

# RÖDL



Czech Law Firm  
of the Year 2012–2025

## Newsletter 05/2026 Czech Republic

Information on Law, Taxes and Economics  
in the Czech Republic

# Contents

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<b>Law</b>	<b>3</b>
M&A in Times of Economic Slowdown: Buyer Insecurity and Risk-Sharing Structures	3
<b>Taxes</b>	<b>4</b>
The Arm's Length Test Reaches Beyond Capital and Personnel Links	4
Earliest Date for Claiming a VAT Deduction: The Tax Administration Weighs in	5
Loyalty Programmes and VAT: Are Programme Points Vouchers?	6
<b>Economy</b>	<b>7</b>
Equity-Method Measurement of Capital Interests: NAC Issues New Interpretation I-53	7
<b>Business Consulting</b>	<b>8</b>
Pay Transparency from 2026: What Employers Should Already Be Tackling Today	8

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# M&A in Times of Economic Slowdown: Buyer Insecurity and Risk-Sharing Structures

After years of buoyant deal activity, the M&A market has entered a decidedly more cautious phase. Economic slowdown, inflationary pressure, geopolitical uncertainty and tighter financing conditions are fundamentally reshaping buyer behavior. Confidence is yielding to caution and risk mitigation, conservative valuation approaches and increasingly sophisticated deal structures are taking centre stage.

Hans-Ulrich Theobald  
Rödl Praha

High on the list of buyer concerns is the sustainability of earnings of a target's revenue base. Historical financial performance is no longer treated as a reliable guide to future results. Financial projections are being stress-tested against downside scenarios, while margins are being scrutinised for vulnerability to weakening demand and limited pricing power. Customer concentration, contract duration and the resilience of the target's cost structure are all receiving close attention.

Rising energy and raw material costs are adding to buyer anxiety. For energy-intensive or manufacturing businesses, input cost volatility poses a material risk to EBITDA stability and long-term competitiveness. Buyers are probing cost pass-through mechanisms, hedging strategies and supply chain resilience in considerable detail. Where those risks cannot be convincingly managed, they feed directly into lower valuations.

The risk of overpaying remains a defining concern. Against a backdrop of compressed market multiples and limited medium-term growth visibility, buyers are wary of committing to a price that future performance may not justify. Appetite for fixed purchase prices is falling, and the expectation gap between buyers and sellers is widening.

Financing considerations loom large. Higher interest rates and tighter lending conditions increase debt servicing costs and erode available leverage. Buyers are correspondingly more alert to cash flow volatility and the risk of breaching financial covenants after closing. Targets with stable free cash flow, modest capital expenditure requirements and limited

refinancing risk are favored, while more leveraged or cyclical businesses face heightened scrutiny.

Integration and execution risks have likewise gained prominence. In an economic downturn, synergies are harder to realise, restructuring is more complex, and management bandwidth can be quickly stretched. Carve-outs, cross-border transactions and platform integrations are viewed with particular caution under current conditions.

Taken together, these risk factors explain the growing prevalence of delayed payment mechanisms and phased deal structures. Earn-outs have become cross-sector standard, enabling part of the purchase price to be tied to actual post-closing performance. Phased acquisitions and minority investments with step-in options pare back upfront capital exposure while preserving strategic flexibility.

In today's environment, successful M&A is not a matter of speed and optimism but of rigorous structuring. Buyers prioritize control, transparency and a sensible allocation of risk. Sellers, meanwhile, must adjust to a market where certainty of value increasingly requires accepting deferred and contingent consideration.

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# The Arm's Length Test Reaches Beyond Capital and Personnel Links

The Income Tax Act extends transfer-pricing rules to so-called persons associated by other connection, that is, persons with no capital or personnel link. This is one of several fronts on which the tax authorities are working to establish a “harmful” economic interconnection between taxpayers, and one on which the Czech courts have so far backed them. A parallel trend is the growing readiness of the tax authorities to argue that losses at a Czech subsidiary were the result of a so-called parent-company instruction.

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The Supreme Administrative Court (SAC) recently revisited the tax deductibility of advertising services supplied at sporting events. The Court held that the expense was not deductible because the parties had become persons associated by other connection, even though they had no capital or personnel link, on the basis that they had created the legal relationship predominantly to reduce the tax base. In plain terms, the SAC found that the parties had effectively arranged to use their mutual transactions to inflate the recipient's deductible cost artificially and so secure a tax advantage. The judgment is the latest in a growing line of authorities on the point.

The Court relied on several factors. First, VAT fraud had been identified in the supply chain reviewed during the VAT audit, and that finding was held against the taxpayer as recipient of the supply. That premise itself implies that the

supply did take place, yet the Court still refused to treat the cost as deductible. Its reason was that the invoiced price, and so the recipient's cost, was disproportionately high compared with the alternatives identified by the tax authority, and the recipient could point to no commercially rational explanation for paying it. By way of qualification, settled practice has long been that an excessive price, taken on its own, should not carry further consequences; the surrounding circumstances must always be weighed in.

