



Dear clients,

This year's autumn has turned into a beautiful Indian summer and winter and the end of the year seems far away. But our legislators are not idle, so we can expect lots of legislative amendments on 1 January. We bring you more information about the new tax changes.

A tax package, which should become effective on

1 January 2023, will increase to CZK 2 million the limit for mandatory registration for VAT and the use of flat-rate tax for self-employed persons. The tax package has passed through its second reading in the Chamber of Deputies. A new tax on unexpected profit has been introduced; it will apply to a limited range of taxpayers. The deadline for using extraordinary depreciation will be prolonged, and all self-employed persons will have to use data boxes assigned to them. Conditions in respect of claiming the vocational training allowance will be mitigated. We remind readers that the obligation to make advance payments in respect of road tax has been abolished. Most of the developments mentioned above are still going through the approval procedure; we will keep you informed.

We wish you a peaceful rest of the year and we are ready to help you with any of your queries. Looking forward to working with you in the future.

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# Changes to income tax

## Tax on unexpected profit

A new tax on unexpected profit should become effective on 1 January 2023. The third reading of the relevant parliamentary bill – which includes voting on individual amendments – was held on Friday 4 November 2022.

The administrator of the new tax will be the Specialised Financial Office and the tax itself will have to be reported in a special unexpected profit tax return. The unexpected profit tax rate will be 60 per cent. The unexpected profit tax will be due by the same deadlines as corporate income tax and calculated from the general tax base. Also, a deposit in respect of tax on unexpected profit tax will be introduced, which will be payable during 2023.

Payers of tax on unexpected profit tax will include institutions such as a bank which receives net yearly interest revenues in the amount of CZK 6 billion during the first accounting period ending 1 January 2021 and whose net yearly interest revenues amounts to at least CZK 50 million between 2023 and 2025.

A taxpayer can become also a non-bank entity if either it itself or all members of the consolidated group to which it belongs received decisive revenues amounting to at least CZK 2 billion during the first accounting period ending January 2021 and those revenues are generated by the following decisive activities: (i) coal mining and coal processing, or oil and gas extraction, (ii) the production of coke or refined petroleum products, (iii) the generation, transmission and distribution of electricity (with certain exceptions), (iv) the production of gas or the distribution of gas fuel through networks, (v) the sale of liquid and gas fuels and related products on a wholesale basis, or (vi) pipeline transportation by oil pipeline or gas pipeline. At the same time, it must have realised (on its own) revenues from the above-mentioned activities amounting to at least CZK 50 million.

An even stricter regime will be applied to mining companies and companies that produce coke and refined oil products. Such companies will be subject to the unexpected profit tax if their revenues from the given activities are at least CZK 50 million during the period 2023-2025 and at the same time their revenues from the given activities constitute at least 25 per cent of their annual aggregate net turnover during the first accounting period ending 1 January 2021.

## Extension of extraordinary depreciation

An amendment proposes the extension from 1 January 203 of the extraordinary depreciation regime relating to tangible assets of the first and second depreciation groups. The current rules for extraordinary depreciation apply to assets acquired between 2000 and 2021; now it is proposed that they will also apply to assets acquired between 2022 and 2023. Tangible assets classified in the first depreciation group can be extraordinarily depreciated within twelve months by way of an even monthly tax depreciation, and tangible assets classified in the second depreciation group can be depreciated within twenty-four months (up to 60 per cent of the input price in the first year and the remaining 40 per cent of the input price in the second year). Using the extraordinary depreciation regime is not mandatory – it is simply an option for the taxpayers.



## Deductions to support vocational training

Together with restrictions on school attendance during the 2020-21 pandemic, practical workplace training of future employees was also restricted. This fact affected taxpayers claiming vocational training allowance but who could not meet the conditions for their claim – i.e. they were unable, under the law, to use assets included in such a claim for vocational training over three consecutive tax periods.

In the event that the condition of using assets for vocational training was not met in the given period, the amendment would consider this condition to have been met anyway; hence there would be no negative consequences related to failure to comply with the condition. Further, the period during which assets should be used will be prolonged by the same number of tax periods during which the condition was not fulfilled (but was considered to have been fulfilled).

