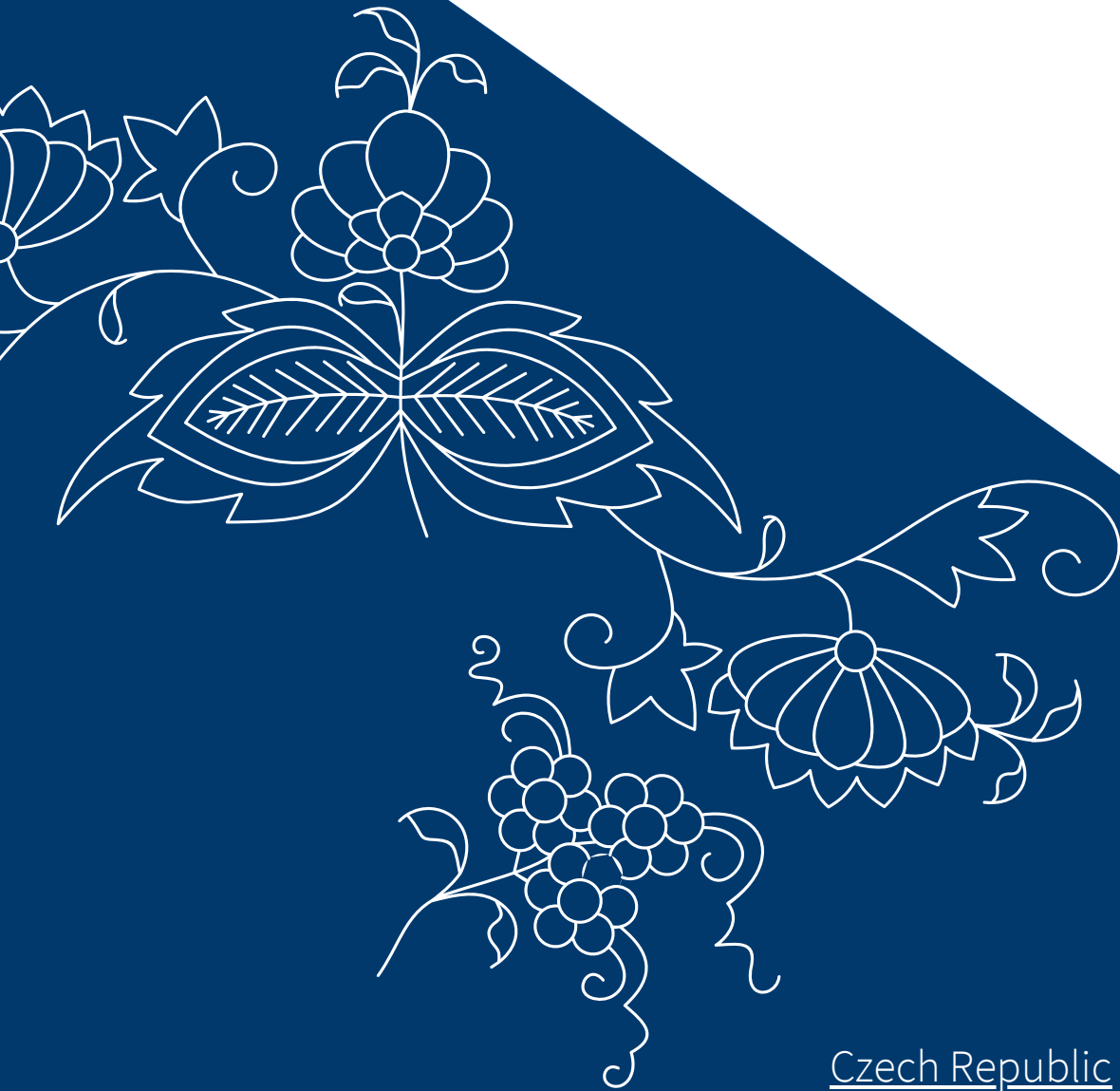


CONSOLIDATION PACKAGE – A BRIEF SUMMARY OF TAX CHANGES



Czech Republic

Slovakia

Ukraine

Bulgaria

Poland

Romania

Hungary

Croatia

The President of the Czech Republic signed the Act on the Consolidation of Public Budgets.

We briefly summarize the most important tax changes. Most changes will come into effect on 1 January 2024, if not stated otherwise.

Corporate income tax

- **The corporate income tax will increase from the current 19% to 21%.**
- There will be a **limitation on the tax deductibility of the costs incurred to purchase a passenger car of category M1 to CZK 2 million** (approximately TEUR 82). No more than CZK 2 million can be claimed as tax deductible costs through tax depreciation.
- **Extraordinary tax depreciation can be claimed for a new emission-free vehicle** purchased between 2024 and 2028.
- Non-monetary benefit – the option to **use a company car for business and private purposes** is taxed in the amount of 0.25% of the cost price including VAT for emission-free vehicles, 0.5% for low-emission vehicles and the current 1% for conventional vehicles.
- **“Silent wine” of up to CZK 500 will no longer be provided as a promotional item** treated as a tax-deductible cost.
- **Costs of non-monetary benefits above the limit, i.e., subject to taxation, will be tax deductible** if the entitlement arises from a contract, internal policy, or collective agreement.
- **Meal expenses will be tax deductible with no limits, regardless of the method of payment.**
- Large groups will be subject to **reports on income tax and sustainability reports.**
- Taxpayers can opt to exclude unrealized FX differences and keep accounts in a foreign currency.

