



Dear clients,

At the beginning of the year, we wish you good health, happiness, success, but also peace and balance.

The world of taxation continues to evolve, and we would like to provide you with an overview of news that you should not miss. Some of these changes took effect before January 1, 2026, but

they must be taken into account when preparing your tax return for 2025, which is why we are mentioning them. We will be happy to help you check whether and to what extent the changes listed below apply to you and how to respond to them in the best and most timely manner.

We wish you a wonderful winter season. Let's look forward to spring together and hope that these changes will be positive for your business. Please do not hesitate to contact us should you have any questions. We are looking forward to working with you.

Bohdana Pražská and the KempHoogstad Team

## Contents

Changes to taxation of physical person

Changes to taxation of firms

Changes to VAT

Other



## Changes to taxation of physical person

### **Removal of the limit for exemption of income tax from the sale of shares and stocks**

As of January, the limit of CZK 40 million in relation to income from the sale of shares and securities with a statutory holding period has been removed. The limit will continue to apply to income from the sale of cryptocurrencies.

### **Taxation of employees**

There are several changes in the area of employee taxation and related social security and health insurance contributions.

- Increase in the maximum annual assessment base for social security contributions to CZK 2,350,416 (so-called capping).
- Increase in the threshold for applying the 23% tax rate to annual income from CZK 1,762,812, i.e., income above CZK 146,901 per month.
- Increase in the decisive income for participation in sickness and health insurance for part-time work agreements ("DPP") to CZK 12,000 per month.
- Increase in the minimum monthly assessment base for health insurance for employees due to an increase in the minimum wage to CZK 22,400 for a 40-hour working week.
- Increase in the limit for tax exemption of so-called health and leisure employee benefits to CZK 48,967 for health benefits and CZK 24,483.50 for leisure benefits.
- Increase in domestic and foreign travel allowances and increase in the minimum basic allowance for the use of a personal motor vehicle on a business trip from CZK 5.80 to CZK 5.90 per kilometre.
- Reduction in the flat-rate reimbursement of expenses related to remote work, i.e., working from home, from CZK 4.80 to CZK 4.70 per hour.
- Increase in cash and non-cash contributions by employers to employee meals, which may be exempted up to 70 percent of the upper limit of meal allowances if other conditions are met, to CZK 129.50.
- Abolition of withholding tax on remuneration paid to members of statutory bodies who are not Czech tax residents and replacement with monthly advance payments for income tax. Income will thus be subject to progressive taxation with the obligation to file a tax return in the Czech Republic if the limit of 36 times the average wage is exceeded.
- Abolition of the obligation to withhold tax advances from employees hired abroad, subject to certain conditions.

### **Mandatory employer contribution to retirement savings products**

A new law on mandatory employer contributions to retirement savings products has come into effect. It applies to employers whose employees perform hazardous work classified in the third category. If an employee requests it, employers must pay a mandatory contribution to their supplementary pension insurance or supplementary pension savings for these employees every month in which the employee works at least three shifts of hazardous work.

The employee must notify the employer in writing that they are exercising their right to a mandatory contribution and must also provide the necessary information for making the payment. The employer's mandatory contribution is



included in the annual limit of CZK 50,000, which is exempt from income tax and social security and health insurance contributions for the employee. The employer must start contributing from the calendar month following the delivery of the employee's written notification. Contributions to a long-term investment product ("DIP") will not be considered as fulfilling this obligation.

The contribution is mandatory and amounts to 4% of the social security assessment base. Up to the amount specified by law, it is considered a tax-deductible expense for the employer. As usual, contributions above the limit specified by law are tax-deductible only if the entitlement to them arises from an employment or collective agreement or the employer's internal guidelines.

The employer must inform its employees of their right to the contribution and how to claim it before they commence hazardous work. The employer is also obliged to issue the employee with a confirmation of payment of the mandatory contribution. At the same time, they must keep detailed records of employees who have exercised their right to the contribution, shifts worked in hazardous work, the amount of contributions paid, and other data. The employer must archive the records for ten years and submit them to the regional social security administration upon request. Failure to comply with this obligation may result in a fine of up to CZK 2 million for the employer.

### **Government regulation to the employer's single monthly report**

The unified monthly employer reporting system ("JMZH") will be launched on April 1, 2026. The deadline for submitting the first monthly report for April is May 20, 2026. In this context, the Government Regulation implementing the JMZH Act (No. 417/2025 Coll.) came into effect on January 1, 2026. It contains practical information on the introduction of JMZH, including detailed specifications on what data employers will be required to provide and in what form.

The regulation specifies the reported data, its scope and disclosure to the relevant institutions, the period for which the data is reported, and the information in the employer and employee records. The regulation also specifies the format and structure of the submission, as well as the technical requirements for electronic data transmission and unambiguous identification of the submission.

We recommend updating payroll systems in a timely manner so that they contain the necessary information and are capable of creating data files with the prescribed content and structure.

## **Changes to taxation of firms**

### **Changes to depreciation of photovoltaic power plants**

The conditions for depreciation of photovoltaic power plants have been changed by revoking the provision stating that the depreciation is done evenly for 240 months. Instead, the facilities will be classified as the second or third depreciation group and depreciated in the even or accelerated way in accordance with Annex no. 1 to the Income Tax Act. We recommend checking the transitional provisions that govern namely the dates from which the facilities were used and their division into the technological and construction parts.



