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TAX FRESH



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Dear business partners,

Our latest edition of Tax Fresh focuses primarily on the forthcoming amendment to the VAT Act, which introduces a range of significant changes. Below is a concise summary of selected changes that we believe may have a direct impact on your day-to-day business operations. In conclusion, we draw attention to the planned change in the taxation of employee benefits, which should be carefully considered when preparing your budgets for 2025.

As we approach Advent Sunday and present you with the final edition of Tax Fresh for this year, we want to take a moment to express our heartfelt gratitude for your continuous support, we appreciate it very much and look forward to working with you in the new year.

Best regards



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AMENDMENT TO THE VAT ACT



The amendment to the VAT Act, under Parliamentary Print No. 726, was approved by the Chamber of Deputies of the Parliament of the Czech Republic on October 30, 2024. A legislative proposal amending the Act awaits a consideration by the Senate.

The amendment is expected to take effect on January 1, 2025, with certain provisions applying at later dates: July 1, 2025 (adjustments in the area of real estates), January 1, 2026 (tax refunds), and January 1, 2028 (subsidies to pricing).

Adjustment of Tax Deductions for Bad Debts (Section 46)

The amendment to Section 46 introduces changes aimed at facilitating the refund of already paid VAT on bad debts:

- A reduction in the time period from the issuance of the first enforcement order from 2 years to 1 year.
- It will be sufficient to initiate insolvency proceedings against the debtor.
- VAT adjustment will also be possible for claims that the creditor could have included in insolvency or enforcement proceedings but chose not to.
- The latest change allows for the adjustment of the tax deduction for so-called petty claims up to CZK 10,000 without the need for any official proceedings.

Correction of Tax Deduction for Overdue Receivables (Section 74b, Paragraph 3)

Another notable change, which has sparked significant discussion in the professional community, is the obligation for debtors who have applied a tax deduction, and whose liability from the corresponding performance is overdue by 6 months or more, to return the deduction on the unpaid amount of the liability. After the subsequent payment, it will be possible to reclaim this amount by the end of the second calendar year following the adjustment. This rule applies to transactions conducted after January 1, 2025, as it does not include any transitional provisions.

Currently, it is still under discussion whether this provision will also apply to invoices within the reverse charge mechanism.

Adjustment to the Taxable Amount and Tax Deduction for Persons Who Have Ceased to Be Payers (Section 42a + Section 74a)

Starting from January 1, 2025, the obligation to adjust the taxable amount and the corresponding adjustment of the tax deduction will also apply to individuals who have ceased to be VAT payers. In practice, this will mean that:

- A person who has an obligation to adjust the taxable amount (e.g., in case of applied discount) on a transaction made while he / she was a payer shall issue a corrective tax document as if he / she were still a payer.
- A recipient of a credit note for a transaction on which they previously claimed a tax deduction as a VAT payer will now be required to adjust the deduction based on the credit note, as though they were still a VAT payer.

These adjustments will enter into the tax returns for the last tax period when the subject was a payer. Consequently, the VAT return form will be updated to reflect these changes starting in 2025.

The Right to a Deduction in a Pro Rata Amount for Fixed Assets (Section 75, Paragraphs 7 to 9)

The amendment abolishes the 10% tolerance for the proportional coefficient, which is used when

calculating VAT on fixed assets applied for mixed purposes—such as a company car used for both business and employees' private purposes. For the last tax period of the year in which the asset is acquired, or the year in which the deduction is claimed (if different), it will be mandatory to adjust the entitlement to the deduction whenever the estimated proportional coefficient differs from the actual coefficient, regardless of the size of the deviation.

For items that do not become fixed assets, a 10% tolerance will be maintained.

The Tax Base for the Free-of-Charge Supply of Goods (Section 36, Paragraph 6a)

The amendment adopts the procedure modified by the information of the GFD for the application of VAT on the free-of-charge supply of goods (issued in August 2023). Accordingly, the procedure for determining the tax base for the free-of-charge delivery of goods will be codified directly in the law, following this preferential order:

1. Cost less wear and tear (purchase).
2. The price of like goods (production or acquisition free of charge).
3. The total cost of delivery of these goods.

In the case of free-of-charge delivery of goods purchased by the buyer, the VAT paid will not be higher than the deduction applied at the time of purchase. For non-sellable inventory (e.g., medicines or foodstuffs before expiry) it is even possible to set a tax base close to zero under certain conditions.

The New Condition for Intra-Community Triangular Transaction (Section 11, Paragraph 4 and Section 17, Paragraph 5)

The amendment implements the outcome of the judgment of the European Court of Justice in case C-247/21 *Luxury Trust Automobil GmbH* of 2022. The court decided that the data "*customer is liable for the payment of the VAT*" on a tax document in a triangular transaction, which is issued by an intermediate person, is the substantive requirement for exemption in supply of the goods within the territory of the country. The simplification rules for triangular trade cannot be applied without this indication on the document.

Extension of the Records for VAT Purposes (Section 100)

The new law requires tax entities to maintain records of transactions not subject to tax, such as gifts provided as part of economic activities or business samples, to at least the same extent as their traditional record-keeping obligations. For business assets, it will be mandatory to record at least the date of acquisition or classification and the extent to which they are used for economic activity.

