



Dear clients,

The summer will be over soon, and we are into the second half of the year. We hope that you enjoyed your holidays and are full of energy and ready to face the changes that lie ahead. In this newsletter, we bring you the latest tax news. We would be happy to assist you with checking whether or how the below-mentioned

changes could affect you and how you can get yourselves prepared.

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

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Taxation of employees' stock option plans

Many firms issue employees' stock option plans ("ESOP") as a way of remunerating their employees –either in the form of company options or stocks. This field has seen significant changes in recent years, and other changes are on the horizon. Let us have a look at them here.

Over the last two years, two amendments to the Income Tax Act have brought changes to this area. The first amendment became effective on 1 January 2024 and the second on 1 April 2025. Furthermore, another amendment is under preparation and should become effective from 1 January 2026. It has already reached the Senate and is due to be debated at the end of August.

Before 31 December 2023, the date of exercise of options and stock acquisitions for a lower price than the market price was considered to be the date of the taxation of income derived from dependent activity. When the costs were recharged in the Czech employer's accounting after the acquisition from the (usually-foreign) parent company, the employers were subject to income tax deposit, social security and health insurance contributions.

During the period 1 January 2024-31 March 2025, there was a chance to postpone the taxation until the date on which stocks/options were sold by the holder, without the obligation to report the sale to a financial authority. Nevertheless, the acquisition was considered to constitute income from dependent activities when recharged in the Czech employer's accounting and thus subject to social security and health insurance contributions.

From 1 April 2025, an amendment to the regime governing the taxation of employees' stock and option plans came into effect. Under the amendment, the date of taxation is set back to the moment of the exercising of options and acquiring stocks – unless the employer submits a notice about deferred taxation (which should be submitted within 20 days of the following month): that is to say, there is a choice of options. In fact, at the start of 2025, the Czech Republic actually returned to the system that was effective before 2023.

The planned amendment – which is due to come into effect on 1 January 2026 – adds another tax alternative to the existing schemes, the new scheme is meant mainly for middle sized and small firms (the start-ups). Under the amendment, the size of employers who can use this tax alternative to ESOP is limited to those with an annual turnover of CZK 2.5 billion and an asset size of CZK 2 billion. This also applies to small firms that are a part of a consolidated group (where that group is over the limits). In this tax variant, the taxation occurs at the moment of the sale of options/stocks, and the income will be taxed as "other income" (where the social security and health insurance contributions are not withheld).

Does your firm use option plans? Maybe you should review them and use the advantages that the amendment to the act brings.

Amendment to the Compensatory Tax Act

The Senate has debated and approved an amendment to the Compensatory Tax Act, which prolongs the deadline for submitting the first informative overview from ten to fifteen months after the end of the reporting period. During the debate, a number of other amendments regarding insurance companies were approved. The deadline for the input (i.e. the first) period is 18 months. The deadline for the input period (which is the calendar year 2024) is now 30 June 2026.

The Czech compensatory tax return should be submitted within 22 months of the reporting period. In the case of the calendar year 2024, the deadline is 31 October 2026.

It is expected that the form for submitting the tax return and the informative overview will be the same for both the taxes, and it will be based on the global informative overview (according to OECD rules).

Changes to depreciation of photovoltaic power plants

A new amendment to the Energy Act changes the way that photovoltaic power plants are depreciated. The special means of tax depreciation of the technological parts of the plants was revoked as of 1 August 2025.

Originally the technological parts of photovoltaic power plants were depreciated evenly for 240 months, and the construction part was classified in the appropriate tax depreciation group and depreciated in the even or accelerated way for a given period. Now, the construction and technological part will be classified in the depreciation groups and depreciated in the even or accelerated way for the minimum period stipulated by the Income Tax Act. This brings us back to the legal situation valid before 1 January 2011.

The amendment does not apply to plants whose depreciation started before 1 July 2024. In those cases, the taxpayers can keep the special way of depreciation - i.e. even depreciation for 240 months. Owners of the plants that were included in a company's assets between 1 July 2024 and 31 July 2025 can choose between the original and new methods of depreciation. If the taxpayer chooses the new method of depreciation, he has to apply it from the date of the start of depreciation, and there is a chance that he would be obliged to file an additional corporate income tax return. Regarding assets newly included in a company's assets after 1 August 2025, assets used for generating solar energy can be depreciated only via the even or accelerated method, according to the classification in the respective depreciation group.

