

## SEPTEMBER 2022 No. 3

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### Higher Mandatory VAT Registration Limit and Income Limit for Flat-Rate Tax

#### Increase in the compulsory VAT registration limit to CZK 2 million

The Chamber of Deputies is discussing the government's draft amendment to the VAT Act, which should increase the mandatory VAT registration limit from the current CZK 1 million to CZK 2 million. The change would take effect as of 1 January 2023.

The draft also includes a change to some of the rules on VAT status reports. For example, it is proposed to extend the deadline for responding to a tax authority's request to complete or correct an audit report to 17 calendar days from the request's date of delivery to the data box. It is also proposed to reduce the fines levied in relation to VAT status reports.

#### Increase in the income limit for flat-rate tax and introduction of three thresholds

Following the higher mandatory VAT registration limit, the maximum amount of self-employment income allowing self-employed persons to take advantage of the flat-rate tax should also be raised to CZK 2 million.

It is proposed to introduce three income thresholds with different flat-tax rates:

- i) The first threshold should apply to self-employed persons whose annual income is up to CZK 1 million. In addition, taxpayers with the following income could apply for the first threshold as well: taxpayers whose income is up to CZK 1.5 million, if at least 75% of their income is income on which expenses can be claimed at 80% or 60% of the income, and taxpayers who have income of up to CZK 2 million if at least 75% of their income is income on which expenses can be claimed at 80%. The flat-rate tax would then be approximately CZK 6 500 per month;
- ii) the second threshold would be for self-employed persons who have income up to CZK 1.5 million regardless of the type of activity. It would also be intended for taxpayers who have income up to CZK 2 million, but at the

same time, 75% of their income is income for which expenses can be claimed at 80% or 60%;

- iii) the third threshold would be for self-employed persons who have income up to CZK 2 million regardless of the type of activity; the flat-rate tax should be approximately CZK 26 000.

It is obvious that such complex rules negate the essential idea of a flat-rate tax, i.e. simplicity and minimal administrative complexity for taxpayers.

The amendment also includes a proposal to extend the possibility to apply special depreciation for assets classified in the first and second depreciation groups acquired in 2022 and 2023. The extension will therefore follow up on the extraordinary depreciation of assets acquired in 2020 and 2021 allowed to businesses as part of the compensation for the consequences of anti-covid measures.

### Road Tax Abolished, Electromobility Promoted

As of [1 January 2022](#), the road tax on passenger cars and vehicles with a maximum permissible weight of up to 12 tonnes was abolished. All transport vehicles with a permissible weight of more than 3.5 tonnes remain subject to the road tax, but vehicles with a maximum permissible weight between 3.5 tonnes and 12 tonnes are subject to a road tax of CZK 0.

Moreover, the taxable income was reduced for employees to whom low-emission vehicles for work and private use were provided on a free-of-charge basis. The taxable income will now be 0.5% of the entry price of the vehicle (including VAT) for each calendar month. This change applies only to electric, hybrid and natural gas vehicles. For other vehicles, 1% of the entry price (incl. VAT) will continue to apply. This rule will already apply for 2022.

At the same time, the tax depreciation period for electric vehicle charging equipment is reduced from 10 to 5 years. This will allow for faster application of the costs of these devices in the tax base. The new regulation will apply already for 2022. It will not be possible to change the depreciation group and hence reduce the depreciation period before 2023 for

equipment or the technical improvement thereof if it was acquired, completed and commissioned by 30 June 2022.

## New Average Fuel Prices for Setting Travel Allowances

The sharp increase in fuel prices persuaded the Ministry of Labour and Social Affairs to amend several times the decree setting the average price of fuel for the purposes of providing travel allowances under the Labour Code.

As of [12 March 2022](#), the average price for electricity increased from CZK 4.10 to CZK 6 per 1 kilowatt-hour.

As of [14 May 2022](#), the average price for 1 litre of 95 octane petrol increased from CZK 37.10 to CZK 44.50 and for 1 litre of diesel fuel from CZK 36.10 to CZK 47.10.

As of [20 August 2022](#), the average price for 1 litre of 98 octane petrol increased from CZK 40.50 to CZK 51.40.

## Discount on Employers' Premiums for Selected Groups of Employees

As of 1 February, employers will be able to apply a monthly discount on social security contributions for selected employees who are employed on a part-time basis or who are in a service relationship with the state. Specifically, the social security contributions paid by the employer should be reduced by 5%. The employer's contribution would thus be 19.8% instead of 24.8% for that particular employee.

The selected categories of employees should include, for example, persons over 55 years of age, parents or other persons who care for a child under 10 years of age or for a close person with a medium or higher degree of dependence on the care of another person, students, persons under 21 years of age, persons with disabilities and retrained employees.

Part-time means an employee's agreed working hours are between 8 and 30 hours per week. A further condition for entitlement to the premium reduction is that the aggregate of the employee's salary assessment bases from all jobs performed in an employment or service relationship with the same employer in a calendar month does not exceed 1.5 times the average wage.

The change is designed primarily to encourage employers to create and offer more part-time jobs to increase the employment of people who, due to age or various life situations, are unable to work full-time.

## Tax Measures Related to Aid to Ukraine

For the 2022 taxation period, or taxation periods ending between 1 March 2022 and 28 February 2023, a deduction may be claimed for gratuitous benefits (donations) that support Ukraine's defence efforts and other aid to legal and natural persons established or residents in Ukraine for purposes under the Income Tax Act.

The maximum deduction limit for donations is also increased to 30% of the tax base in 2022. Tax base deductions are also available for taxpayers from Ukraine if their taxable income from sources in the Czech Republic accounts for at least 90% of their taxable income.

