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Editorial

After this year's truly intense end of the income tax season and the marathon around Pillar Two notification obligations, we are finally entering a calmer part of the year. We see this break between tax sprints as a moment to take a deep breath, briefly recap and, above all, reflect on how we can make things easier for you, and ourselves, in the future. Now we can fully focus on projects that have the potential to save time, reduce administrative burden and help everyone better navigate the rapidly changing regulatory environment.

One of our priorities is the smarter and more systematic use of artificial intelligence. Within the KPMG Digital Gateway platform, we are developing and testing new "AI personas" – specialised digital assistants designed for specific types of tasks. The aim is for these tools to soon support both our internal teams and our clients, for example when reviewing texts, analysing contracts, efficiently searching for relevant information or keeping up to date with legislative developments.

The summer also brings a number of interesting grant opportunities: given the approaching deadlines, it may be worthwhile to briefly step out of the holiday mode. The European Commission's EDIP (European Defence Industry Programme) programme aims to strengthen the production capacities of the defence industry, while the STEP (Strategic Technologies for Europe Platform) initiative gives Czech businesses an opportunity to obtain support ranging from tens to hundreds of millions of Czech crowns for research, development and deployment into production in the areas of digital technologies, clean energy, biotechnology and defence. At national level, the fourth round of the THETA 2 programme is being prepared, supporting research and innovation in the energy sector.

I wish you a beautiful summer, many memorable experiences and well-deserved rest – ideally with as few thoughts as possible about numbers and legal provisions: there will be plenty of those again after the holidays.

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Omnibus: simplification of direct tax rules on the horizon

The European Commission has presented a package of legislative proposals, which includes amendments to EU directives in the area of direct taxes and a proposal to recast the DAC directives. Its aim is to simplify the existing rules and reduce the administrative burden for both taxpayers and tax administrations. The proposed measures are expected to bring businesses total savings of approximately EUR 8 billion. The rules are proposed to take effect gradually between 2028 and 2037.

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The “Omnibus” package, bringing changes in the area of direct taxes, is a response to the gradual development of the EU tax legislation and its different implementation by individual Member States. According to the European Commission, this has led to increased regulatory complexity and administrative burden. The proposed changes concern several key directives, including the Parent-Subsidiary Directive, the Interest and Royalties Directive and ATAD.

The proposed changes to the DAC directives are discussed in a separate article here.

Withholding tax

The Commission proposes to abolish the minimum holding period and minimum shareholding amount (for dividends), as well as the minimum time and level of capital relation (for interest and royalties). This would broaden the possibility of withholding tax exemptions for dividends, interest and royalties paid between companies within the EU. At the same time, a prior exemption decision would no longer be required before these payments are made: the exemption would be applied based on the payer’s assessment. For publicly traded securities where the payer does not know the investor (the beneficial owner), fast-track procedures under the FASTER directive would apply for tax refunds.

The changes to the Interest and Royalties Directive should also apply expressly to payments attributable to permanent establishments.

The proposal also extends the applicability of both directives to Czech cooperatives and, in the case of the Parent-Subsidiary Directive, also to pension funds.

Proposed effective date: 1 January 2037.

Cross-border company conversions

The proposed amendment to the Merger Directive (2009/133/EC) broadens the range of company reorganisations to which the principle of tax neutrality applies. The definitions are being aligned with the Company Law Directive ((EU) 2017/1132), extending the Merger Directive's scope to simplified mergers without issuing new shares and to divisions by separation, which are not expressly covered by the current wording of the Merger Directive.

The proposal also adds a new chapter on cross-border reorganisations that involve at least a transfer of a company's registered office. These would be subject to the principle of tax neutrality in a similar manner as currently applies to transfers of the registered office of a European company (SE) or European cooperative society (SCE). Under certain conditions, a permanent establishment in the state from which the registered office is being transferred may also be able to utilise tax losses incurred by the company transferring its registered office. For the Czech Republic, the directive's scope is also extended to Czech cooperatives.

Proposed effective date: 1 January 2029.

R&D support

It is proposed to introduce a unified European framework for R&D tax incentives. Under the new rules, companies would be able to deduct the full amount of expenditure on the acquisition of machinery, equipment and other tangible assets used for research and development activities (or for creating the necessary background for such activities), immediately – i.e. in the period in which the expenditure was incurred – or in any of the following four taxable periods.

Proposed effective date: 1 January 2029.

Exceeding borrowing costs

The Commission proposes to harmonise the rules limiting the tax deductibility of exceeding borrowing costs. The limit should be set in all Member States at 30% of tax EBITDA or at a fixed amount of EUR 3 million, which would be automatically indexed, on an annual basis, in line with inflation.

