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Information for clients

Czech Republic
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We provide you with a brief overview of the most important changes as of January 1, 2024, brought about by the so-called savings package to consolidate public finances, which was approved by the Senate on November 8, 2023.

Consolidation package 2024

Increase in tax rates and levies

- **The corporate income tax** rate increases from 19% to **21%**.
- **The personal income tax** rate remains at 15%, but only up to **36 times** the average wage per year (previously up to 48 times the average wage). Income exceeding this amount will be taxed at 23%.
- There will be only one **reduced VAT rate of 12%**, compared to the previous two reduced rates of 10% and 15%. The reduced rate will apply, for example, to food except beverages, drinking water, medical equipment, pharmaceuticals, water charges, public transportation, culture, sports, accommodation, catering services except beverages, newspapers and magazines, etc. Other items subject to the 21% prime rate are beverages, including soft drinks and draft beer, flowers, firewood, waste disposal, hairdressing services, services of authors and artists, and cleaning services. The supply of books, including e-books, is exempt from VAT.
- **Real estate tax** will increase by an average of 1.8 times and all proceeds will continue to go to the municipalities. For agricultural land, the municipality may grant a tax exemption.
- **Excise taxes** on alcohol, tobacco and **gambling** will increase.
- Employees now pay **sickness insurance** contributions of **0.6%**, whereas previously only the employer paid sickness insurance contributions.
- **Self-employed workers** now pay a higher minimum contribution to pension insurance and from a higher insurance base of **55% of their profits** instead of 50% as before. Voluntary sickness insurance contributions will also increase.

Changes for employees

- For **benefits in kind provided to employees** (culture, sports, travel, goods and services of a medical nature, education, recreation, books...), instead of the originally intended complete abolition of tax exemption, a limit equal to **half of the average wage** has been introduced (in 2024, the limit will be CZK 21,984 per year per employee). This limit does not apply to sports or cultural events organized by the employer, provided that certain conditions are met. At the same time, the tax exemption for donations and social assistance to employees will be completely abolished.
- For **meals provided to employees**, regardless of the form (meal vouchers, in-house catering, cash allowance for meals), the limit of the employee's tax-exempt income is **70%** of the upper limit of the meal allowance for a business trip of 5 - 12 hours (currently approx. CZK 107). The limit does not apply to light refreshments at the workplace or meals in the form of a work breakfast, lunch or dinner.
- Certain **deductions** from the tax base (deduction for union membership, deduction for professional examinations) and **tax deductions** for student and kindergarten fees are abolished. **The spousal deduction** will be allowed only if a child under 3 years of age is taken care of. On the other hand, the favorable **gift** rules will be maintained in 2023.
- A major change is coming to **agreements with temporary employees**, effective **July 1, 2024**. Two thresholds will now be introduced, above which social security and health insurance must be paid from the relevant income, namely 25% of the average wage per agreement and 40% of the average wage on the income from all agreements in a given month. The application of withholding tax on these agreements will be linked to the employee's participation in sickness insurance.

Taxation of sale of securities and shares

- **The exemption of income from the sale of securities and shares** in companies applies to individuals up to a maximum income limit of **CZK 40 million**. The effective date of this provision has been postponed to **January 1, 2025** (including the related possibility to revalue the acquisition value of securities and shares at the time of sale or at the end of 2024 at the latest).

Other tax and accounting changes

- A new option is introduced to **exclude from the tax base unrealized exchange rate differences**, i.e. exchange rate differences arising from the valuation of outstanding receivables and payables at the balance sheet date. This provision is voluntary and applies if the taxpayer submits a report to its tax authority within three months from the beginning of the relevant taxable period, which cannot be withdrawn after this period.

- The amendment to the Accounting Act introduces, with effect from January 1, 2024, **the possibility of keeping accounting records in a currency other than the Czech currency**, namely in Euro, US Dollar or British Pound, provided that it is the **so-called functional currency**, i.e. the currency of the primary economic environment in which the company operates.
- The amendment to the Accounting Act also contains other changes, like **calculation of net turnover**, or further obligations arising from the implementation of European directives, namely the **preparation and publishing of a sustainability report and a corporate income tax report**.
- For **passenger cars** (cat. M1), a limit of CZK 2 million applies to the application of tax depreciation and the cost of finance leasing. Also, for passenger cars, a limit of CZK 420 thousand is introduced for the application of the input tax deduction.

If you have any questions, please do not hesitate to contact us.

Your AUDITOR Team

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The consolidation package brings many changes that require optimal preparation.

We would like to invite you to

a free webinar on November 21, 2023 at 9:00-10:00,

where we will discuss the main changes in more detail. The webinar will be held in Czech.

*If you are interested, **please register** at praha@auditor.eu **by November 16, 2023.***

We will send you the link for the webinar the day before the event.