## **Tightening of conditions for mandatory employment quotas for employees with disabilities**

It will no longer be possible to draw substitute supplies from affiliated persons. Failure to meet the mandatory 4% quota for these persons will now be settled by a payment ranging from 3.5 to 1 times the actual number of these employees, i.e., a progressively degressive approach is being introduced instead of the previous flat rate of 2.5 times.

## **Qualified employee shares**

Qualified employee shares consist of the transfer, free of charge, of a non-transferable promise to acquire a qualified share to an employee. The law stipulates the timing and method of taxation. The employee is responsible for reporting this income in their tax return. However, the employer has a reporting obligation under the JMZH.

## **Research and development deductions**

The changes effective from January 1, 2026 mainly concern the method of calculating the research and development deduction and the deadline for claiming it. The biggest change is an increase in the deduction from 100 percent of the costs incurred to 150 percent, up to a limit of CZK 50 million. This limit includes both the expenses of the company in question and the expenses of all taxpayers who are part of the same deduction unit, i.e., the controlling entity and controlled entities.

Another significant change is the extension of the deadline for claiming the deduction from three to five years. It remains essential to keep consistent and transparent records of all costs and time spent on research and development projects, as confirmed by the case law of the Supreme Administrative Court. It is also important to keep supporting documents that will allow the accuracy of the data to be verified retrospectively.

## **Donations to Ukraine**

The validity of increased tax relief on donations to Ukraine is extended up to 30% of the income tax base.

# **Changes to VAT**

The VAT field brings a number of news effective from January 1, 2026. Even though majority of them were effective in 2025 already.

## **Financial activities**

Certain financial activities will no longer be exempt from tax without the right to deduct tax, e.g., collection of payments, collection of radio or television fees, payment of pension insurance benefits, collection of recurring payments from the population, or keeping records of investment instruments.

## **Refund of groundless tax payments**

Since January, recipients of supplies may ask the tax administrator to refund groundless tax payments in their tax returns, e.g. in situations where the supplier incorrectly stated a higher VAT rate on the document, or in situations



where the supplies should have been exempt or subject to the reverse charge mechanism. A number of conditions must be met in order to apply.

However, a refund of groundlessly paid tax can only be requested in exceptional cases where it is impossible or excessively difficult for the supplier to refund the tax to the recipient, e.g. if the supplier is insolvent.

## **Other**

The changes also apply to adjustments to the tax base in relation to bad debts and adjustments to tax deductions due to non-payment of receivables.

## **Other**

### **More frequent checks against illegal employment**

The Financial Administration is stepping up its control activities focused on illegal forms of employment, in particular on so-called disguised labour mediation.

As part of its inspections, it assesses the actual economic substance of business relationships and the factual characteristics of the work performed, and verifies compliance with tax obligations. It focuses in particular on artificially created contractual relationships in chains of companies, the use of formal employment agencies, and chains of companies that invoice for the delivery of work even though employees perform work under direct supervision.

The audits also focus on situations where employers formally transfer part of their employees' taxable wages to various non-entitlement or lump-sum allowances that are not subject to tax, such as travel allowances, contributions for the maintenance of work clothing, allowances for wear and tear on personal tools, and lump-sum allowances.

### **Risk of establishing a permanent establishment due to working from home**

The OECD has published an update to its Commentary on Article 5 of the Model Tax Convention on Double Taxation. Among other things, it addresses the principle of permanent establishment in cases where employees work from home, or another location within the country that is not directly connected to the employer's business.

However, the Czech Republic does not agree with the new interpretation and continues to strictly interpret the assessment of work from home in the Czech Republic for foreign employers exclusively in accordance with the relevant double taxation agreement. According to the OECD, it is necessary to consider and assess:

- Scope of work from home

If an employee works from home and located abroad for less than 50 percent of their working hours during a 12-month period, a permanent establishment does not arise.

- Commercial nature of the activity

If the scope of work exceeds 50 percent of working hours performed from home and located abroad, a permanent establishment does not automatically arise. It must be proven that the employee's activity in the country in question is of a commercial nature. There must therefore be a clear link between the employee's work in the country and the company's business activities – for example, the employee deals directly with



customers or suppliers in the country. On the other hand, it is not considered a commercial reason if the employee works from home located abroad solely for personal reasons or to reduce costs.

The Czech Republic does not agree that the type of place used to perform work should be the only determining factor limiting the possibility of establishing a permanent establishment. The Czech tax administration continues to argue that, unless the activities are of a preparatory or auxiliary nature, a foreign company may establish a permanent establishment in the Czech Republic on the basis of its employees' remote work, without taking into account the other criteria set out in the OECD Commentary.

## Accounting

The amendment introduces new limits for the categorization of accounting entities from January. There is also a change in the obligation to audit financial statements, whereby newly defined small entities will not be subject to this obligation from 2026. The changes also apply to sustainability reports.

**Bohdana Pražská**  
**Filip Dostál**

[bohdana.prazska@kemphoogstad.cz](mailto:bohdana.prazska@kemphoogstad.cz)  
[filip.dostal@kemphoogstad.cz](mailto:filip.dostal@kemphoogstad.cz)

Legal Disclaimer: The material contained in this alert is provided for general information purposes only and does not contain a comprehensive analysis of each item described. Before taking (or not taking) any action, readers should seek professional advice specific to their situation. No liability is accepted for acts or omissions taken in reliance upon the contents of this alert.

If you do not wish to receive the KempHoogstad Tax News, please let us know via e-mail: [prague@kemphoogstad.cz](mailto:prague@kemphoogstad.cz) or phone: +420 221 719 000.

All information on subscribers of the Tax News are treated as confidential with respect to the GDPR.



Tax Directors  
Handbook  
2018

