KempHoogstad
Tax Advice & Solutions

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Dear clients,

Summer have flown by, and all that’s left is to look forward to the next ones. There’s always something new happening in the world of accountancy and taxation. Although the legislature took a break over the summer, we still have a few updates and points of interest for you that you shouldn’t miss.

We would be happy to help you check whether and to what extent the updates listed below apply to you, and how best to respond to them in a timely manner.

We wish you a wonderful rest of the summer and a pleasant start to autumn, and hope that the changes outlined here will have a positive impact on your business. We would be happy to assist you in implementing them.

Should you have any queries, we’re here to help and look forward to working with you again.

Bohdana Pražská and the KempHoogstad Team

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Czech taxation: what is changing and what is in progress

The ERS 2.0

In July 2026, the Chamber of Deputies approved, at its third reading, the government's bill on the electronic registration of sales and other related legislation, known as the ERS 2.0 (in Czech the EET 2.0).

The new registration system is intended to apply primarily to face-to-face payments, such as cash, card payments and QR payments. Contrarily, standard bank transfers and invoice payments will not be subject to the electronic registration. The system will not require the mandatory printing of receipts or the purchase of new cash register equipment. A free web application from the Financial Administration is to be made available to the smallest businesses.

However, following debate in the Senate, the bill is returning to the Chamber of Deputies. Senators have proposed several amendments, including the exclusion of cashless payments from the sales records.

The legislative process therefore continues with further debate in the Chamber of Deputies, which may approve the Senate's version, stick to its original wording, or reject the bill in its entirety. Should the returned bill be approved, it is expected to come into force on 1 January 2027.

The ERS 2.0 will accompany changes to income taxes

As well as the reintroduction of the ERS system, the amendment to the Act also contains several changes relating to income tax.

Of particular significance to employers is the amendment to the tax regime for health benefits. Selected preventive healthcare services paid for by the employer, such as certain screening tests, above-standard preventive check-ups or vaccinations, will no longer be subject to the employee's income tax. However, this regime will not apply, for example, to cosmetic procedures in the field of plastic surgery, beauty treatments or medical procedures.

The proposal also includes an increase in the threshold at which an individual is required to file a tax return, from CZK 50,000 to CZK 100,000. For employees with additional income, the current threshold of CZK 20,000 is set to rise to CZK 40,000.

The changes also affect voluntary tips in catering services and the tax regime for still wine provided as a promotional item.

However, the legislative process has not yet been finalised, and we therefore recommend waiting for the final version of the Act, which will come into force on 1 January 2027, before applying the individual changes in practice.

Tax interest rates have risen since July

The CNB's (the Czech National Bank) increase in the repo rate to 3.75 per cent will also be reflected in tax interest rates from 1 July 2026. Interest on late tax payments will therefore amount to 11.75 per cent per annum in the second half of 2026. If the tax authority grants a deferral of payment, half this rate will apply.

At the same time, the higher rate is also reflected in the compensation to which taxpayers may be entitled in the event of a late refund of an overpayment or an incorrectly assessed tax. In relevant cases, half the rate will apply to interest on excessive VAT deductions. The new rates therefore affect not only the costs associated with late tax payments, but also the amounts that a taxpayer may, conversely, claim from the tax authority.

VAT in practice

Another step towards the ViDA system

An amendment to the VAT Act is currently going through the legislative process; it is intended to implement the first part of the European 'VAT in the Digital Age' (ViDA) package from 1 January 2027.

One of the main changes is to be an amendment to the One Stop Shop (OSS) scheme, which allows VAT on selected cross-border transactions to be paid via a single Member State. Its scope is to be extended, for example, to certain cross-border supplies of electricity, gas, heating and cooling.

The amendment also extends the liability of electronic platforms for VAT payment under the 'deemed supplier' scheme and harmonises the time of supply for selected services reported via the OSS.

Also worthy of attention are the planned changes to the call-off stock scheme, which are proposed to come into effect on 1 July 2028. However, the current rules may continue to be applied on a transitional basis until 30 June 2029 for goods whose transport to the destination Member State is completed by 30 June 2028 at the latest. Companies that use cross-border warehousing models should therefore review their supply chain and logistics processes in advance, particularly any registration requirements in individual countries. The draft amendment is now proceeding through the legislative process.

Planning agreements may be subject to VAT

The General Financial Directorate has recently confirmed that the fact that a planning agreement under the Building Act is governed by public law does not, in itself, mean that the services provided under it are exempt from VAT. If a municipality, city district or region receives payment from a developer in return for its obligations, the decisive factor is whether this payment constitutes direct consideration for a specific service provided. If so, this may constitute an economic activity subject to VAT.

The practical implications are particularly significant for the drafting of new planning agreements and the assessment of existing ones. It is advisable to clearly define the individual obligations of the municipality or region, their link to the agreed consideration, and the method of invoicing. The General Financial Directorate's conclusions apply from 17 June 2026; therefore, local authorities and developers should check whether the current terms of their contracts and their tax treatment comply with the current interpretation.

New interpretation of VAT on the donation of goods

With effect from 1 July 2026, the General Financial Directorate has updated its approach to VAT on the supply of goods free of charge.