## Flat-rate tax – a new development

Currently, entrepreneurs can pay tax and social security and health care contributions at the flat-rate amount if their income does not exceed CZK 1 million in a single calendar year. Many payers appreciate this, as financial and administrative simplification because they are not obliged to file a tax return or the social security and health insurance overviews.

The amendment to the Income Tax Act extends the range of taxpayers who may use the flat-rate tax. Three new brackets will be introduced which will take into consideration the amount and nature of payers' income. Notice of entering the flat-rate regime must be made by the person in question by 10 January of the year in question (for 2023 the deadline is 10 January 2023); simultaneously the taxpayer must indicate the bracket of the flat-rate tax regime into which he will fall from 1 January 2023. When determining the bracket, the taxpayer takes into consideration the amount of his income from the previous year.

The following conditions must be met in order to be able to enter the flat-rate tax regime as at 1 January 2023: (i) tax payers are self-employed persons, (ii) they are not VAT payers, (iii) they are not shareholders in a public company or general partners in a limited partnership, (iv) as at the first day of the decisive tax period, they do not carry out activities that generate income from dependant activities, with the exception of income that is subject to a special rate of withholding tax, (v) they have only income from self-employment, or tax-exempt income, or income that is not subject to tax, or income that is subject to a special rate of withholding tax, (vi) apart from the above-mentioned income, they may also have income from capital assets, rent or other income but not no more than CZK 25,000 in total and (vii) they will notify in due time the tax administrator of their entering into the flat-rate tax regime and of the chosen bracket.

The first bracket will be for self-employed persons with income of less than CZK one million per year; the activities that generate that income do not have to be distinguished. Also, the first bracket can be used by taxpayers with income from self-employment in the amount of CZK 1.5 million per year if at least 75 per cent of that income is income where expense allowances of 80 per cent or 60 per cent of the income can be claimed. The tax due for the first bracket will be flat-rate tax amounting to CZK 6,208 per month.



The second bracket will be for taxpayers whose income from self-employment did not exceed CZK 1.5 million in the previous tax period, no matter what self-employed activities generated the income. The second bracket can be used by taxpayers with income of up to CZK 2 million per year if at least 75 per cent of that income is income where expense allowances of 80 per cent or 60 per cent of the income can be claimed. The flat-rate levy in the second bracket will be CZK 16,000 per month. This will be a fixed amount that will not be changed with respect to any increase in the minimal insurance payment.

The third bracket will be for all taxpayers who meet the conditions for entering the flat-rate tax regime – i.e. those whose income from self-employment does not exceed CZK 2 million per year. Such self-employed persons will have to pay CZK 26,000 per month. Again, this will be a fixed amount that will not be changed with respect to any increase in the minimal insurance payment.

## Amendment to the VAT Act

An amendment to the VAT Act introduces from 1 January 2023 an increase in the limit for registration for VAT from the current CZK 1 million to CZK 2 million over the consecutive twelve months. The amendment also contains rules for the transitional period (i.e. between 2022 and 2023) and it allows persons who exceed the limit of CZK 1 million not to become VAT payers.

## Data boxes mandatory for all self-employed persons

From 2023, all natural persons who are entrepreneurs will be obliged to use digital data boxes set up for them. Digital data boxes will be also set up for citizens who will use for the first time a device for electronic identification issued within the qualified electronic identification system.

Digital data boxes will be set up for all legal entities who do not have them yet, including those who are registered in the register of associations, institutions, unit owners' associations of charitable companies.

Given that all self-employed persons will have to have a digital data box from next year, all entrepreneurs will have to submit their tax returns in electronic form. Apart from tax returns, they will also have to submit in electronic form also registration forms and notifications of changes to registration data, including documents that are part of the respective process.



## Road tax

The Financial Administration has notified payers of road tax who have already made their 2022 advance payments, that such advance payments were abolished by the amendment to the Road Tax Act, effective from 1 January 2022.

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