In this instance the courts treated a number of features as out of the ordinary, and as evidence of an artificial construction of the commercial relationship. The contractual documentation was inadequate given the volume of work invoiced; the contract defined the services in only the vaguest terms; the recipient exercised no oversight of performance; and the work performed delivered little tangible benefit. Further pointers in the same direction were the absence of any market survey and the lack of photographic evidence.

The take-away is that VAT and corporate income tax cannot be treated in isolation: the arm's length level of remuneration for an inbound supply must be tested even where the parties sit outside the same group. The courts' reasoning, moreover, transposes readily to supplies other than advertising.

We accordingly recommend paying close attention not only to contractual documentation but also to ongoing oversight and to the evidencing of larger-scale supplies, whoever the supplier may be.

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## Earliest Date for Claiming a VAT Deduction: The Tax Administration Weighs in

In our previous newsletter we covered a noteworthy judgment of the General Court of the Court of Justice of the European Union in Case T-689/24 I.S.A., which suggested that the right to deduct VAT could be exercised already in the period to which the supply relates (March, say), even if the tax invoice does not arrive until the following month (April), provided it arrives before the return for the original period is filed.

### CJEU case-law allows the right to deduct input VAT to be exercised even before the tax invoice has been received

The Tax Administration was quick to respond. Prompted by a flurry of queries from practice, it has issued an official statement confirming that its existing approach stands. The right to deduct may, as before, be exercised no earlier than the tax period in which the taxable person received the tax invoice. In other words, the current wording of the Czech VAT Act and the established administrative practice remain in force, and the conclusions of the judgment will, for now, have no domestic application.

The Tax Administration grounds its position in the fact that the judgment is itself under review by the Court of Justice of the EU in Case C-167/26 RX, where proceedings are still pending. Such review is opened, in particular, where there are doubts about the decision's compatibility with EU law or about the uniformity of its interpretation.

Pending the outcome of that review, the Tax Administration's view is that taxable persons cannot rely on the judgment, nor can they invoke the direct effect of the VAT Directive to the same end.

We will keep an eye on developments and report back as the picture becomes clearer.

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# Loyalty Programmes and VAT: Are Programme Points Vouchers?

In its judgment in Case C-436/24 Lyko Operations, the Court of Justice of the European Union has ruled on whether loyalty points qualify as vouchers for VAT purposes. The decision offers practical guidance for any retailer running, or thinking of running, a loyalty programme.

Michael Pleva, Monika Páblová  
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The case concerned a Swedish retailer of cosmetics and food supplements that planned to launch a loyalty programme under which customers earned points in proportion to the value of their purchases. On a later transaction, those points could be used to acquire pre-selected items from the retailer's range, typically low-value goods priced in points. The points could not be exchanged for cash, combined with a cash top-up to pay for selected goods, or transferred to anyone else.

## Loyalty points are not vouchers for VAT purposes where redemption is conditional on a further purchase

The retailer treated the points as multi-purpose vouchers. The tax authority took the opposite line: the points were not stand-alone redeemable vouchers, only an opportunity to obtain a product on a further purchase.

Under the VAT Directive, an instrument qualifies as a voucher only where two cumulative conditions are met. First, the retailer must be obliged to accept the voucher as consideration for a supply of goods or services. Second,

the goods or services to be supplied in exchange must be specified. It follows that not every instrument labelled a "voucher" in everyday language meets the test for VAT purposes. An instrument that does not entitle the holder to a supply of specific goods or services, but merely confers a discount on a future purchase, falls outside the definition.

The CJEU found that, on these facts, the first condition was not met. The retailer was never required to hand over goods in exchange for points alone, since the customer always had to make a further purchase, and it was only at that point that any entitlement to the reward arose. Only the second of the Directive's two conditions was therefore satisfied.

The takeaway for practice is that not all loyalty points are vouchers for VAT purposes. Where redemption is tied to a further purchase, the points will typically operate as a discount. Designing the loyalty programme correctly is, accordingly, key to securing the right VAT treatment.

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# Equity-Method Measurement of Capital Interests: NAC Issues New Interpretation I-53

The Czech National Accounting Council (NAC) has published Interpretation I-53 on the measurement of securities and equity interests under the equity method in the separate financial statements of business entities. As with other NAC interpretations, it is not legally binding, but it carries significant professional weight as guidance.

Ladislav Čížek  
Rödl Prague

The Interpretation makes clear that, when applying the equity method in separate financial statements, the reporting entity cannot simply take its current share in the carrying amount of the “subsidiary’s” equity as the answer. The starting point is the acquisition cost of the capital interest, adjusted thereafter for post-acquisition movements in equity. Where the capital interest has been acquired by purchase, the entity must additionally recognise the difference between that acquisition cost and its share in the fair value of the assets and liabilities acquired, net of related deferred tax. In simple terms, that difference is the equivalent of goodwill.