External loans used exclusively to finance the debtor's own economic activity would be excluded from the scope of these rules. For this reason, the option to exclude standalone entities from the scope of these rules would be abolished, as such entities typically, by their nature, rely solely on external financing.

It will also be possible to voluntarily introduce an exemption for long-term projects in the public interest, (under the original rules, the exemption was limited exclusively to long-term infrastructure projects). A mandatory temporary exemption is also introduced for investments in the defence sector launched during the first five years of the application of the new rules.

Furthermore, a mechanism is being introduced to limit the procyclical effects of these rules. The limitation on the tax deductibility of exceeding borrowing costs would not apply where a company's EBITDA in the relevant tax period decreases by at least 50% compared to the preceding period. The proposal also adjusts the rules for carrying forward, and potentially back, unused exceeding borrowing costs and unused interest.

Proposed effective date: 1 January 2029.

CFC rules

In view of the existence of Pillar Two rules, which partly fulfil the function of a CFC regime, it is proposed to exclude companies covered by Pillar Two from CFC rules, subject to certain specific rules for the Side-by-Side regime. At the same time, it is proposed to abolish the application of CFC rules to small and medium-sized enterprises due to their minimal practical relevance.

Proposed effective date: 1 January 2032.

Hybrid mismatches

For the purpose of simplification, the Commission proposes to abolish the rules on imported hybrid mismatches.

Proposed effective date: 1 January 2029.

The legislative proposals will now be discussed by the European Parliament and the Council of the EU. The proposals are subject to unanimous approval by all EU Member States. The proposal package is available here.

European Commission proposes recast of DAC directives

At the end of June, the European Commission presented a proposal to recast the DAC directives. Alongside the Omnibus package, this is another legislative proposal aiming to reduce the administrative burden, make the rules clearer, and eliminate duplication of reporting obligations under the Directive on Administrative Cooperation in the field of taxation.

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The Omnibus package, which focuses on amendments to directives in the area of direct taxation, is covered in detail here.

The DAC directives set the rules of administrative cooperation in the area of direct taxation between tax administrations at EU level, imposing a range of reporting obligations on taxpayers and other persons. The recent legislative proposal aims to consolidate all existing DAC directives from DAC 1 to DAC 9 into a single legislative act. In addition, it contains a number of substantive changes that remove overlapping reporting obligations and simplify the existing rules.

Consolidation of reporting obligations (DAC 4 and DAC 9)

The proposal consolidates the reporting obligations under DAC 4 (Country-by-Country Reporting, "CbCR") and DAC 9 (Pillar Two). Multinational groups that fall within the scope of both directives currently have to comply with two separate reporting obligations at the level of individual constituent entities. Under the new rules, it should be possible to file one combined notification for the entire group in a single jurisdiction, using a standardised form covering the reporting obligations under both directives.

The deadline for filing the combined notification should correspond to the current deadline for filing the CbCR notification, i.e. no later than the last day of the relevant reporting period. For the notification under Pillar Two, this would significantly shorten the deadline (from the original 18 or 15 months after the end of the period to the last day of that period). The proposal also indicates that the notification should be filed annually, rather than only upon the first-time notification or when the reported facts change, as is currently the case for CbCR.

Changes to reporting obligations for cross-border arrangements (DAC 6)

The most significant proposed change is that corporate groups subject to Pillar Two rules would be excluded from the reporting obligations under DAC 6. This is because the introduction of the global minimum tax rules, which ensure a 15% taxation, significantly reduces the tax planning risks that DAC 6 primarily targets. However, the exemption would not apply to groups under the side-by-side regime or to constituent entities that are not subject to a qualified top-up tax.

The proposal also amends certain hallmarks of cross-border arrangements:

- Category A (generic hallmarks) would be abolished entirely due to its limited added value.
- Subcategory C1 (profit shifting hallmarks) would refer to the EU list of non-cooperative jurisdictions.
- Subcategory D2 (obscuring beneficial ownership hallmark) should be further clarified to increase legal certainty and ensure consistent application.
- The Main Benefit Test should also be made more precise. The aim is, again, to increase legal certainty and limit reporting of arrangements driven solely by a cautious or conservative interpretation of the rules.

The proposal also extends the filing deadline from the current 30 days to 90 days from the day on which the first step towards implementing the arrangement was taken. At the same time, it proposes to remove the other trigger events for the start of the reporting deadline (i.e. when the arrangement is made available for implementation or when it is ready for implementation.)

