KempHoogstad
Tax Advice & Solutions

Tax News September 2021

Dear clients,

Summer holidays are over and autumn is approaching together with the end of the parliamentary term of the Czech Parliament and new elections. The Parliament will not manage to approve a majority of the bills that are currently being discussed. Naturally, we are interested in all the tax bills that are being discussed now and also those that will be discussed in the future (according to promises made by politicians). Our main concern is to learn whether the tax burden will not increase and whether the current tax reliefs stay the same. We monitor the situation and will keep you informed.

The changes that are approved already concern financial contribution to catering and increase in tax advantages for second and all subsequent children.

Please note the deadline for VAT refunds from Great Britain or launching the Pension Information App on the web pages of the Czech Social Security Administration.

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VAT refunds from Great Britain

30 September 2021 is the deadline for submitting applications for refunds of VAT paid in other EU states. But what is the situation regarding VAT refunds from Great Britain following the departure of the UK from the EU?

VAT refunds between individual states are based on the reciprocity principle – i.e. the state in which the foreign entity in question has its seat does not assess Value Added Tax (or a similar tax), or if such a tax has been collected, it is refunded to the Czech VAT payer. According to a statement by the General Financial Directorate, an official treaty on reciprocity between the Czech Republic and the UK has not been concluded, but the above-mentioned principle continues to be observed in practice by both the Czech Republic and the UK.

The General Financial Directorate has confirmed the continued applicability of the reciprocity principle by issuing information on refunding Czech VAT to taxpayers that have their seats in the UK. Moreover, the UK has confirmed on its webpages that VAT refunds will be provided by the UK to VAT payers who have their seat in an EU member state.

Financial contribution to catering

From 1 January 2021, employers can provide employees with not only a non-monetary contribution to their meal costs (e.g. meal vouchers) but also with a financial contribution – the meal voucher allowance. The meal voucher allowance is tax-exempt for employees; this applies to the amount in question, which amounts to 70% of the upper limit of subsistence expenditures that are paid to employees as business trip compensation (a "business trip" is interpreted as travel lasting between five and 12 hours within a single working shift). In 2021, that amount is CZK 75.60. For employers, the contribution is deemed to be a taxable expense if the employee is present at the workplace for at least three hours during a shift.

With respect to certain ambiguities that have arisen regarding the meal voucher allowance, the General Financial Directorate has issued information answering the most frequent questions. We attach a brief summary below.

Combination of various forms of contribution

Every employee can avail himself of just one tax-advantageous means of using their right to receive a contribution to their meal costs. On the basis of a collective agreement or intragroup directive, it is possible to assign various forms of contributions to specific groups of employees.

Meal voucher allowance for people working on a contractual basis and executive directors ("jednatel")

The meal voucher allowances can be also provided to employees working on a contract basis (i.e. under a contract for work or an agreement on working activity) and to executive directors ("jednatel" in Czech) who work on the basis of an agreement on performing a function. The condition is that such persons must have their shifts defined in their contract and that their work attendance is recorded so that it is possible to prove that they have fulfilled the conditions for exemptions (in the case of employees) or tax deductibility (in the cae of employers).

Meal voucher allowance for work-from-home employees

The meal voucher allowance provided to employees working from home can be considered to be tax exempt, just like the allowance provided to employees working in offices. The employer must fulfil certain conditions in order to qualify for this tax exemption: (i) the employee's home should be defined as a place of work in his/her contract, and (ii) there should be some evidence that the employee works at least three hours per shift.

Meal voucher allowance in the case of a longer or shorter shift

If a shift is longer than eleven hours and the financial contribution would be double (i.e. CZK 151.20), then the employee's tax-exempt income would be only CZK 75.60, and the rest of the amount would constitute taxable income. For the employer, the whole amount would constitute a tax-deductible expense.

