

# Lease contracts in extraordinary circumstances

## Tax questions

The EY logo is displayed in white, bold, sans-serif font against a dark background of a city skyline at night.

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Lessors and lessees face substantial economic challenges related to the closure of shopping malls, restaurants and other premises. What are the tax implications of these extraordinary measures? If your lease contract covers a situation like this, the tax regime will primarily follow the lease contract's provisions.

**When addressing the tax aspects of lease arrangements, the following questions may arise:**

- ▶ When providing a discount not covered in the lease contract with my lessee, is it a discount/credit note resulting from significant reduction of provided services and thus a VAT effective credit note or is it rather a bad debt write-off/waiver which is tax non-effective?
- ▶ Input VAT reclaim related to rent of the closed premises and for the common areas charges. Can the lessee reclaim input VAT if the premises are effectively not used/it is forbidden to use them?
- ▶ For example, in a shopping mall, with open premises where the rent is VAT exempt (such as a post office, bank, medical services, small shops leased to non-VAT payers), could this situation result in adverse consequences requiring adjustment of input VAT due to the change in a VAT coefficient?
- ▶ Tax depreciation by the owner and the lessee (technical improvement of the leased premises) - are tax depreciation charges tax deductible expenses in the given situation?
- ▶ What will the tax treatment be for damage reimbursement if claimed pursuant to the crisis acts?

Lessors and lessees should consider applying to a maximum extent all the currently available reliefs as presented in the recent tax package and in line with the Tax Administration Act. More detail can be found in EY special tax alert [here](#).

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