The changes will also be made to the rules for marketable cross-border arrangements, and it is also proposed to narrow the exemptions from the reporting obligation on the grounds of secrecy: under the new rules, the exemption would apply only to the legal professions.

Changes to reporting obligations for digital platform operators (DAC 7)

The proposal amends the reporting rules for digital platform operators. The threshold for mandatory reporting is to increase from EUR 2,000 to EUR 3,000, and the supplementary criterion of the number of transactions carried out (currently 30 transactions) would be abolished.

Smaller platform operators whose total annual consideration for intermediation/facilitation does not exceed EUR 50,000 may also be excluded from the reporting obligation. To benefit from this exemption, the operator will have to notify the tax administrator of this fact.

Other changes

The scope of categories of income and assets subject to automatic exchange of information is being amended: the life insurance products category will be removed, while the exchange of information on the beneficial ownership of real estate will be added.

At the same time, it is proposed to introduce a digital tool that will make it possible to verify a tax identification number for direct tax purposes, i.e. a TIN.

The proposal for all changes, which must be approved by the European Parliament and the Council of the EU, is available on the European Commission's website. The individual changes are proposed to become effective gradually between 2028 and 2030.

Act on electronic reporting of sales passed by the Chamber of Deputies, with changes to income tax and employee benefits

As part of its debate on the draft Act on the Electronic Reporting of Sales, the Chamber of Deputies has also approved several legislative amendments in the area of income tax. The bill will now be considered by the Senate.

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We reported on the proposed legislative package here. Although the main objective of the amendment is to reintroduce electronic reporting of sales, the amendments submitted as part of Parliamentary Print No. 189 also include significant changes in the area of income tax. These focus mainly on employee benefits and the thresholds triggering the obligation for individuals to file a tax return. They also clarify certain specific tax rules.

Tax relief for employees

One of the most significant changes concerns the tax treatment of health-related employee benefits. The new Annex 4 lists supplies that will not be subject to income tax. These include preventive healthcare services paid for by the employer, such as preventive medical check-ups, selected screening examinations or certain vaccinations, which are defined in the proposed annex by reference to the CZ-NACE classification. This treatment, however, will not apply, for example, to aesthetic procedures in the area of plastic surgery, cosmetic services or medical procedures without appropriate professional substantiation.

Obligation to file a tax return

The amendment proposes to increase the threshold for the obligation to file a personal income tax return from the current CZK 50,000 to CZK 100,000.

The threshold for filing the tax return should also increase where the individual has other income under Sections 7 to 10 of the Income Tax Act, in addition to income from employment with one or more consecutive employers where they have signed taxpayer’s declaration: here, the threshold should increase from the current CZK 20,000 to CZK 40,000.

Clarification on the “payer of income” in the context of tips in catering services

In connection with the exemption of voluntary tips in catering services, it is expressly provided that the employer for whom the tipped employee performs work is deemed to be the payer of this income.

Still wine as a tax-deductible promotional item

Under the new rules, it will be possible to treat a promotional item in the form of still wine as a tax-deductible expense, provided that the statutory conditions are met: its value shall not exceed CZK 500 excluding VAT, and it shall be marked with the name or trademark of the provider or with the name of the promoted goods or services. The new rules will not apply to other promotional items subject to excise duty.

Financial Administration's information on gratuitous supplies and opinion on right to deduct VAT in subsidy projects

The Financial Administration has issued an updated version of its Information on the application of VAT to gratuitous supplies of goods. It clarifies the rules for determining the taxable amount (tax base) in the case of charitable donations of goods. At the same time, it has also published its opinion on the right to deduct input VAT where services are provided free of charge under a grant programme.

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Information on gratuitous supplies of goods

The updated Information on gratuitous supplies of goods extends the interpretation regarding determination of the taxable amount (tax base) for the purpose of remitting output VAT when providing charitable in-kind assistance (e.g. donations to food banks). For such donations, it may be possible, in certain cases, to determine the tax base in a fractional amount.

To support the nature of such donations, records must be kept showing to whom, when and in what quantity the goods were donated – for example, donation agreements, handover protocols, warehouse records, accounting records or photographic documentation. The General Financial Directorate also recommends documenting that the recipient of the donation actually carries out the declared charitable or social activity.

The Information explicitly expands the range of goods for which the taxable amount may be determined at a very low value to include clothing and textiles: this may include, for example, situations where textiles with minor defects are donated.

This category of donations also covers goods that are priced at a very low value because of the payer's business strategy – i.e. where the goods are no longer marketable due to a business policy (e.g. last year's clothing collections). In such cases, however, it is necessary to demonstrate the existence of a long-term business strategy, formalised internal procedures for handling goods, a system of gradual discounting of goods, or to provide evidence that genuine efforts were made to sell the goods.