Alternatively, related expenses can be claimed as tax deductible instead of deducting them from the tax base.

Moreover, an employee's income in the form of accommodation provided to them or their family members who have residence in Ukraine by their employer in the Czech Republic as a result of the war in Ukraine is exempt from tax.

The Tax Administration has also provided details on the possibility of simplified proof of donation to support Ukraine's defence efforts. On its website, it has published a list of bank accounts for which the donation can be proved for income tax purposes by a bank statement or a slip of a bank draft and printed information about the recipient of the donation and the purpose of the donation (i.e., no confirmation by the recipient of the donation will be required).

## Meal Allowance Exemption Limit Increased

The maximum amount of the cash allowance for meals (meal allowance), which is exempt from employment income tax, is determined by the upper limit of the meal allowance under the Labour Code which is due to an employee for a business trip that takes 5 to 12 hours. This has been



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increased from CZK 120 to CZK 142 as of 20 August 2022.

As of 20 August 2022, the limit for the exemption of a meal allowance provided to an employee will be increased from the current CZK 82.60 to CZK 99.40 per shift.

## Registration of Foreigners in the MY Taxes Website Simplified

Foreigners (foreign natural persons) who are not registered in the Population Register can now apply for access to the new Tax Information Box (DIS+) via an electronic application. This eliminates the need to visit the tax authority's office in person. Based on the request, the Tax Administration will activate either the Tax Administration's access data (for data box holders) or the NIA user account (for users with a guaranteed identity).

## Guideline on Waiving the Penalty for Failure to Declare Exempt Income

Individuals who receive exempt income in excess of CZK 5 million are obliged to file a notification of exempt income no later than by the deadline for filing the tax return, even if they are not required to file a tax return. Failure to comply with this obligation is subject to heavy penalties. The penalties may be waived in whole or in part. In order to increase legal certainty and to unify the decision-making practice of tax authorities, a guideline has been published which regulates the conditions and procedures for deciding whether to waive such penalties or not. Justifiable reasons for waiving the penalties include:

- bad health condition of the taxpayer that prevents him/her from complying with the obligation to report exempt income;
- the taxpayer suffers from a natural disaster;
- the notification is filed without a notice from the tax administrator within 150 days after the original statutory deadline;
- the notification is filed upon the tax authority's request within 120 days after the expiry of the original statutory period.

In terms of percentage, the amount of the penalty waived in these cases ranges from 90% to 100%.

## Methodological Guideline on Tax Inspections and the Doubt Elimination Procedure

The Financial Administration's website includes a methodological guideline on the procedural aspects of tax inspections. The guideline explains how and when a tax inspection is to be initiated and the subject matter and scope thereof. It also explains the time limit for tax assessment and the duration of the tax inspection. The rights and obligations of the tax party and the powers and duties of the tax administrator are described in detail. The methodological guideline includes an annex with examples on how the notice under Article 145(2) of the Tax Code is to be applied.

In addition, the Financial Administration published the General Financial Directorate's methodological guideline on how doubt is to be eliminated. The guideline sets out the conditions under which the procedure for eliminating doubt can be initiated, including the statutory particulars the request to eliminate doubt is required to have. It also deals with how the doubt elimination procedure is conducted and terminated and how transition from the doubt procedure to the tax inspection can be done. It also provides information on the taxpayer's defence options and the impact of the doubt procedure on the running of the tax assessment period.

## Taxation of Cryptocurrency Transactions

The Financial Administration has published a guideline regarding the taxation of cryptocurrency transactions. The guideline introduces obligations taxpayers may be subject to due to cryptocurrency-related operations, such as:

- cryptocurrency mining;
- purchasing/selling goods for cryptocurrency;
- exchanging cryptocurrency for standard (fiat) currencies and other issues.

Individual operations with cryptocurrencies are reviewed in terms of



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VAT and personal and corporate income tax.

In this context, please note that the Financial Administration has announced the launch of an audit aimed at the taxation of cryptocurrency transactions by individuals and legal entities. According to the progress so far, the audits often result in additional tax payments.

## Deferring VAT Payments for Transport Operators

The Financial Bulletin published a decision to waive late payment interest and interest on overdue VAT for the period February 2022 to August 2022, or for the first to second quarters of 2022. The waiver is subject to the following requirements:

- the prevailing portion of the tax entity's income for the tax periods in question must come from the transport business;
- the VAT shall be credited to the tax authority's account no later than 31 October 2022; and
- the tax entity notifies the tax authority of this fact upon submitting a regular or additional VAT return.

The waiver applies only to late payment interest. Tax returns for the tax periods referred to above must be filed by the statutory deadline. Penalties will be levied if the tax returns are filed late.

## Excise Duty on Diesel and Petrol Reduced

From [1 June to 30 September 2022](#), the excise duty on diesel, unleaded petrol and similar mineral oils is temporarily reduced by CZK 1.50 per litre.

The changes also apply to the amount of excise tax refunds on so-called green diesel. From 1 June to 30 September 2022, the rate of the tax refund will be reduced by CZK 1.20, or from CZK 8.50 to CZK 7.30 per litre of diesel fuel consumed in the operations concerned. The reduction will apply if the following are involved:

- livestock production

- combined crop and livestock production with a high proportion of livestock production
- crop production with a high proportion of cultivation of so-called sensitive crops

## Higher Penalties for Late Tax Payments

As a result of the increase in the two-week repo rate by the Czech National Bank (currently 7.00%), the rate of interest on late tax payments under the Tax Code was also increased to 15.00% p.a. from 1 July 2022 (the rate applicable for the first half of 2022 is 11.75% p.a.).

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