If the employee is present at his/her place of work, but only for a shorter period than the defined shift (for example, should he/she visit a doctor during working hours), then the financial contribution to meal costs would be exempt in the amount of CZK 75.60. However, if the number of working hours is less than three hours, then the meal voucher allowance would be a tax non-deductible expense for the employer.

Pension Information App

In July 2021, the Czech Social Security Administration launched a new online service on its webpages (ePortal): the Pension Information App. The app enables users to find out the following information:

- the date of their retirement (in the case of women, taking into account the number of children raised),
- how many years and days of insurance have been achieved and how many more must be worked in order to qualify for the state pension,
- the estimated level of their pension,
- a complete overview of the recorded period in which they have made insurance contributions – including the amount of the base of the calculation.

Users can activate the app via their data box or a national identity authority (e.g. bank identity verification).

Expected tax news

Increase in tax advantages for second and all subsequent children, cancelling the limit for a tax bonus

An amendment to the Social Security Act brings two changes affecting the Income Tax Act. The first change brings an increase in tax advantages gained in respect of second and third (or all subsequent) children. The increase can already be applied in the annual tax settlement in respect of dependent activities or in the 2021 tax return. Monthly deposits from dependent activities will be calculated using the current level of possible tax advantages.

	Current amount	New amount
One child	CZK 15,204	CZK 15,204
Second child	CZK 19,404	CZK 22,320
Third and more children	CZK 24,204	CZK 27,840

The second change is a cancellation of the maximum limit for paying the monthly tax bonus for children. For the first time, the limit will not be used in calculating the January 2022 deposit.

Czech tax on digital services

On 7 July 2021, the parliamentary meeting schedule included the third reading of the bill on tax on digital services – including almost twenty amendments. However, Parliament did not manage to debate the bill; there will be another chance to debate the matter in September 2021.

If the digital tax bill is approved in its current wording, it would include taxation of:

- the provision of a targeted marketing campaign;
- using a multilateral digital interface;
- providing information on users.

The digital tax would apply to companies that are part of a multinational group with a total annual turnover of at least EUR 750 million whose total income from taxable services provided in the Czech Republic amounts to over CZK 100 million in the decisive period and whose profit from the digital services provided by the companies represents more than 10% of total profit. Such companies would be considered taxable persons. They would be obliged to register as a digital taxpayer if they fulfilled some of the following conditions within the decisive period:

- Total payment for the provision of a targeted marketing campaign amounts to over CZK 5 million;
- Total payment for providing information on users amounts to over CZK 5 million;
- The number of user accounts using a multilateral digital interface is over 200,000.

Deadline for registration:	fifteen days from the day on which the first taxable service was supplied
Taxable period:	calendar year
Deposits:	monthly
Tax administrator:	Specialised Financial Office

Partial tax rates from digital services were originally suggested in the amount of 7%, but the amendments suggested a decreased rate of 5% or even 3%. Another discussed change will surely be the date of the bill coming into effect. With respect to the growing tendency to deal with the taxation of digital giants world-wide on the OECD level, it is not clear whether the digital tax act will be approved in its current wording, since the effectiveness of the act is currently envisaged only until the end of 2024.

Two-pillar reform of international taxation

On 1 July 2021, about 130 countries, including the Czech Republic, issued a joint statement on the two-pillar policy, under the auspices of the OECD, that will be the base for negotiations in the field of international taxation. The main goal is that multinational companies – especially companies providing digital services – shall pay taxes not only in the place of their seat but also in the place of their activities. Pillar one should ensure a fair distribution of profit and right to impose taxes among individual countries. Pillar two should decrease the risk resulting from structuring multinational companies in such a way that enables the shifting of profits realised by companies into countries with low or no taxation.

The above-mentioned statement reflects the discussions on the digital tax. The statement also includes the commitment of those individual countries that have introduced the digital tax to already cancel local digital tax once the new rules governing international taxation come into effect.

Technical details, including a detailed implementation plan, should be approved during the next meeting in October 2021. The start of the implementation of the new rules is expected at the beginning of 2023.

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