The updated Information also stipulates further requirements for evidence in cases where the tax base is set at a very low amount. Where the value of the goods is very low, supporting evidence should be available to demonstrate the age of the goods, their technical or aesthetic properties, lack of demand for the goods, storage or disposal costs, or the reasons why the goods can no longer be sold as usual. This may include internal policies, warehouse records, documentation of discount campaigns, advertising leaflets, marketing campaigns, photographs from stores or evidence that the goods were no longer offered even through outlet channels.

Opinion on the right to deduct VAT in subsidy projects

The Financial Administration also published its response to a methodological query concerning the right to deduct VAT by entities engaged in subsidy projects. The query concerned situations where a company carried out project activities using its own employees and technologies. The entire project was financed from a subsidy (grant); however, the company did not act as a supplier to the other project partners, and the funds received from the grant represented solely the reimbursement of eligible costs, rather than consideration for the activities performed.

The Financial Administration emphasised that the source of financing is not decisive for the right to deduct input VAT – what matters is how the taxable supplies received are actually used. In this respect, the standard rules governing the right to deduct input VAT must be followed.

If the raw materials, construction work, transport or other services used exclusively for gratuitous project activities are not directly linked to the company’s economic activity, the right to deduct VAT generally does not arise. The Financial Administration also noted that potential know-how, experience, client references or publicity that the company may have gained from participating in the project do not in themselves constitute sufficient grounds for claiming the deduction.

On the other hand, the right to deduct input VAT may be granted if the company demonstrates that it uses, or intends to use in the future, the project results for carrying out its taxable activities. Typically, this may involve the development of a new product, technology, methodology or service intended for commercial use, or project outputs that are subsequently used in providing paid services or carrying out commercial contracts. The decisive factor is the existence of objective evidence, such as business plans, contracts, calculations or commercial offers.

Some situations may also involve a combination of both: where only a part of the activities carried out serves the company’s further commercial use. In such cases, the entitlement to deduct input VAT may be claimed on a pro rata basis.

The published opinion therefore confirms the basic principles of claiming input VAT: the existence of a subsidy itself is not decisive, what matters is above all the purpose and manner in which the specific supplies received are used. Each subsidy project must therefore be assessed individually, taking into account its link to the recipient’s economic activity and the evidence supporting that link.

New EU social security rules: what will employers need to change for cross-border work?

The European Parliament has approved changes to the rules of coordinating social security within the EU for posted workers. The aim of the amendment is to respond to the increase in cross-border mobility, define more clearly mobile workers' rights to social security benefits, and strengthen cooperation between institutions as well as the fight against fraud and abuse of the system.

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Although the new rules will only start to apply after the implementation period elapses, they already send an important signal to employers: posting policies, processes and related internal control mechanisms will need to be reset. One of the most significant changes is the introduction of stricter conditions for keeping posted workers in their home country's social security system and obtaining the relevant A1 certificate for postings up to 24 months.

First, the minimum period of insurance in the home state before the posting will be extended from the current one month to three months. For HR and global mobility teams this means that postings will need to be planned further in advance.

To meet the conditions for a posting and obtaining the A1 certificate, the amendment introduces a mandatory two-month "cooling-off" period between two consecutive postings. While this mandatory break has so far applied only where an employee was posted repeatedly to the same state with the same employer, under the new rules it will have to be observed between any postings of the employee within EU member states. The aim is to prevent the chaining of short-term postings that make it possible to keep posted workers in their home social security system on a long-term basis.
Employers will therefore have to monitor each employee's posting history across all states, which will require significantly more robust record-keeping and coordination between HR, project management teams and payroll function.

The amendment also clarifies that the conditions for a posting shall be met only if the replacement of one posted employee by another in the same position does not exceed 24 months in total for both workers.

More precise criteria for determining the relevant state

Another new feature will be the mandatory filing of an application for an A1 certificate before the start of the cross-border work or posting, while the home institution will have to confirm to the employer the receipt of the application. An exemption from this obligation will apply to very specifically defined business trips and to business trips of up to three days within a 30-day period; this exemption will not apply to the construction sector.

In practice, it will therefore be necessary to set up an internal system for monitoring the length and frequency of trips and to distinguish consistently between a short-term business trip and a posting.
The new rules also clarify the criteria for determining the relevant state for individuals working in two or more states. In practice, this may result in the employee belonging to the social security system of a different state than before.