Personal income tax

- **Reduction of the threshold for the progressive tax rate.** The tax rate of 23% applies for income exceeding 36 times the average salary vs. the current 48 times.

For 2024, the threshold amounts to CZK 1,582,812 (CZK 131,901 monthly, approximately EUR 5,400).

The maximum annual assessment base for social security remains at 48 times the average salary (CZK 1,935,552 for 2023 and CZK 2,110,416 for 2024).

- **Stricter rules for special contracts outside of the employment relationship (in Czech “dohoda o provedení práce”).**

The current threshold is **CZK 10,000 for applying withholding tax and exemption from social security and health insurance, regardless of eventual contracts concluded with other employers.** The current rules are **valid till 30 June 2024.**

From 1 July 2024, the limit will increase to 25% of the average salary (CZK 10,500 from 1 July 2024). The second limit will apply in the case of several contracts concluded with several employers and will amount to 40% of the average salary (CZK 17,500 from 1 July 2024).

The rules for special contracts to perform work (in Czech “dohoda o pracovní činnosti”) remain unchanged. The monthly threshold for the withholding tax and exemption from social security and health insurance remains at CZK 3,999 also in 2024.

- **Sickness insurance on the employee’s side will be introduced at the rate of 0.6% of gross income.** The social security contribution on the employee’s side will increase to 7.1%, consisting of the current pension insurance of 6.5% and new sickness insurance of 0.6%.

For instance, in the case of a gross income of CZK 50,000, the net income will be lowered by CZK 300.

There are no changes on the employer’s side.

- **The exemption from the sale of securities and shares in corporations will be capped. The time tests for exemption, i.e., 3 years for securities and 5 years for shares, remain unchanged. The income will be exempt** up to CZK 40 million annually for a taxpayer **from 2025**. Rules for the setting and application of the acquisition price are established.
- **Non-monetary leisure time benefits** (recreation, health services and goods, culture, sports, education, books) will be exempt up to 50% of the average salary **(the 2024 limit is CZK 21,983)**.

The costs are tax non-deductible for the employer. Benefits exceeding the limit will be taxed and may be treated as tax deductible for the employer.

- **Events organized by employers.** The income of an employee and family members derived from participation in sports and cultural events will be exempt. The conditions for this include the non-public nature of the events, and that the events are organized occasionally (Christmas party, Children's Day event), and that there are usual and reasonable circumstances.
- **Meal vouchers and meal lump-sum monetary** allowances will have the same tax treatment. The limit for the exemption of monetary meal allowances will also apply to meals provided in a non-monetary form from 2024.

The 2023 limit is CZK 107 per working day. The 2024 limit will be specified in December 2023.
- **A tax credit for a spouse** (CZK 24,840) with their own limited income will apply to a spouse caring for a child under 3 years of age.

- **A tax credit for students will be abolished. A tax credit for placing a child into a pre-school facility will be abolished** (may be applied in the amount of up to CZK 17,300 in 2023 for the last time).
- Some marginal deductible items will be abolished: contributions to trade unions and costs incurred for exams verifying the results of further education.
- The annual **assessment base for self-employed people for social security will increase** from the current 50% to 55% of the partial tax base.
- **The minimum assessment base for self-employed people will increase** from the current 25% of the average salary to 30% in 2024, 35% in 2025, and 40% from 2026.
- New rules for entitlement to **unemployment benefits** will apply.

VAT

- **One reduced rate of 12% will apply instead of the current 10% and 15% rates. The standard rate of 21% will remain.**

The standard rate will apply to hairdressing services, cut flowers, firewood, shoe and bike repairs, cleaning services, and beverages except for tap water and selected milk products.

The reduced rate will apply to accommodation, catering except most beverages, and admission fees to cultural and sports events.

Books and e-books are VAT-exempt with deduction. Newspapers and magazines will be subject to a 12% rate.

- **Input VAT will be limited on the purchase of passenger cars of category M1 with a price exceeding CZK 2 million without VAT.** Cars with a lower price are not affected.

Real estate tax

- Real estate tax **rates will increase** significantly.
- A new **inflation coefficient from 2025** will be introduced.

Excise duties

- **Excise duty on tobacco and tobacco products will increase** by 10% in 2024 and by another 5% each year in 2025 to 2027. Excise duty on heated tobacco will increase by 15% each year in 2024 to 2027. Excise duty will be introduced for other tobacco products.
- **Excise duty on alcohol will increase** by 10%, 10%, and 5% respectively over the next three years.

Should you have any questions, please contact your usual contact person at our firm.

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This overview provides general information on current legislation in the Czech Republic.
The document is for informational purposes only and may not be considered a legal or tax opinion or advice on how to proceed in a particular case.
We remain at your disposal to analyse specific cases.

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