Employer's single monthly report

The Senate has approved the draft bill on the employer's single monthly report (the "ESMR" - effective from 1 January 2026), with some exceptions (some reporting duties of employers and the mandatory monthly reports were postponed until 1 April 2026).

The financial authorities can acquire more easily information regarding the income of employees and their taxation. It will be easier to check on various employee benefits, for example, that will be included in the ESMR as well.

Today's 25 various regular monthly reports will be replaced by one submission only. Currently, employers submit various forms to many authorities (for example, the Ministry of Labour and Social Affairs, social security authorities, employment agencies, financial authorities, the Czech Statistical Office). They usually contain duplicitous information on employees, their income, insurance contributions etc. Under the ESMR act, all these obligations will be contained in one monthly report. The data will be centralised, and the authorities will share them.

The trial operation of ESMR (the "pilot") was launched on 1 July 2025, and selected employers and other subjects are taking part in it. The ESMR will be submitted in electronic form to the Ministry of Labour and Social Affairs within 20 days from the end of a calendar month following the calendar month that is the content of the report.



VAT news

Please note that the key part of the amendment to the Value Added Tax Act became effective from 1 July 2025, and it brings significant changes to the taxation of real estate.

Shortening of the time limit for exemption of real estate sales from VAT

The previous five-year test (after final approval or substantial change) has been shortened from five years to 24 months from the date of the final approval decision becoming legally effective (or from the date of the fulfilment of the conditions for the permanent use of the building, if no final approval decision is issued). The transfer of real estate within this 24-month period is taxable, but only in respect of the transfer to the first acquirer. This means that the second (or any subsequent) transfer that may occur within the 24-month period is already exempt from tax.

A "substantial change" is understood to mean a structural alteration that changes the purpose of the use of the real estate or the conditions of occupancy, if the costs exceed 30% of the tax base upon the next immediate sale of this real estate. Only the costs incurred by the seller are taken into consideration.

Limitations on the application of reduced VAT rates for residential and social housing construction

The amendment also changes the rules for applying standard and reduced VAT rates to construction and installation work.

- The reduced rate is only possible if the building remains designated for residential or social housing after reconstruction.
- If there is a change in use (e.g., conversion to another purpose), the relevant construction/installation work is subject to the standard VAT rate.

In the case of social housing, the area limits are retained (family house – maximum of 350 m² of floor space; apartment – maximum of 120 m²), but the method of calculation has changed. It is now necessary to proceed in accordance with the decree (effective from July 1, 2025) that was issued for this purpose by the Ministry of Finance of the Czech Republic.

The assessment of the nature of the building (and thus whether a reduced rate can be applied) is now based on the records in the RÚIAN register. If the building is not yet registered, a reasonable assumption based on verifiable documentation (e.g., project, permit) can be used.

Correction of VAT deduction from unpaid liabilities (Section 74b of the VAT Act)

VAT payers are now required to return (correctly reduced) the VAT deduction if the invoice is not paid within 6 months of the due date. Given the method by which this period is calculated, August 2025 is the first period when this obligation needs to be focused on. If the invoice is subsequently paid, the deduction can be reapplied – at the earliest in the period of payment, but no later than by the end of the second calendar year following the payment.

Sale of real estate to an employee as a "related party"

From 1 January 2025, the sale of real estate to an employee is considered a sale to a related party. In such a case, VAT is calculated from the so-called usual price if the sale price is lower than the market price. This rule still applies even after 1 July 2025.

Our recommendation:

- Sales of new real estate properties must be carefully planned in terms of timing – the 24-month limit is significantly shorter than the previous 5 years.
- Any change to a real estate property without sufficient supporting documentation may result in re-taxation.
- For buildings, it is crucial to monitor their classification in the RÚIAN and their compliance with the limit on square metres applicable social housing.
- Outstanding receivables require quick payment; otherwise, non-payment will lead to an automatic obligation to return the VAT deduction.

Bohdana Pražská
Filip Dostál

bohdana.prazska@kemphoogstad.cz
filip.dostal@kemphoogstad.cz

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