At the same time, greater emphasis will be placed on where the employer has its actual place of business and on more detailed records of where, and to what extent, the employee physically performs work.

The amendment places greater emphasis on protecting the social rights of persons in cross-border situations, including unemployed and economically inactive persons, and newly defines long-term social care benefits. To avoid double coverage or exclusion from the social security, the rules clarify which state will be responsible for the social security of migrating persons.

More inspections expected

In order to better combat fraud, abuse of the rules, "social dumping" and "letterbox company" practices, the amendment clarifies the definition of fraud in the area of social security coordination and strengthens cooperation between member states, including faster electronic exchange of data through the EESSI system.

In practice, a higher level of scrutiny by social security institutions and faster sharing of information between member states can be expected. This increases the risk of sanctions where the declared situation does not correspond to the factual situation.

Although the implementation and application of the amended regulation will only take effect after the two-year transitional period, companies should start preparing now. A timely review of posting policies, the setting of HR processes relating to A1 certificates (in particular timely data gathering and monitoring of work performed abroad, including remote work/home office arrangements), and internal controls can significantly reduce the risk of future disputes, sanctions and costs.

If you are interested, we will be happy to help you review and set up internal processes or assess specific situations.

New EU rules for automotive industry

The European Union has approved a new regulation which will have a significant impact on the automotive industry. It changes the rules covering the entire life cycle of motor vehicles, from design through manufacturing and sale to environmentally sound treatment of end-of-life vehicles.


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Focus on recycling as early as in the vehicle design stage

Automotive manufacturers will have to design vehicles so that individual parts can be easily dismantled and the materials re-used or recycled. The aim is to reduce waste and increase the use of secondary raw materials in the production of new cars.

Another significant new requirement is the introduction of binding targets for the use of recycled plastics. Within six years, each new vehicle type will have to contain at least 15% of recycled plastics, rising to 25% within ten years. At least one fifth of this amount must come directly from end-of-life vehicles or used automotive parts, (the so-called "closed loop").

New obligations for manufacturers

From 1 September 2029, extended producer responsibility will be introduced. In practice, this will mean that manufacturers will have to cover the costs of the collection and treatment of vehicles that have reached their end-of-life stage, regardless of the EU member state in which they are located.
Manufacturers will have the extended responsibility for vehicles that they place on the market in an EU member state for the first time, even if the vehicle has previously been placed on the market in another member state.

Stricter rules for used vehicles

The changes will also affect dealers in used vehicles. Businesses will have to demonstrate that the vehicle being sold is not an end-of-life vehicle or that it has a valid roadworthiness certificate.
For transactions between private individuals, one of these documents will be required only if the vehicle is declared a total economic loss or if the sale is concluded via an online platform. The rules for exporting technically non-roadworthy vehicles outside the EU will also be tightened.

What does this mean for the automotive industry?

The new rules will apply in full to passenger vehicles (cars) and light commercial vehicles (vans), while heavy vehicles (such as lorries), motorcycles and special-purpose vehicles will be subject to less stringent requirements.

Manufacturers and their suppliers will need to adapt vehicle design, ensure a higher proportion of recycled materials and prepare for new obligations regarding the treatment of vehicles at the end of their life. Companies in the automotive sector should therefore start preparing well in advance.

New grant opportunities for research, development and production of strategic technologies

The EU is placing increasing emphasis on the development of technologies that are crucial for its future competitiveness, safety and energy self-sufficiency. These are precisely the areas targeted by the STEP (Strategic Technologies for Europe Platform) initiative, which now offers Czech businesses an opportunity to obtain significant financial support for research, development and subsequent production of strategic technologies.

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Support will be available for projects in the areas of digital technologies, clean energy, biotechnology and the defence industry. Specifically, this may include artificial intelligence, semiconductors, quantum technologies, advanced communication systems, battery and hydrogen solutions, biotechnology applications or technologies usable in cybersecurity and defence. A key condition is that the supported projects contribute to strengthening the EU’s technological independence or demonstrate significant innovation and economic potential.

Up to CZK 150 million for a research and development project

Two related calls are currently open, together covering the entire technology development process – from development through to industrial production. The first call focuses on industrial research and experimental development projects. It is intended for businesses of all sizes, with research organisations participating as partners.

Support will be provided to projects aimed at further developing a technology towards a prototype, functional sample or verified technology. CZK 10 million to CZK 150 million may be obtained for one project, with the amount of support depending on the size of the business and the nature of the activities carried out. Applications may be submitted from 17 July to 30 September 2026.

