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CLIENT INFORMATION

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Changes in the taxation of transactions in securities and shares for individuals

From 1 January 2025*, significant changes in the taxation of income from the sale of securities and shares in companies* ***for individuals****. These changes were introduced by the so-called Consolidation Package, which limited the exemption of such income from taxation even if the timing tests are met. Below are the details of the changes and recommendations on how to prepare for them.*

What rules apply until the end of 2024?

- Income from the sale of **securities** (stocks, fund units) is **tax-exempt** for individuals if:
  - income from the sale of all securities did not exceed **CZK 100.000** in the respective year, or
  - the holding period for the respective security was at least **3 years**.
- Income from the sale of **shares in a business corporation** (e.g., in an LLC) is **exempt** for individuals if:
  - the holding period for the respective share was at least **5 years**.
- Income meeting these criteria is fully exempt from tax in 2024. However, exempt income exceeding CZK 5 million must be notified to Tax Office.
- Income that does not meet the exemption criteria must be included by the individual in their income tax return, where they may deduct the acquisition cost of the securities or shares and related expenses. The tax rate will be 15%, or 23% depending on total annual income.
- If the individual as an entrepreneur had these securities or shares included in his business assets, the conditions for exemption are stricter.

What is changing from 1 January 2025?

- **New exemption threshold:** An additional condition has been added to the existing conditions for exemption. Even after meeting the time test, income exempt from tax will only be applicable up to the income amount (not profit) of **CZK 40 million per year**.
- **Taxation of excess income:** Income exceeding this limit has to be included in the individual's tax return and taxed at a rate of 15%, or 23%. At the same time, related expenses and acquisition costs can be deducted, but only in a proportional amount.

- **Option to claim higher expenses - alternative valuation:** For securities and shares acquired before 1 January 2025, it will be possible to deduct the market value as of 31 December 2024, determined by an expert report, instead of the actual acquisition cost.

> ***Example:*** *In 2025, Petr sells his share in a limited liability company, which he has owned since 2010, for CZK 60 million. The acquisition cost of the share in 2010 was CZK 3 million, and the market value of the share as of 31 December 2024, is CZK 42 million.*
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> - *The income from the sale of the share meets the five-year holding period test, but the income exceeding CZK 40 million, i.e.,* ***CZK 20 million****, represents taxable income.*
> - *The ratio of taxable income to total income is 1/3 (20/60). Petr can claim as an expense either 1/3 of the acquisition cost =* ***CZK 1 million*** *(1/3 of CZK 3 million, the price he paid for the share in 2010)* ***or*** *1/3 of the market value of the share as of 31 December 2024, according to the expert appraisal =* ***CZK 14 million*** *(1/3 of CZK 42 million).*
> - *Therefore, Petr will report a taxable base of* ***CZK 6 million*** *(CZK 20 million - CZK 14 million) in his tax return for the year 2025. At the same time, he must notify the tax office about the receipt of the exempt income within the deadline for filing the tax return for 2025.*

- The new rules also apply to sales agreed in 2024 or earlier if the financial settlement or agreed instalments are to be paid after 1 January 2025. In these cases, the new rules must be applied to **income arising after 1 January 2025**.

How to prepare for the changes?

Whether or not you are planning to sell your shares or securities now, we recommend that you have an **expert appraisal** prepared **for the market price of the securities or shares as of 31 December 2024**. Although an appraisal with a valuation date of 31 December 2024 can be prepared even after several years, we recommend that you prepare the appraisal in 2025 when you have available the final financial information as of 31 December 2024 necessary for the valuation.

How we can help you?

The issue of taxation of income from the sale of securities and shares is broad, especially in the case of portfolios of securities and shares, so we will be happy to assist you with a tax assessment of planned sales. Consideration should be given to meeting the timing test, testing the amount of income, cross-claiming taxable gains and losses on these sales, gradual acquisition of shares vs. ownership of multiple shares, and applying expenses against taxable income when securities or shares are acquired by gift, purchase, contribution to a corporation, corporate conversion or exchange of securities.

A very specific area is the taxation of foreign securities and shares or the determination of the country of taxation for foreign tax residents. In all these cases, do not hesitate to contact us.

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