AUDITOR
AUDIT · TAX · ACCOUNTING

CLIENT INFORMATION

Czech Republic
12 December, 2024

VAT – changes from 2025

A number of changes were adopted in the area of VAT, with most of them taking effect on 1 January 2025. We have summarized the most important changes below.

Repayment of input tax on unpaid invoices

If the customer does not pay an invoice with Czech VAT by the **end of the 6th month after the due date**, they are now obliged to repay the claimed input VAT.

The above rule applies to input VAT from supplies of goods and services provided after 1 January 2025.

This regulation, which is primarily aimed at insolvent companies, will also affect companies that, for example, have not settled their invoices within the group by the deadline.

This new obligation will increase the workload for the VAT agenda, as it will be necessary to check retrospectively whether all invoices have been paid and whether any input VAT claimed in the past may have to be repaid.

Extension of the deadline for adjusting the tax base

If there is a change in the tax base (e.g. due to a price increase), the VAT paid or the input VAT claimed must be adjusted. Previously, such adjustments had to be made within three years of the end of the tax period in which the taxable supply was made. This period has now been **extended to 7 years** from the end of the year in which the taxable supply was made. Also companies that are no longer liable for VAT must now increase the VAT paid or reduce the input VAT claimed.

New tax refund options for outstanding claims

From 2025, the situations in which a taxpayer can recover from the state the VAT that they have paid but not received from the customer will be expanded and simplified. For example, there is a new option in the event that the customer was not a VAT payer. The VAT refund for small debts will be considerably simplified.

Cross-border registration of small businesses

Most EU countries exempt small businesses from VAT. In the Czech Republic, this exemption (up to a turnover of CZK 2 million) previously applied only to domestic businesses. If a business established in another EU country made a taxable supply in the Czech Republic, it had to register for Czech VAT immediately, regardless of the value of the supply.

From 2025, the Czech Republic will implement new EU rules for small businesses also for businesses from other countries. This will allow small businesses from other EU countries to take advantage of a similar exemption to that enjoyed by domestic businesses, avoiding VAT registration. At the same time, Czech companies will be able to take advantage of this benefit abroad.

However, this regulation only applies to small businesses that meet the conditions in both the country in which they are established and in other EU-countries in which they do business. The main condition is that their EU wide **annual turnover does not exceed €100,000 (CZK 2,536,500)**. Another requirement for claiming the tax exemption is that the small business must be registered and submit quarterly sales reports.

There are several changes to the registration limits. For example, turnover has so far been calculated for 12 consecutive months. From 2025, it will be calculated on an annual basis, as in other EU countries. In addition to the current limit of CZK 2 million, the new EU limit of CZK 2,536,500 will be added. If this new limit is reached, the company will be subject to VAT from the day after it is exceeded.

Change in determining the place of supply

The first change concerns services provided to a non business from a non-EU country:

- Consultancy, engineering, consulting and legal services
- Banking, financial and insurance services
- Rental of goods, except means of transport

For the above services, the place of supply was always in the third country (and was therefore invoiced without VAT) until 2024. From 2025, the place **of actual use and consumption of** the service must be re-examined. If it is in the Czech Republic, the Czech Republic is considered to be the place of supply of services. For example, legal representation before a Czech court invoiced to a US citizen will now be subject to Czech VAT.

The second change concerns the determination of the place of supply for services in the fields of **culture, sport, art, science or education** when such an **event is held virtually**. In this case, it no longer matters where the event takes place.

For example, in the case of **online access** to training, the place of performance is no longer the place where the training takes place, but the place of the recipient of the service (regardless of whether the recipient is a taxpayer or not).

VAT on buildings

With effect from 1 July 2025, the new Construction Act will lead to extensive changes in VAT in relation to construction. In addition to changes in definitions, the most important change will be the time limitation of the tax exemption for the sale of new buildings. Simply put, while every transfer within 5 years of the building's completion was previously taxed, now only the **first transfer** will be taxed, and only within a shorter **period of 2 years**.

Liability for unpaid VAT

The sections of the act concerning liability for unpaid taxes have been reworded. The most visible change is the liability for VAT paid into an account not published in the VAT register. Until now, the supplier was liable for VAT only in the case of a payment of more than CZK 540,000. This limit has now been abolished, and the supplier owes the VAT for **payments to an unpublished account** regardless of the amount.

In practice, this type of liability will therefore affect a larger group of taxpayers. Companies will have to make sure that they pay into their suppliers' published bank accounts. It is also advisable to check whether you have correctly specified all bank accounts into which your suppliers make payments in the VAT register.

Your AUDITOR Team

Ing. Martin Kohlík
Tax advisor
T: +420 224 800 449
martin.kohlik@auditor.eu