Follow-up call will support production of the technology, with up to CZK 250 million

The second call follows up on the successful development of the technologies and supports launching their production or expanding existing production capacities. The grant may be used in particular to acquire production technologies, machinery, specialised software, data solutions, licences or other intellectual property rights necessary for the production process. The amount of support ranges from CZK 5 million to CZK 250 million per project – the aid intensity (percentage of eligible costs covered) will depend on the size of the business and the project location under the regional aid rules. Applications may be submitted from 17 July 2026 to 17 October 2026.

Support will be available for projects that achieve at least technology readiness level TRL 4 before commencement, meaning technology validated in a laboratory. Projects must be completed no later than 30 June 2029 and may be implemented throughout the Czech Republic except Prague.

The STEP programme thus represents one of the most attractive current grant opportunities for companies operating in technology-intensive sectors. By supporting the entire process from research through to industrial production, it can significantly facilitate the implementation of projects with the potential to succeed not only on the Czech market but also on a broader European scale.

If you are interested, we will be happy to provide you with further information and help you prepare your grant application.

Support for research and innovation in energy sector

The Technology Agency of the Czech Republic is preparing the fourth call under the THETA 2 programme, which focuses on supporting applied research and innovation in the energy sector. The aim is to support projects that will help bring modern, low-carbon and sustainable solutions to the Czech energy sector, while strengthening the ability of both the state and businesses to respond more effectively to current challenges.

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Large enterprises will also be eligible to participate in the call, which is planned to be announced on 26 August 2026. Project proposals may be submitted from 27 August to 21 October 2026. The call is divided into three sub-programmes reflecting both short-term practical needs and long-term technological directions.

Sub-programme 1 – Research in the public interest
This sub-programme is intended for projects that deal with the energy sector primarily from the perspective of society and public administration. Emphasis is placed on key trends such as emission reduction, the development of decentralised energy systems and the use of digital technologies. Supported projects should provide a basis and tools for more informed energy management at the level of the state, regions or municipalities, while also taking into account the links between the energy sector and other sectors.

Sub-programme 2 – Energy technologies for competitiveness
This sub-programme targets projects whose results can be put into practice relatively quickly. Support will be available for technologies and solutions that may contribute to meeting the Czech Republic's climate and environmental objectives in the near future. The aim is to strengthen areas where domestic research and industry are well positioned in the European or global context, or where the Czech Republic has a specific competitive advantage.

Sub-programme 3 – Technology to ensure the long-term sustainability of the energy industry
This sub-programme supports projects at lower technology readiness levels. These are areas where immediate practical application is not expected, but which are essential for the future shape of the energy system.

Under sub-programme 1, the support for a single project may amount to up to CZK 15 million; for the other sub-programmes, the amount will be specified later. The maximum aid intensity may reach up to 90 percent of eligible costs, while for large enterprises the maximum aid intensity generally ranges between 25 and 65 percent of eligible costs. Operating costs may be supported.

The duration of projects differs by sub-programme:

- in sub-programmes 1 and 2, projects may last from one to four years;
- in sub-programme 3, a longer project implementation period is expected – at least three years and no more than just under five years.

Projects under sub-programmes 1 and 2 are planned to be completed by mid-2031, projects under sub-programme 3 by the end of 2031. Project outputs must comprise, for example, an industrial design or utility model, prototype, functional sample, software or verified technology. Projects may be implemented throughout the Czech Republic, including Prague.

We will keep you informed about further details of the call.

Supreme Administrative Court denies customs duty refund due to late filing

The deadline for applying for a customs duty refund is fixed. This was confirmed by a recent judgment of the Supreme Administrative Court (SAC), reminding importers that, in the event of disputes with suppliers, they must act in time.

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The case concerned a company that imported specialised machinery. After the delivery, the company found that the machines were defective. The company therefore lodged a complaint and subsequently dealt with the matter through arbitration proceedings with the supplier. Only after those proceedings had ended – approximately three years after the machines had been delivered – did the company return them and apply for a refund of the customs duty it had paid on the import.

The customs office rejected the application for customs duty refund, and the General Directorate of Customs reached the same conclusion. The main reason was that the application had been filed late. The Customs Code provides that an application for customs duty refund must be filed within one year from the moment the company is notified of the amount of customs duty it should pay. The company argued that, due to the complexity of the dispute and the COVID-19 pandemic, it had not been possible to file the application earlier.

The SAC confirmed that the deadline for filing an application for customs duty refund is fixed and starts to run on the date on which the customs debt is notified. According to the court, neither complex customer complaint proceedings nor the pandemic can justify an extension of the deadline. The court emphasised that businesses must take this deadline into account and act in a timely manner, even where their dispute with the supplier has not yet been resolved.

