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# TAX FRESH



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TAX & AUDIT SERVICES

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Dear business partners,

As you are aware, on November 8, 2023, the Senate of the Czech Republic has granted approval to a governmental draft amendment to tax and associated legislations, referred to as the Consolidation Package 2024. It is highly probable that the President of the Czech Republic will endorse this proposal by the conclusion of this year, with the anticipated amendments poised to come into effect as of the scheduled date, January 1, 2024.

Given the comprehensive nature of the Consolidation Package, which encompasses nearly all applicable legislation impacting the area of tax and accounting, we are confident that the overview provided in this special edition of Tax Fresh will enhance your understanding and facilitate your navigation through these changes.

Best regards



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## SUMMARY OF THE MOST IMPORTANT CHANGES IN THE 2024 CONSOLIDATION PACKAGE - APPROVED VERSION

### Changes in Accounting:

- Functional currency option – so far only EUR, USD and GBP are to be deemed functional currencies
  - For businesses predominantly engaged in transactions denominated in a specific currency = specifically, the currency of their primary economic environment
  - Modification is permissible solely on the initial day of the accounting period
  - Return to CZK is only feasible in the event of a shift in the unit's primary economic environment
  - Corporate income tax and value added tax returns will be completed in CZK
- Modification in the net turnover definition: Revenue now comprises proceeds from the sale of products, goods, and services (impacting the criteria for the statutory audit of financial statements).

### Income Tax Rates:

- Natural persons – The 23% income tax rate will now be applicable to earnings surpassing 36 times the average wage (down from the previous threshold of 48 times). In absolute terms, this translates to a gross monthly salary of CZK 131,901 (formerly CZK 161,296).
  - Note: This adjustment does not extend to social security, where the maximum assessment base remains unchanged at 48 times the average wage (CZK 2,110,416 per year).
- Legal entities – there is a rise in the corporate income tax rate from 19% to 21%, determined by the tax rate applicable on the first day of the tax period (or the period for which the tax return is filed).

### Changes in the Taxation of Employees:

- The personal income tax exemption for employee leisure-time benefits provided by the employer will now be capped at half of the average wage for the tax period (expected limit of CZK 21,750).

The tax administration is in the process of developing an interpretative guideline aimed at resolving controversial interpretation issues.

- Support for emission-free cars (electric cars, hydrogen cars) in the form of a favourable increase in the tax base for an employee who uses the employer's car free of charge for private purposes in the amount of 0.25% of the entry price of the car (incl. VAT).
- The tax regime for employee meal allowances will be completely governed by the existing rules for meal allowances (i.e., encompassing both the limit of exemption from taxation on the employee's side and the fully tax-effective expenditure on the employer's side). The tax regime for traditional "paper" meal vouchers as we know it (characterized by unlimited exemption on the employee's side and a tax-effectiveness limit on the employer's side) thus ends.
- Agreements on job completion: the limit for withholding tax and participation in social security and health insurance is set at 25% of the average wage,

- if the employee has signed more than one agreement with more than one employer => the limit for social security and health insurance contributions is 40% of the average wage
- Employers must electronically report the start of an employee's employment on an Agreement on job completion within 8 days and the end of employment within 8 days of the completion of the job
- Furthermore, employers are obligated to provide the ČSSZ (Social Security Office) with the following information on a designated form by the 20th day of the subsequent month:
  - name and surname
  - birth number and date of birth
  - the amount of income earned by the contractor / information about not having earned any income

### **Other Changes in the Taxation of Natural Persons:**

- Natural persons selling a share in an LLC (s.r.o.) or trading shares must consider the exemption limit of CZK 40,000,000 for the tax year. Effectiveness has been deferred to sale proceeds (including installment payments) accruing after January 1, 2025.
- Child placement abatement and student abatement are abolished.
- The conditions for utilizing the spouse (wife/partner) allowance have been revised: the taxpayer is eligible to claim the allowance when residing in a shared household with a dependent child under 3 years of age and a spouse, provided the wife's/partner's income for the year does not exceed CZK 68,000.
- The annual limit for the exemption of the taxpayer's other income under Section 10 (i.e. Other Income) is now CZK 50,000, unless the income listed in (a) to (p) of Section 10, which now have their own individual limits.
- From January 2024, a sickness insurance levy of 0.6% of the employee's assessment base will be introduced (i.e., the portion paid by the employer from gross wages remains unchanged).
- The state support contribution for building society savings has been reduced to a maximum of CZK 1,000 per year (currently, the state contributes CZK 2,000 per year for each building society savings contract), and the tax exemption for this state contribution has been eliminated.
- The threshold for exempting income from raffles and gambling is decreased from the existing CZK 1,000,000 to CZK 50,000.

### **Corporate Income Tax and Taxation of Natural Persons in Business:**

- The tax deductibility of tax depreciation for M1 cars is capped at CZK 2,000,000. In the case of financial leasing of these cars, the lessee will be limited, while in the case of operational leasing, the lessor will be limited.



- Extraordinary (so called "superfast") tax depreciation of assets (1st and 2nd depreciation group) can be applied last for assets acquired by 31 December 2023.
- Starting in 2024, the option for extraordinary tax depreciation is preserved exclusively for emission-free vehicles, including electric cars and hydrogen vehicles, acquired between January 1, 2024, and December 31, 2028.
- A gift in the form of a 'still wine' of up to CZK 500 will no longer be a tax-deductible expense (although the zero excise tax rate regarding the 'still wine' will remain).
- Non-realized exchange rate differences can be excluded from the tax base if the taxpayer voluntarily chooses to do so. The condition is to declare this decision within 3 months from the beginning of the tax period (i.e., for the first time by March 31, 2024). However, thereafter it is necessary to foresee the obligation to maintain this regime for a period of 3 years.

### Value Added Tax:

- The entitlement to deduct VAT on M1 passenger vehicles will be limited to an absolute amount of CZK 420,000 (equivalent to 21% of the value of CZK 2,000,000 – see the income tax implications). Yet, rather surprisingly, on the subsequent sale of such car with a limited input VAT deduction on acquisition, the seller must pay output VAT on the full amount of the sale price (i.e., without taking into account the fact of the reduction of the right to deduct).
- The VAT rates are changing, and from 2024 two VAT rates will apply, namely:
  - The basic rate of 21 % (this rate remains unchanged)
  - The new reduced rate of 12 % (created by combining the rates of 15% and 10 %)

The classification of items into individual VAT rates will result from the amended annexes to the VAT Act.

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