Amendment 2021

A brief summary of selected items amending the Income Tax Act

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A package of proposed amendments to certain tax laws with proposed general effect as of 2021 was sent to the comment procedure. Below we summarize selected proposed Income Tax Act ("ITA") amendments:

Natural persons (individuals)

- The originally considered abolition of the exemption of income from the sale of securities/shares (after a time test) was removed from the proposal.
- **Exemption of real estate sales** – The amendment generally proposes extending the period of ownership of real estate necessary for exemption under the so-called time test from the current 5 to 15 years. For immovable property acquired before the first day of the first taxation period commencing from the date of entry into force of this Act, the existing rules shall apply.
- **Exemption of interest on bonds issued abroad** – The provision exempting interest of tax non-residents on bonds issued abroad by taxpayers domiciled in the Czech Republic (or by the Czech Republic) is proposed for repeal. Newly, interest income arising from bonds issued abroad by taxpayers domiciled in the Czech Republic (or by the Czech Republic) to personal income taxpayers – tax residents and non-residents – will be taxed via withholding tax. Interest income on these bonds issued abroad by a taxpayer domiciled in the Czech Republic (or by the Czech Republic) prior to the effective date of this amendment going to a tax non-resident shall be governed by the existing rules.
- **Cash meal allowance** – It is proposed that, up to a given exemption limit, the employer meal allowance provided to an employee in the form of cash be exempt from personal income tax on employment. Providing an employee cash allowance is an alternative to providing a meal allowance in the form of meal vouchers.
- **Bond repayment income** – Income in the form of a positive difference between the nominal value of a bond paid on its repayment or the amount paid on its early repayment and the price at which the taxpayer acquired the bond (and similar income from a certificate of deposit) will no longer be a separate tax base for taxation via withholding tax; taxpayers will generally report it in their tax return. Note: This is a very complicated provision that is likely to bring interpretative uncertainties in the future.

Legal entities

- **Exemption of interest on bonds issued abroad** – Similarly as in the case of personal income tax, the exemption of interest arising from bonds issued abroad by taxpayers based in the Czech Republic (or by the Czech Republic) to corporate taxpayers who are non-resident taxpayers is abolished. Newly, interest income from these bonds to corporate taxpayers who are non-resident taxpayers will be taxed via withholding tax. Interest income on these bonds issued abroad by a taxpayer domiciled in the Czech Republic (or by the Czech Republic) prior to the effective date of this amendment going to a tax non-resident shall be governed by the existing rules.
- **Deductibility of cash meal allowance** – In connection with the proposed exemption of the cash allowance provided by the employer to employees for meals, the amendment regulates the deductibility of this expenditure on the part of the employer, i.e. in the whole amount of the provided cash allowance.
- **Bond repayment income** – As with natural persons, this income will generally be reported by corporate taxpayers who are non-resident taxpayers (in the case of corporate taxpayers who are Czech tax residents, this is generally the case now). Note: This is a very complicated provision that is likely to bring interpretative uncertainties in the future.
- **Notification of exempt income** – A new special deadline for submitting notifications of exempt income and non-taxable income in the Czech Republic under an international treaty is proposed. Notification of such income will be newly submitted only once a year by the end of January of the following year.

  It is also proposed the monthly limit to which the taxpayer is not obliged to report on income flowing abroad that is exempt from or is not subject to taxation in the Czech Republic be increased from CZK 100,000 to CZK 300,000. According to the explanatory memorandum, the payer will evaluate compliance with the CZK 300,000 limit for each calendar month of the given year and will only include income for the calendar months in which this limit was exceeded in the annual notification.
- **Tightening of CFC Rules for "blacklisted" jurisdictions** – It is proposed that the provisions on the taxation of a controlled foreign company be extended such that if a controlled foreign company is resident in a State included in the list of non-cooperative tax jurisdictions (or a permanent establishment situated in that State), all its activities will be regarded as if they were carried out by the controlling company.

We will continue to monitor the amendment. If you have any questions, please contact your usual tax advisor.

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