

## Amendment of tax legislation as of 1.1.2015

*Amendment of the Income Tax Act and related tax legislation (hereinafter "the Amendment") was approved by the Senate of the Czech Republic on 23 October 2013 (Senate document No.343). In this respect please find below a summary of most important proposed changes of tax and other related legislation which should be effective as of 1 January 2015.*

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### Corporate Income Tax

Limitation of advantageous taxation of investment funds is included in the Amendment. Currently, investment funds are subject to corporate income tax rate of 5%. According to the Amendment, only so called basic investment funds could utilize this lower tax rate in the future. The investment funds which do not fulfill conditions set for basic investments funds would be subject to standard corporate income tax rate of 19%.

Conditions for tax deductibility of expenses which are considered as tax non-deductible according to the Income Tax Act (hereinafter „ITA“) in case that related revenues exist (§ 24/2/zc of the ITA) are adjusted. In the future these expenses may be considered as tax deductible only if they are recharged or intended to be recharged and thus, up to the amount of related revenue from this recharge. The Explanatory report to the Amendment further states that this approach is not applicable in case of expenses with special regime (e.g. reserves).

The Amendment further regulates possibility of a taxpayer to adjust tax base in case of transfer pricing or limitation of exemption of non-monetary economic benefit. Income from non-monetary economic benefit would be newly exempted only up to total amount of CZK 100,000 per tax year received from one person.

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### Act on Reserves

In relation with unification of general limitation period for contractual relationship to three years rules for creation of adjustments to receivables are adjusted. Currently, the adjustment can be created to receivables over due longer than 18 and 36 months. The Amendment proposes shortening of the second zone to 30 months. According to transitional provisions this approach can be used also in case of receivables due after 1.1.2014.

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### Personal Income Tax

In line with the trend of previous years further limitation of lump-sum expenses related to income from independent activities is proposed. Lump-sum expenses in case of income from agriculture production, forest and water management can be applied only up to the amount of CZK 1,6mio; in case of income from a trade the limit is set to CZK 1,2mio.

A new tax relief which can be applied in case that a child of a taxpayer visits a

nursery school is introduced. The relief can be applied in the amount of nursery school fees really paid, however at maximum up to the amount of minimum salary.

Introduction of this relief is a part of the Act on provision of childcare in a child society which is currently back for discussions in the Parliament of the CR after the veto of the President of the CR.

Tax deduction on second and third and next child should be increased based on the Amendment (CZK 15,804 for second child, CZK 17,004 for third and next child). In reaction to the Constitutional Court's case the Amendment again allows application of basic tax deduction for working retirees. Based on information of Czech tax administration the deduction may be applied also retrospectively for 2013.

Unsurprising step is a proposed change regarding obligation to file personal income tax return in case of taxpayers underlying to solidarity tax. Newly, the obligation to file the personal income tax return occurs only when an annual limit for solidarity tax application is exceeded.

Based on ongoing amendments limitation of tax advantage of private life insurance in case of partial payment has been included in the Amendment. If a taxpayer receives compensation from his / her life insurance account before the given conditions are met, tax exemption of contributions paid by his / her employer as well as possibility to apply a tax deduction will be ceased. In such a case, the employee will be obliged to additionally taxations of this benefit through a personal income tax return. At the same time, tax advantage from life insurance will be newly applicable only in case of life insurance contracts allowing payments after meeting said conditions as of the moment of the contract's termination.

As of 2015 notification obligation for taxpayers should be effective - individuals who receive tax exempted income of more than CZK 5mio. A taxpayer will be obliged to report such a situation to a tax administrator until deadline for filing the personal income tax return. There are penalties set by the ITA if the taxpayer breaches this obligation.

## Social Security and Health Insurance

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The maximal assessment base for health insurance should be permanently cancelled. The cap for health insurance has been temporary cancelled as of 1.1.2013 according to the legislation valid at the moment; since 2015 the cancellation should be permanent.

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## Tax Code

New penalties for breach of tax obligations are proposed to be included in the Tax Code:

- Penalty for infringement of non-monetary obligation (registration, notification, reporting obligation) – up to CZK 500k.
- Penalty for filing of tax form in different format than the electronic one in cases when the electronic filing is set by the legislation (e.g. filing of VAT return) – CZK 2k.

Further, limit for imposition of disciplinary penalty should be increased to CZK 500k (currently CZK 50k).

On the other hand possibility of individual remission of penalties and interests for late payment should be returned to the Tax Code's provisions. Based on proposed adjustments penalties may be waived up to 75% even ex officio. Interests for late payment may be waived fully or partially; also in this case a

request of a taxpayer is not needed and it may be waived ex officio.

In the course of amendment process an obligation of a tax administrator to pay interest from VAT deduction was included in the Amendment. The tax administrator should be obliged to pay the interest in the amount of repo rate increased by one percentage point in case that tax investigation regarding removing doubts lasts longer than 5 months.

The Amendment will be now forwarded for a signature of the President of the CR. If the President of the CR signs the Amendment, the changes should be effective as of 1.1.2015. We will inform you about further development.

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