



Dear clients and business partners,

In June, it will be twelve years since we opened for business. We are honoured to be able to work with you, and thanks to this, we can help you in your pursuit of new projects. Your tax issues always matter to us, and we believe that our solutions are helpful and effective. We are glad that our portfolio of clients is so diverse. It includes clients from the advisory sphere (legal, real estate, IT, automotive), real estate, power industry, aeronautical industry, financial markets, wholesale B to B, and trust funds. We are looking forward to creating new opportunities with you in the future.

KempHoogstad Team

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## Development of the upcoming amendment of the 2019 tax laws and other proposed changes

The amendment of tax laws upcoming in 2019 (we informed you about it in March) has passed the external comment procedure and is ready to be debated.

### Proposed changes to income tax after review

(i) *Taxation of natural persons*

Some changes were left out of the original proposal. These are progressive taxation, revocation of the super-gross salary and solidarity tax increase, or the possibility to deduct social security and health insurance for self-employed persons. Currently, **taxation of natural persons should stay unchanged.**

(ii) *Taxation of legal entities*

The amendment affects only corporate income tax through implementation of **the Anti-tax Avoidance Directive (ATAD)**. We informed you about it in our last [KempHoogstad Tax News](#).

(iii) *New notification duty*

According to the current law, tax payers with their seat or residence located in the Czech Republic that pay an income subject to a withholding tax or securing of tax to a foreign entity are obliged to inform the tax administrator about the actual withholding or securing of tax. The proposed amendment to the Income Tax Act should extend the notification duty to other cases when an income is paid which is subject to a withholding tax or securing of tax but is tax exempt because of the Czech Income Tax Act or a respective double taxation treaty.

**This duty will affect payments of profit sharing or dividends exempt in accordance with rules on parent-subsidiary companies, interest incomes** that are tax exempt in the Czech Republic based on international treaties on double taxation **or income from sale of shares in a company paid to a person from a non-EU country and tax exempt in the Czech Republic based on international treaties on double taxation.**

The notification duty will not include income below a total amount of CZK 100,000 in a given calendar month.

## Proposed changes to VAT

The proposed amendment to VAT, which should become effective from 2019, contains a number of changes related to the amendment of the EU VAT Directive or to the conclusions of European case law. Other changes relate to the amendment of the Electronic Record-keeping of Cash Sales Act and to a change to the tax rates of selected supplies.

(i) *VAT on vouchers*

The law will govern the rules for applying VAT to the provision and acceptance of vouchers (with respect to new European rules), and single-purpose and multi-purpose vouchers will be differentiated. Up to now, applying VAT to vouchers was governed by the official interpretation of the Financial Administration.

(ii) *VAT on cross-border electronic services provided to non-taxable entities*

Currently, the place of supply is the country of the receiver of the services, which means that providers of such services must pay VAT in the given countries. The providers must register for VAT in the given countries or they can pay VAT via the special mini one-stop-shop (MoSS). This method can be an excessive burden for small, middle-size, or new firms. The proposal suggests that the VAT duty will arise in the recipient's country after a certain limit of provided services is reached (EUR 10,000). Some simplification is suggested for the rules of issuing bills.

(iii) *Changes to the corrections of the tax base, the tax amount, and issuing and delivering bills*

The subsequent corrections of the tax base will be governed by new rules treating the moment the given correction should or could be made and the deadline for issuing a corrective tax document.

A new aspect is that the VAT payer will be obliged to make all necessary efforts to deliver the tax document in the term of its issuance; an obligation to record this could be imposed.

(iv) *Extension of the possibility to reduce VAT on irrecoverable receivables*

The amendment proposes entirely new treatment for the corrections of VAT on irrecoverable receivables. The set of taxable events where the corrections can be made will be extended. The current treatment recognises corrections of tax on unpaid taxable supply only with respect to receivables from debtors in insolvency in proceedings. Now the change should concern also receivables that are, for example, subject to liquidation or inheritance proceedings.

(v) *Changes to VAT on the repair of real estate and the lease of residential real estate*

An adjustment to the deduction of VAT carried out due to a change in the use of real estate should now apply also to VAT claimed with respect to the repair of real estate amounting to more than CZK 200,000 (received taxable supplies without VAT).



Renting residential premises will always be VAT exempt (effective from 2020), i.e. without the possibility of applying VAT if the premises are rented to a VAT payer who uses the premises for an economic activity. The VAT claim from received supplies will not be applied to renting residential premises. This change will concern especially renting apartments, family houses, residential premises or buildings where at least 60 per cent of floor area is residential premise.

(vi) *Changes to claiming VAT deductions at registration*

Newly registered payers will be able to claim VAT at registration on long-term assets acquired in a period of 60 months before the registration.

(vii) *Extension of applying the reduced 10% VAT rate (very likely effective from July 2019)*

The reduced 10% tax rate should apply, for example, to catering services and beverage services, including draft beer, water treatment, waste treatment, public water supply, sale of cut flowers, minor repair of shoes, clothes and bicycles.

## **Proposed changes to the ERKCS Act**

The Ministry of Finance submitted an amendment of the Act on Electronic Record-keeping of Cash Sales to the government.

(i) *The third and fourth phases of the ERKCS*

The amendment contains a proposal **that the third and fourth phases of ERKCS will start on the seventh month from publishing the amendment which means very likely from 1 July 2019.** The newly determined date for the ERKCS obligation applies to all entities that have not yet been subject to this duty (e.g. providers of legal, tax, accounting and similar services, liberal professions, providers of health care or veterinarian care, providers of transportation, entities operating in vegetable and animal production, producers of groceries and craft activities).

(ii) *New exceptions from the ERKCS*

The proposal suggests that **the recorded sales are only sales realised in the Czech Republic**, i.e. sales realised abroad, either by Czech tax residents or tax non-residents, will not be subject to the record-keeping.

**Selected entities will have the option to apply for an exemption from the ERKCS** under the condition that **they will be obliged to record the sales on paper** using "official bills". This option will apply to natural persons – VAT non-payers who run a business with a maximum of two employees only and at the same time their income which is subject to the ERKCS has not exceeded CZK 200,000 in the last twelve calendar month. Legal entities providing health care covered by health insurance can apply under the same conditions.



**Some specific sales should not be subject to the ERKCS**, such as sales made by seriously visually impaired persons, payments for the provision of telecommunication and other services made via credited pre-paid cards, and sales from gambling.

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