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Taxes and tax trends in Czech Republic

SPEAKER

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AGENDA

1. Introduction into Czech tax system
2. Corporate income tax
3. Personal income tax
4. VAT
5. Tax trends in the Czech Republic – expected changes

1. Introduction into Czech tax system

Pillars of Czech tax system

Czech tax and corporate legislation

Since EU accession on 1 May 2004, the system has been harmonized with European legislation

Czech Republic has a broad network of double taxation treaties with both EU and non-EU countries. These double taxation treaties are based mainly on the OECD Model Tax Convention.

TAXES IN THE CZECH REPUBLIC

Direct taxes

- Corporate income tax (CIT)
- Personal income tax (PIT)
- Real estate tax (RET)

Indirect taxes

- Value added tax (VAT)
- Excise duties (on alcohol, mineral oils and tobacco products)
- Environmental tax (on electricity, natural gas, and solid fuels)

2. Corporate income tax

Corporate income tax

- Czech tax residents are taxed on their world wide income.
- Czech tax non residents are taxed on their Czech sourced income.
- Taxable period generally one (calendar) year, the same as the accounting period
- Deadlines for filling CIT return: within four/six months following the end of the taxable period (1 May or 1 July)

Corporate income tax

Taxation rates on particular corporate incomes:

- **19% flat tax rate** for corporate incomes (expected 21% starting 2024)
- 5% income of certain investment, mutual funds, pension funds
- **15% withholding tax** on dividends, interests paid abroad by Czech debtor and royalties paid abroad by Czech licensee

Dividends can be tax exempt if the parent company is an EU tax resident and if it holds at least 10 % share for at least 12 subsequently following months.

35% withholding tax for non-resident of EU or EEA or resident of a state without treaty for avoiding double taxation or treaty for Exchange with country of debtor or for any other beneficial owners who are not able to declare its tax residency in EU or EEA

Tax base

Tax base is calculated by adjusting of Accounting profit for tax purposes.

Revenues and also expenses are recognized based on accrual basis

In general, tax deductible expenses must be incurred to generate, assure and maintain taxable income

The most common non-deductible expenses are:

- Representation cost
- Accounting provisions
- Non-contractual penalties and fines
- Interest expense under thin capitalization rule (debt-to-equity ratio, 4:1, related parties)

Transfer pricing

The Czech Republic, like many other countries, has transfer pricing regulations to ensure that transactions between related entities are conducted at arm's length prices.

TP documentation is not obligatory in CZ, however, the Company should be able to prove that the transfer prices used in related-party transactions are in line with the arm's length principle.

3. Personal income tax

Personal income tax

- Czech tax residents are taxed on their world wide income.
- Czech tax non residents are taxed on their Czech sourced income.
- Taxable period is calendar year
- Deadlines for filling CIT return: within three/four/six months following the end of the taxable period (1 April or 1 May or 1 July)
- There are 5 types of income so tax bases for PIT

TAX BASES FOR PIT

- Employment income
- Entrepreneur income
- Capital related income
- Rent income
- Other income

Personal income tax

Taxation rate:

Since 2021, the Czech Republic returns to progressive taxation

- **15% tax rate** for gross income up to the 48 fold of an average salary, for 2023 the threshold is CZK 1,935,552 (approx. PLN 367 755) (expected 36 fold starting 2024)
- **23 % tax rate** for gross income exceeding the threshold
- Exception is foreign capital income, which can be taxed in special tax base at 15% without limit

Employee´s insurance

- Employees pay insurance from their gross salary monthly: 4.5% health insurance + 9% social insurance.

- Employers bears insurance costs on employee´s salary as well: 33,8% social and health insurance.

- Czech Republic is a part of EU social security coordination

4. VAT

VAT

VAT in the Czech Republic is harmonized with EU legislative.

Czech Republic, however, does not implement any kind of e-invocing.

VAT rates:

21% - most goods & services

15% - food, construction services, social care, public transport

10% - books, some medical and baby goods, selected services (hairdressing, cleaning, clothes repairs, food in restaurants, etc.)

VAT

- Compulsory Registration: if the turnover exceeds CZK 2 million (approx. PLN 380 thousand) in 12 consecutive months

- VAT taxable period: quarterly/monthly depending on the turnover (new company has a monthly period)

- VAT payers are obliged to submit VAT returns and control statements on monthly/quarterly basis (and EU sales list if a tax payer carries out intracommunity supplies).

4. Tax trends in the Czech Republic – expected changes

TAX FUTURE?

The government at the beginning of May announced the following proposed direct and indirect tax changes expected to apply beginning 1 January 2024.

Expected changes for 2024

Tax rate changes:

- **CIT** - Two-percentage point increase in the standard corporate income tax rate from 19% to 21%

- **PIT** - Reduction in the threshold for applying the 23% tax rate from four to three times the average wage (on a monthly basis).
  This means that the annual tax base of up to approximately CZK 1,450,000 will be taxed at a 15% tax rate (current threshold is CZK 1,935,552 (approx. PLN 367 755))

- **VAT** - The current rates of VAT would be merged into two rates of 12% and 21%. In addition, there will be certain reclassification of services from reduced VAT rate to the basic VAT rate.

- **RET, excise taxes** – would be increased

Expected changes for 2024

Other changes:

- Limitation of tax deductibility of certain costs:
    - New limit of CZK 2 million for business cars (depreciation above CZK 2 million will not be tax deductible
    - Elimination of tax deductibility of non-sparkling wine as a gift up to CZK 500

- Elimination of exemptions for non-monetary benefits for employees

- Elimination of certain deductions and discounts for individuals

- Restrictions on exemptions for sales of securities and shares – if the time test is met (3 or 5 years), the exemption up to income of CZK 40 million per taxpayer would be tax exempt.

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