Amendments to the VAT Act for Real Estate Valid as of July 7, 2025

- The new procedure for determining whether a building is a residential building will be based on the data recorded in the Registry of Territorial Identification, Addresses and Real Estate (Section 48).
- The possibility to apply a reduced rate for the delivery of structure for social housing, even if it is not completed (Section 49). This amendment is also closely linked to the new definition of buildings for social housing in Section 48a of the VAT Act.
- A new definition of building land, which should lead to a more precise determination of whether it is building land that cannot be exempted from VAT under this Act (Section 55a).
- For selected properties, only the first supply after completion or substantial alteration made by the end of the 23rd calendar month following the month of completion will be subject to VAT. The second supply and supplies after this period are exempt from VAT (Section 56).

Small Enterprises Scheme – (Section 109bb to Section 109bu)

This scheme is based on EU Directive 2020/285 and simplifies VAT administration for small enterprises within the EU. Its aim is to help create a fiscal environment to facilitate their growth and the development of cross-border trade without having to register for VAT in other countries. The use of the scheme is voluntary.

The enterprise must not exceed an annual turnover of €100,000 in the EU in the relevant period or the immediately preceding period, counting the sum of turnover in all Member States. The turnover in a particular state may not exceed the local registration limit set by each state.

Registration for the scheme is carried out in the country of establishment, where the company obtains a special VAT number beginning with "EX". Registration is not retroactive. Businesses will provide quarterly reporting (incl. nil reports) where they shall indicate the value of the transactions in all member states. This scheme restricts the possibility of deducting and recovering VAT because the business will have a status similar to that of a non-taxpayer in the country of exemption.

VAT Payer Registration (Section 6)

As part of the harmonisation of VAT rules within the EU, turnover is now calculated on a calendar-year basis. The turnover limit of CZK 2,000,000 remains the same. Tax entity (incl. small enterprise - see above) becomes a payer compulsorily from the first day of the calendar year, which follows the year in which the domestic turnover exceeded the amount of CZK 2,000,000. However, when registering, the taxpayer may opt to become a VAT payer starting from the day following exceeding the limit.

The amendment also introduces another limit for VAT payers. A taxable person is obliged to become a VAT payer on the day immediately after their turnover exceeds CZK 2,536,000. Application for VAT registration must be submitted within 10 working days from exceeding the limit (Section 94).

The turnover limit has also increased from CZK 10,000,000 to CZK 15,000,000. If this limit is not exceeded, the taxpayer may choose a calendar quarter as their tax period, (as per Section 99a).

Changing the Time Limit for Claiming the Deduction (Section 73)

VAT payers will now be entitled to claim the deduction no later than the end of the second calendar year following the year in which the claim arose, down from the original three-year period. Example: if the date of taxable supply was in September 2025, the deduction must be claimed by December 31, 2027 at the latest.

After the lapse of this period, the deduction can only be claimed for supplies that have become taxable (typically reverse charge).

Changing the Deadline for Adjustment of the Tax Base (Section 42)

Another change is the extension of the deadline for correcting the tax base (e.g., in the event of a refund or cancellation of a taxable supply). The deadline for correcting the tax base has been extended to 7 calendar years from the end of the year, when the obligation to declare VAT on the original transaction occurred. In the case of received advances, from which the obligation to declare tax will arise, it will be possible to make a correction of the tax within 3 years from the end of the tax period in which the payment was received.

Place of Transaction in the Provision of Services (Sections 10b and 10ba)

The rules for determining the place of transaction for cultural, sporting and educational events will now

be linked to the particular form of participation of the participant (physical x virtual).

- In the case of physical participation, the place of the transaction will always be determined at the venue of the event.
- In contrast, in the case of virtual participation (e.g., online conferences), the place of performance is where:
 - The taxable person has his / her registered office (basic rule – Section 9)
 - The non-taxable person has his / her place of residence or where the non-entrepreneurial legal person has a seat (Section 10bs).

The service of providing access to a "virtual event" can be taxed under the One Stop Shop (OSS) regime.

Set of Goods at Different Rates (Section 47)

In the case of the supply of a set of goods containing mutually equivalent and inseparable items subject to different VAT rates or exemptions, the highest rate of tax contained in the set may be applied. An example would be gift packages (e.g., a combination of food and alcohol). This approach cannot be applied to services or in the case of supplies which are incidental to the main supply and are therefore not an end in themselves for the buyer.

Sports Cars-VAT Deduction (Section 72)

As of 2025, the law abolishes the VAT deduction limit to CZK 420,000 for sports cars. These are cars that will be issued a special "R" license plate by the relevant authority. For other vehicles in the M1 category, the deduction limitation remains unchanged for now. Ambulances, funeral vehicles, and operators of road motor transport under a concession continue to be exempt from this limitation. An unlimited deduction can only be claimed if the sports car is made roadworthy on or after January 1, 2025.

AMENDMENT TO THE INCOME TAXES ACT



Finally, we would like to draw your attention to the amendment to the Income Taxes Act in the area of employee benefits related to employee health. The amendment to the Income Taxes Act, currently under review in the Chamber of Deputies of the Czech Parliament, proposes separating health benefits from the general "package" of benefits and introducing a new, higher, standalone limit for tax exemption. In practice, this would establish two separate limits for employee benefits: a limit equivalent to the average wage (CZK 46,557) for health benefits, and a limit of half the average wage (CZK 23,278) for cultural and sports benefits. These amounts relate to 2025 and will be adjusted annually according to changes in average wages.

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