



Information for clients

Czech Republic
December 2, 2022

Increased thresholds for VAT registration and for lump-sum taxation

Starting in 2023, the threshold for mandatory VAT registration will be raised to CZK 2 million. For individuals, the income threshold for applying lump-sum tax will also be raised to the same amount.

Increased threshold for compulsory VAT registration

Previously, entrepreneurs whose turnover did not exceed 1 million CZK in 12 months were not required to register for VAT. As of January 1, 2023, this threshold will be raised to 2 million CZK.

Based on the transitional provisions of the Act, entrepreneurs whose turnover exceeds the 1 million CZK threshold in December 2022 do not have to register for VAT. VAT payers whose turnover is between one and 2 million CZK can already apply to the tax office to cancel their VAT registration.

Increased threshold for lump sum tax

Individuals who are not subject to VAT and whose income does not reach 1 million CZK could use the lump-sum income tax system from 2021 (subject to other conditions).

In the case of lump-sum taxation, the taxpayer does not have to submit a tax return or proof of insurance. Instead of paying taxes and insurance based on the amount of his income, he makes only one payment per month, which includes income tax and social and health insurance. Compared to the normal payment of taxes and insurance, the lump-sum tax can mean a saving of up to 100,000 CZK per year.

In connection with the increase of the threshold for the obligation to register for VAT, the annual income limit for the possibility of using the lump-sum tax scheme was also increased to 2 million CZK. However, the payment of the same lump-sum tax for persons with different incomes and with different lump-sum rates (i.e. expenses as a percentage of income) would significantly favour some taxpayers over others. For this reason, three flat tax brackets were introduced.

The following table summarizes the 2023 monthly lump-sum tax amounts in each band based on the amount of annual income and the percentage of lump-sum expenses applicable to it:

Lump-sum tax range	monthly lump-sum tax in CZK	annually amount of income in CZK	% lump-sum of expenses
first	6 208	to 2 million	80%
		to 1,5 million	60%
		to 1 million	40%
second	16 000	1,5 to 2 million	60%
		1 to 1,5 million	40%
third	26 000	1,5 to 2 million	40%

This makes the lump-sum tax option applicable and attractive to more taxpayers.

However, there are also still a number of limitations that make the application of the lump sum tax impossible. These include:

- Income from employment (except for marginal employment, which is subject to withholding tax),
- other taxable income exceeding 50,000 CZK per year (e.g. from rent),
- no participation in the Czech social and health insurance system (e.g. for foreigners insured in another country).

Please also note that a prerequisite for using the lump-sum scheme is that a registration with the tax office is made very soon - by January 10 of the year in question, i.e. by January 10, 2023 for the year 2023.

We will be happy to advise you on the possibility and advantages of using the lump-sum tax scheme.

Windfall tax

As in many other European countries, a tax on windfall profits, the so-called windfall tax, was introduced in the Czech Republic in connection with the energy crisis. This tax applies only to a very limited group of taxpayers - the largest energy and banking companies.

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