The court also pointed out that the rules for customs duty refunds differ from the rules governing VAT or excise duty refunds. In the case of customs duty, it is crucial to act quickly and inform the customs office as soon as a problem with the goods arises (such as the goods being found defective).

The court therefore dismissed the company's action and confirmed that if an importer misses the statutory deadline, it can no longer apply for a customs duty refund. The judgment is an important reminder for all importers that, in situations like that, they should act without delays and assert their claims in a timely manner: i.e. file an application for customs duty refund within one year of being notified of the customs debt.

Supreme Administrative Court on proving right to deduct VAT on subcontracted supplies

Is an invoice and a contract enough to prove the right to deduct VAT? In its recent judgment, the Supreme Administrative Court (SAC) concluded that they are not. If the tax administrator challenges the scope or nature of the services received, the taxable person must be able to prove not only that the service existed, but also what exactly was supplied, to what extent and by whom.

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In the case at hand, the company provided part of its cleaning services through supplies subcontracted from other VAT payers. It claimed input tax on these supplies in its VAT returns. During a tax inspection, the company submitted invoices, contracts, timesheets, customer confirmations and witness statements to the tax administrator. Nevertheless, the tax administrator denied the right to deduct VAT.

The tax administrator justified this by stating that the company had not proved that it had received the cleaning services from the declared suppliers or from other VAT payers. Nor did it substantiate that the services had been received in the declared scope and subject matter as stated in the tax documents presented. The deficiencies in the tax documents were considered by both the tax administrator and the Municipal Court sufficient to give rise to doubts as to the subject matter, scope and declared supplier of the supplies.

The SAC dismissed the company’s cassation complaint as unfounded but commented on how the right to deduct VAT should be proved in this case. In its statement of grounds, it referred to the conclusions of the CJEU judgment in Kemwater ProChemie case: even where it is clear that a certain supply actually took place, this may not in itself be sufficient. Failure to prove the scope of the supply received may also be an independent reason for denying the deduction.

According to the SAC, the company argued that its primary supplier provided workers, that the prices reflected reality, that the workers could work for several entities and that remuneration was paid in cash. However, these assertions do not prove that this particular supplier provided the specific supply in the declared scope and at the declared price. At the same time, cash payments do not allow to prove the amount of the consideration or who provided it.

The tax administrator acknowledged that the disputed supplies were not entirely fictitious and that certain supplies had in fact taken place in some form and had been used in the company’s economic activity. However, the tax administrator challenged the subject matter, scope and specific supplier (VAT payer) who was supposed to have provided the supplies.

The SAC judgment confirms that the mere existence of an invoice (a tax document) may not suffice. If the tax administrator challenges the actual scope or subject matter of the supply received, the taxable person should be able to document exactly what was provided, to what extent and by whom. In addition to properly issued tax documents, we therefore recommend also retaining related contracts, orders, handover protocols, timesheets, photographic documentation or other evidence allowing to prove the actual performance of the supply. Particular attention should be paid to cases where services are provided through subcontractors or where payments are made in cash. Practice also shows that documents prepared on an ongoing basis in the course of the contract performance of the contract carry the greatest evidentiary value.

Reserve accounts for repairs of tangible assets under SAC scrutiny

In a recent judgment, the Supreme Administrative Court (SAC) commented on the conditions for the tax deductibility of provisions for repairs of tangible assets. In its decision, it followed existing case law and confirmed a strict approach to assessing compliance with the statutory conditions, where even a partial failure may result in the provision not being recognised as a tax-deductible expense.

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In the dispute at hand (21 Afs 271/2025), the tax administrator assessed additional corporate income tax on the grounds that the company had breached the conditions under the Reserves Act, because they had split a single provision across several accounts and used funds from those accounts also for other purposes that the provisions, such as ordinary operations.

The conditions apply cumulatively

Under the Act, a provision is tax-deductible if

- no later than by the date of filing the tax return, the funds, in the full amount of the provision for the relevant period, are transferred to a separate account; and
- that account is used exclusively for depositing the funds of the provision; and
- the funds are drawn from the account only for the purpose for which the provision was created, i.e. for the relevant repair.

The company argued that, as at the date of filing the tax return, the balance in the accounts was at least equal to the amount of the provision. The SAC, however, emphasised that the mere existence of a sufficient balance is not enough. The statutory conditions must be met cumulatively – in addition to the amount of the funds, they must also be kept separately from other funds, in a separate account designated exclusively for that purpose.