- **Czech companies established by incorporation.** Here the practical impact will, in most cases, be minimal. Material differences between the acquisition cost of the capital interest and the value of equity at the date of incorporation (acquisition) do not, as a rule, arise, and equity-method remeasurement will be straightforward. In other words, broadly “as before.”
- **Foreign companies, even where also established by incorporation.** The position is different. The local-GAAP equity figure cannot simply be taken at face value; it must be adjusted onto an accounting basis consistent with Czech accounting regulations. Typical adjustments include capitalisation of leases

(rentals), present-value measurement, the treatment of decommissioning provisions, the effective interest rate on borrowings, and foreign exchange differences.

- **Capital interests acquired by purchase, whether in Czech or in foreign companies.** This is where the new Interpretation has the greatest bite. The exercise is no longer simply one of taking the share in equity; the reporting entity must identify, even for the purposes of its separate financial statements, an acquisition difference, that is, the economic equivalent of goodwill, which it must then amortise over a chosen and properly justified period. Here too, the “subsidiary’s” equity must be assessed using accounting policies consistent with Czech accounting regulations.

**For equity-method measurement of capital interests, the current share in the subsidiary’s equity may not, on its own, be enough**

The Interpretation also reminds entities to test the capital interest for impairment at each reporting date and, where appropriate, to recognise an impairment allowance. The notes to the financial statements should, on the Interpretation’s approach, set out the related

disclosures, in particular a breakdown of the carrying amount of the investment between the part corresponding to the share in equity and the part corresponding to the acquisition difference, or goodwill, together with the amortisation period applied.

In practical terms, the Interpretation will weigh most heavily on new acquisitions and new investments, where the reporting entity will already capture, on initial recognition, both the share in the investee's equity and, where applicable, the acquisition difference. For historical transactions, by contrast, a retrospective reconstruction of the original fair values will not be expected in every case simply to allow the acquisition difference to be calculated precisely after the event.

Such an exercise may, however, become necessary where the existing measurement would result in a manifest distortion of the carrying amount of the capital interest.

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# Pay Transparency from 2026: What Employers Should Already Be Tackling Today

From 7 June 2026, Directive (EU) 2023/970 will reshape pay, recruitment and internal HR processes. The Czech Ministry of Labour and Social Affairs' draft transposition legislation pushes the effective date back to 1 January 2027, and in part to 1 January 2028. The debate so far has focused largely on the legal implications, but for businesses this is, first and foremost, a management, people and data agenda. It will touch the entire employee life cycle, from recruitment through career progression to internal communication and reporting.

Alena Spilková  
Rödl Prague

A common misconception among employers is that the new rules apply only to large corporations. They do not. The core obligations will bind every entity that acts as an employer, irrespective of size.

#### Recruitment is set to look very different

Candidates will have to be told the starting salary, or the salary range, before they sign. Job advertisements and position titles will have to be drafted in gender-neutral terms.

The familiar question, "How much were you on in your last job?" will no longer be acceptable; a candidate's previous earnings cease to be a relevant criterion.

For HR, the message is straightforward. Recruitment must become more structured, more transparent and more professional, and an internal pay framework will cease to be a matter of choice.

Employers will need to articulate clearly how pay, bonuses and benefits are arrived at. Remuneration must rest on objective criteria such as the complexity of the work, the level of responsibility, the competences required, or performance.

In practice, this means:

- building pay bands
- describing each role and what it is worth
- harmonising bonus schemes
- designing a fair benefits framework

Where pay today is shaped largely by legacy decisions or one-off carve-outs, the risk exposure is significant.

### New expectations on the part of employees

Employees will gain the right to ask for information on the average pay of colleagues doing the same or equivalent work, broken down by sex, and the employer will have to respond within a defined time limit.

This is a fundamental shift for internal communication. It is no longer enough simply to “have everything right”; pay differences must be capable of being explained, with data, with logic, and through a system that stands up to scrutiny.

### Reporting for larger employers

Larger employers will be required to report regularly on the gender pay gap. Where the figures reveal an unjustified gap of 5 per cent or more, remedial measures will have to follow.

In practice, that calls for joined-up working between HR, controlling, payroll, management and, often, IT.

### What we recommend doing now

The companies that move early will be at an advantage. We recommend, in particular:

- analysing the current remuneration set-up
- revisiting job positions and their descriptions
- introducing pay structures and pay benchmarking
- recalibrating recruitment processes and job advertising
- preparing an internal communication strategy
- putting in place a reporting methodology and advanced people analytics

### Not merely compliance. A competitive advantage

Transparent and fair pay strengthens employee trust, reinforces the employer’s standing in the labour market, and makes it easier to attract strong candidates. Companies that come to the deadline prepared will not see the Directive as a burden, but as an opportunity to put the management of their people on a more professional footing.

We bring together HR consulting, employment law, data analytics, and practical tools for implementing pay transparency. We will help you design a system that is not only compliant, but genuinely useful in the day-to-day running of the business.

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