESG strategy for corporate governance will be simpler than for other ESG topics.

If a company does not have selected policies and measures in place, it must state this fact in the report and disclose its plans for their implementation.

For metrics and targets, ESRS G1 requires disclosure of the following information:

- G1-4 – Incidents of corruption or bribery
  - the number of convictions and amount of fines for violations of anti-corruption laws, with disclosure concerning only entities in the value chain in which the undertaking or its employees are directly involved.

- G1-5 – Political influence and lobbying activities
  - the total monetary value of financial and in-kind political contributions made by the undertaking directly and indirectly, aggregated by country or geographic area where relevant, and by type of recipient.

- G1-6 – Payment practices
  - the average time taken by the undertaking to pay an invoice from the date when the contractual or statutory payment term starts to count, in number of days;
  - a description of the undertaking's standard payment terms in number of days by main categories of suppliers and the percentage of its payments that are in line with these standard terms;
  - the number of legal proceedings still pending for late payments.

Appendix A, as with other standards, provides examples of how individual disclosed information could be structured.

2025 is the first period for which large accounting entities will report sustainability information. If you haven't started preparations yet, it's high time to contact experts who will help you with preparations and report compilation.

In the next issue of our magazine, you can look forward to an introduction to the second pillar of sustainability reporting, which is the EU Taxonomy.

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→ Rödl & Partner Intern

Change in the management of Rödl & Partner Czech Republic

JUDr. Petr Novotný, Ph.D.

Ing. Miroslav Kocman, LL.M.

Dear ladies and gentlemen,

we would like to inform you about a change in the management of Rödl & Partner Czech Republic.

After more than thirty years leading the Czech branch of Rödl & Partner, Petr Novotný has decided to hand over the position of Managing Director to Miroslav Kocman, a long-standing partner and tax advisor at Rödl & Partner. However, he will remain one of the leading partners at Rödl & Partner and, together with Hans-Ulrich Theobald, will continue to lead the Rödl & Partner legal team in Prague and Brno.

This change represents an important step in our company‘s long-term strategy, which aims to maintain the stability, premium quality of services, and innovative approach that you have come to expect.

You can therefore continue to rely on the fully professional services of our office.

Thank you for your trust, and we look forward to our continued cooperation.

Sincerely,
The Rödl & Partner Czech Republic Team

Impressum

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