



Extraordinary tax news

Tax regulations in extraordinary situations

The Income Tax Act does not contain special provisions for a state of emergency (§ 39p deals with a state of emergency and a state of war).

The Value Added Tax Act (§ 110) allows the government to adjust tax rates (by a maximum of 5 percentage points) for a limited period of time, as necessary, reassign transactions between tax rates and exempt supplies to selected entities while retaining the full deduction entitlement.

The Tax Code (§ 260) allows the Minister of Finance to exempt the tax or tax accessories ex officio in an emergency, in particular a natural disaster. In this case, the waiver applies to all entities concerned by the reason for the waiver. Contrary to the above special regulation, in the VAT Act the procedure under this provision is not limited by the existence of an emergency. This is therefore a potentially very wide-ranging authorization to reduce the tax liability of a particular group of taxpayers affected by an extraordinary situation.

The Tax Code does not in a similar way allow (by a decision that would apply to all concerned entities) the extending of time-limits arising directly from the law (e.g. tax return filing deadlines).

For this reason, the Minister of Finance will decide to waive the penalties for late submissions and related late payments of taxes and forgive certain administrative fees. This constitutes the following specific measures:

- ▶ Flat waiver of late payment of personal and corporate income tax and default interest until 1 July 2020 at the latest, without having to prove coronavirus-related reasons. Technically, the deadline will be missed, but without any consequences in the form of a penalty.

However, it should be noted that filing returns in due time may be more beneficial to the taxpayer in some situations (e.g. the existence of a refundable overpayment or a change in the amount of the tax advance).

- ▶ It is not yet clear whether similar measures will be taken for health insurance and social security. An analogous waiver of sanctions would be logical - we will continue to monitor the situation as the ministries respond.
- ▶ Waiver of late tax claim fines (and fines for failure to report) in all cases where the taxpayer individually requests the waiver of interest for late payment and proves reasons in any way related to coronavirus (e.g. disease or quarantine) - this measure should affect all taxes administered by bodies subordinate to the Ministry of Finance and all taxpayers.

- ▶ General waiver of the second fine for failure to submit a control report without having to prove coronavirus-related reasons.
- ▶ The General Financial Directorate will adjust the order to allow for individual remission of fines for failure to submit a control report without a time limit if coronavirus is established.
- ▶ Flat-rate waiver of the administrative fee of CZK 400 for filing an individual application for tax deduction or tax repayment for reasons related to coronavirus until 31 July.
- ▶ Maximum tolerance in controls when launching the 3rd and 4th waves of ERS.

■ Measures available under current legislation

Under the Tax Code, taxpayers can apply for:

- ▶ reduction of tax advances; in justified cases, the tax administrator decides to reduce the obligation to pay advances or to grant an exemption from the obligation to advance for the entire taxation period;
- ▶ extension of the tax return filing deadline (routinely by three months; though, to a certain extent this has been addressed by the liberalization package);
- ▶ delaying tax due usually associated with a repayment schedule (interest rate cut by half for the period of delay, i.e. the CNB's 7% repo rate);
- ▶ exemption of tax accessories (the reasons for exemption are set out primarily in the instructions of the General Financial Directorate - in fact, however, it is possible that the Tax Administration may proceed beyond the guidelines due to the extraordinary situation).

We will be happy to help you prepare any of the above applications.

If you have any questions, please contact the authors of the article or the EY tax team with whom you regularly work.

We will continue to monitor and inform you about the situation.



Lucie Říhová

lucie.rihova@cz.ey.com
+420 225 335 504
+420 731 627 058



Radek Matušík

radek.matustik@cz.ey.com
+420 225 335 932
+420 603 577 841