For certain goods, such as food, clothing or older collections, the taxable amount may, under certain conditions, be their very low value. However, to apply this scheme, it is important to be able to demonstrate why the goods no longer have a normal market value and to whom, when and to what extent they were donated. Companies should therefore pay attention to keeping records of donations and retain supporting documents proving, for example, the age, condition, "unsaleability", or commercial reasons for disposing of the goods.

Documentation will be particularly important for companies. We therefore recommend keeping records demonstrating the condition, age and unsaleability of the goods, the reasons for their disposal, and information on to whom, when, and to what extent they were donated.

VAT and grants

The Financial Administration has confirmed that the mere fact that a project is funded by a grant does not automatically give rise to the right to deduct VAT; in other words, the source of funding is not the determining factor for the right to deduct. What is decisive is the purpose for which the supplies received are actually used. If they are used exclusively for non-remunerated activities unrelated to economic activity, a right to deduct will not generally arise. Conversely, a deduction may be applicable if the company demonstrates that the results of the project are used for its taxable activities – for example, in the development of a product or technology, or the subsequent provision of paid services. The key factor will always be the ability to substantiate this link with specific supporting documents.

Employees working abroad

New rules on the expatriation of employees within the EU

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. European rules on the coordination of social security in cross-border work are set to become significantly stricter. Employers will, in particular, have to take into account a longer minimum period of insurance in the home country prior to posting, which is set to be extended from one to three months, as well as a mandatory two-month break between individual postings. This will now apply not only to repeated postings to the same country, but generally to consecutive postings within the EU. Companies will therefore need to systematically monitor the complete history of individual employees' postings across countries and ensure better coordination between HR, the payroll department and other teams.

The amendment also clarifies the conditions for determining the relevant country for persons working in two or more countries. In practice, this may result in an employee's social security affiliation changing to that of a different country than before. Greater emphasis will also be placed on the employer's actual place of business and on more detailed records of where and to what extent the employee actually physically carries out their work.

The changes will also affect A1 forms, relating to "postings of up to 24 months", for which it will now be required to submit an application before the cross-border work commences, with limited exceptions for short business trips. At the same time, the rules for employees working in multiple countries will be clarified, and a higher level of scrutiny and faster exchange of information between the institutions of individual Member States can also be expected.

The new rules have yet to be formally adopted and published in the Official Journal of the EU and will only come into force after a two-year transition period. However, we already recommend that companies with frequent cross-border staff movements review their internal records of secondments and the cooperation between their HR and payroll departments.

International groups and reporting

The EU plans significant simplification of tax reporting

In June, the European Commission presented a comprehensive package of proposals aimed at simplifying European direct tax rules and reducing the administrative burden on businesses.

One of the main changes is to be a revision of the DAC system, i.e. the European rules on administrative cooperation and the exchange of tax information. The existing provisions are to be consolidated into a single, clearer piece of legislation, whilst certain duplicative reporting obligations are to be reduced.

Significant simplification is proposed, for example, for groups subject to Pillar 2 rules, which would no longer be required to report certain cross-border arrangements under DAC6 at the same time. Reporting obligations are also set to be simplified in the area of traditional country-by-country reporting and centralised reporting under Pillar 2.

This is currently a European legislative proposal, the final form of which may change.

Pillar no. 2: the central reporting is waiting for the Czech legislation

The DAC9 enables multinational groups to simplify compliance with reporting obligations relating to the global minimum tax. Provided certain conditions are met, it will be possible to submit a consolidated report on behalf of the group centrally in a single country, and the individual tax authorities will then automatically exchange the necessary data.

However, the Czech legislation required for this mechanism to function fully has not yet been finalised. The draft amendment to the Act on International Cooperation in Tax Administration is still in the Chamber of Deputies.

We therefore recommend that the multinational groups concerned monitor further legislative developments, particularly with regard to reporting obligations relating to previous periods.

Public CbRD: the first publication expected in 2026

Large multinational groups and certain individual companies with cross-border operations will be subject to a new obligation to publicly disclose information about their tax burden.

Public country-by-country reporting (Public CbCR) applies in particular to groups with consolidated revenues, provided that two conditions are met in two consecutive financial years: for a multinational group, consolidated revenues must reach EUR 750 million; and for an independent enterprise with a cross-border element, net turnover must exceed CZK 19 billion.

The obligation applies to financial years beginning after 22 June 2024. For entities with a financial year beginning after 22 June 2024, the first reporting period may end as early as 2025. The report must be published within 12 months of the balance sheet date. For example, for a financial year ending on 30 June 2025, the report should be prepared and published by 30 June 2026.

For companies where the financial year is the calendar year, provided the relevant conditions are met, the first period for which the report is to be prepared and published will be the year 2025. They will therefore have to prepare the report by the end of 2026. The report will include, for example, revenue, profit before tax, tax paid and payable, the number of employees and other data broken down by individual tax jurisdictions.

Unlike the traditional CbCR intended for tax authorities, this is a publicly available report. Companies subject to this obligation should therefore not only focus on the preparation of the data itself, but also on its presentation and the potential reputational impact of the information disclosed.

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