The SAC also rejected the argument that the company had not drawn on the provision itself, but only on amounts generated in excess of the provision, such as credited interest. According to the SAC, the law does not allow such a distinction. All funds in the separate account designated for the provision should be used exclusively for the purpose for which the provision was created.

Multiple accounts for a single provision? Case law leaves little room

As for the possibility of maintaining several separate accounts, the SAC stated that this issue was not decisive in the case at hand. However, both the Appellate Financial Directorate and the Regional Court took the view that the provision must be concentrated, in full amount, in a single separate account and that splitting one provision across several accounts does not meet the condition that the funds be deposited “in the full amount”.

The judgment provides a clear conclusion that it is essential for taxpayers creating provisions for repairs of tangible assets to set up processes so that the account where the provision is kept is fully separated from common operating finance, and the conditions under the Reserves Act are met cumulatively. Otherwise, there is a risk of additional tax assessment and related penalties.

In brief

News in Brief, August 2026

Last month's tax and legal news in a couple of sentences.

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DOMESTIC NEWS

- The draft amendment to Act No. 164/2013 Coll., on international cooperation in tax administration, has passed its first reading in the Chamber of Deputies. The amendment will enable the exchange of information under Pillar Two (DAC 9 for EU Member States and the multilateral GIR MCAA for non-EU jurisdictions). It also includes DAC 8, concerning the exchange of information on crypto-assets.

- The draft amendment to the Value Added Tax Act, implementing a part of the EU VAT in the Digital Age (ViDA) package, and the draft Carbon Border Adjustment Mechanism (CBAM) Act have also passed their first reading.

- The Financial Administration has announced that, from 2028, it will take over the enforcement and administration of unpaid social security and health insurance contributions. In the first phase, the health insurance companies' involvement will be voluntary. The measure forms part of legislative changes being prepared under the Platform Work Act.

- The Ministry of Labour and Social Affairs has submitted to the government an amendment to the Pension Insurance Act. The proposal contains several practical changes affecting senior citizens: it introduces regular increases of pensions from the age of 80, strengthens incentives for working seniors, and clarifies the rules for paying pensions abroad.

- An amendment to the AI Act has been published in the Official Journal of the European Union, aiming to simplify and clarify its implementation. At the same time, the European Commission has published the content of guidelines explaining the transparency obligations applicable to certain artificial intelligence systems.

- The Ministry of Industry and Trade has announced that a new state agency, CzechBusiness, will be established on 1 August, combining the existing responsibilities of CzechTrade and CzechInvest. Companies will thus have a single partner to support their development, from innovation through to international expansion.

- In July, the second meeting of the start-up tripartite took place at government level. The main topic was the Start-up Act, which is expected to be submitted for inter-ministerial comment procedure in the coming days, as well as other planned activities to support innovative entrepreneurship – extending the framework for employee shares, developing technology transfer, and incorporating the start-up agenda into the newly established CzechBusiness agency.

- The following legislation was published in the Collection of Laws in July:
  - An act amending Act No. 240/2013 Coll., on investment companies and investment funds, effective from 1 September 2026.
  - Decree No. 134/2026 Coll. amending Decree No. 328/2015 Coll., implementing the Asylum Act and the Act on Temporary Protection of Foreign Nationals.

FOREIGN NEWS

- As at 3 July 2026, the OECD list of jurisdictions that have signed the multilateral agreement on the automatic exchange of information under the GloBE rules (GIR MCAA, Pillar Two) includes 38 jurisdictions: Australia, Austria, Barbados, Belgium, Czechia, Denmark, Finland, France, Gibraltar, Guernsey, Hong Kong, Croatia, Canada, Cyprus, Hungary, Germany, Ireland, the Isle of Man, Italy, Japan, South Korea, Liechtenstein, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Greece, Romania, Singapore, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, the United Kingdom and Turkey. The agreement will ensure the filing of a single information return and its subsequent exchange also for non-EU jurisdictions.
- The European Commission has announced developments in infringement procedures concerning the transposition of Directive (EU) 2025/872 (DAC 9). This directive provides a framework for the exchange of information from information returns within the EU. In January 2026, infringement procedures were launched against eleven EU member states that had failed to fully or partially notify the Commission of national measures transposing the directive into their national law. The Commission decided to send reasoned opinions to Belgium, Bulgaria and Cyprus, on the grounds that these three member states had not yet adopted or notified all the measures necessary for the full implementation of DAC 9. The infringement procedure remains open for a further six countries concerned, namely Czechia, Greece, Malta, the Netherlands, Poland and Portugal. The procedure was closed for Romania and Sweden.

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