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News in Brief, September 2026

Editorial

Almost 120,000 children in the Czech Republic have just started their first year of elementary school. Even at a time when some of them already use AI-powered voice features, they still need to learn to read, write and count – and, above all, to think critically.

For today's first-year pupils, working with AI will be an entirely natural skill, and the revolution we are currently experiencing will be something they know only from other people's accounts. They will miss out on the unique experience of witnessing this transformative change first-hand – an experience shared by you and by us at KPMG.

In more than 25 years of working in the profession, I have never seen the tax and legal services sector undergo a transformation comparable to the advent of AI, which is reshaping both how we work and the advisory services we provide. I am pleased to be part of this landmark change at KPMG, which is at the forefront of AI implementation.

AI is an exceptionally useful tool, particularly for routine tasks. However, it cannot resolve everything for us. There remain areas in which even the most powerful AI models cannot readily replace human capabilities. In my field – legal advisory services in M&A – transaction negotiations are undoubtedly one such area: success requires an ability to understand the other party and respond to the dynamics in the room. Machines are not capable of doing this.
At least not yet.

At the same time, we must remember that AI is a good servant but a poor master. Even the best AI prompts cannot entirely eliminate the risk of error. A professional approach to using AI therefore often requires its outputs to be verified – or, more precisely, critically assessed. This is precisely why the involvement of experienced KPMG tax and legal professionals remains essential.

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Pillar Two: current status of exchange of information from GloBE Information Returns

In September, the Chamber of Deputies will continue debating the proposed amendment to the Act on International Cooperation in Tax Administration. Among other matters, the amendment sets out the conditions for the automatic exchange of information contained in GloBE Information Returns with EU member states, transposing DAC9, and with non-EU jurisdictions that have signed the Multilateral Competent Authority Agreement on the Exchange of GloBE Information Returns (GIR MCAA).

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The purpose of DAC9 and the multilateral agreement is to simplify the filing of GloBE Information Returns (GIRs) under Pillar Two through the automatic exchange of information contained in GIRs.

Under the simplified regime, a group may file a single GloBE Information Return centrally in one jurisdiction for the entire group. The information will then be shared automatically with the tax authorities in the other jurisdictions in which the group operates and which apply the Pillar Two rules. Instead of filing separate GloBE Information Returns, the group's constituent entities in those jurisdictions will only submit a notification identifying in which jurisdiction and by which entity the return was filed. We have previously discussed DAC9 here.

As many jurisdictions that had implemented the Pillar Two rules, including the Czech Republic, had not incorporated an automatic information exchange mechanism into their legislation by 30 June 2026 (the deadline for the first-time filing of GloBE Information Returns for 2024), returns and notifications were filed under an OECD arrangement as if the legal framework for the exchange were already in place; this was subject to the condition that the information would be exchanged by 31 December 2026. We have previously discussed this topic here.

No exchange of information without the amendment

Adoption of the amendment is therefore essential not only to meet the above condition as regards the 2024 GloBE Information Returns but also to ensure that the simplified information exchange arrangements remain available for filings made after 30 June 2026, e.g., by groups whose financial year began after 1 January 2024 and whose filing deadline ends after 30 June 2026.

While it is reasonable to assume that the OECD arrangement could also apply to filings due after 30 June 2026,

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there is no doubt that the simplified regime is conditional upon the exchange of information taking place by 31 December 2026. Such an exchange can occur only if the amendment is adopted as soon as possible. If the information is not exchanged by that date, Czech constituent entities will be required to file a GloBE Information Return in respect of the Czech jurisdiction, thereby providing the Czech tax administration with information it would otherwise receive through international exchange.

The draft amendment has so far passed its first reading in the Chamber of Deputies and will now be considered by the relevant parliamentary committee (provisionally scheduled for 2 September 2026). Only then can it proceed to its second reading. Given the statutory legislative time limits, however, the act is unlikely to take effect before October 2026.

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VAT amendment from 2027 before Chamber of Deputies: ViDA package and call-off stock arrangements

From January 2027, the VAT Act is set to undergo changes related to the EU VAT in the Digital Age (ViDA) package. The amendment is primarily intended to extend and clarify the rules governing the One Stop Shop (OSS) scheme, reduce the need for VAT registrations in other EU member states, and align Czech legislation with amendments to the EU VAT Directive.

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The government bill amending the VAT Act passed its first reading in the Chamber of Deputies in July. Most changes are scheduled to take effect on 1 January 2027. The bill also includes changes to the call-off stock arrangements, which are proposed to take effect on 1 July 2028.

Changes from 1 January 2027

The One Stop Shop (OSS) scheme will be extended to cross-border supplies of energy. For the purposes of the Union scheme, cross-border supplies of electricity, gas, heating or cooling through systems or networks to certain final customers will be treated as intra-Community distance sales of goods. Subject to the applicable conditions, suppliers will therefore be able to declare and pay VAT through OSS instead of registering for VAT in each EU member state of consumption. The change may be particularly significant for operators of cross-border charging infrastructure.

OSS registration will have the effect that the supply will be taxed in the EU member state of the customer. Currently, businesses supplying certain services or making intra-Community distance sales of goods to customers in other EU member states may, subject to certain conditions, still choose to declare and pay VAT in the EU member state of their establishment if they do not exceed the EU-wide threshold of EUR 10,000. From 2027, however, registration for OSS should automatically mean that these transactions shall be taxed in the customer's EU member state. In other words, a business that opts to use OSS will no longer be able to tax those transactions in the EU member state of its establishment.

For services reported under the Union or the non-Union scheme, the date of taxable supply will be the date on which the service is supplied, irrespective of whether a VAT invoice is issued earlier. Businesses using OSS should therefore review the configuration of their invoicing and accounting systems.

The deemed supplier concept will also be extended. For certain supplies of goods by non-EU suppliers, an electronic platform will be responsible for accounting for and paying VAT not only on sales to consumers but also

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on sales to certain other customers, such as some small businesses that are not registered for VAT.

Changes from 1 July 2028

The existing call-off stock simplification will be abolished. The current rules will, however, remain available on a transitional basis until 30 June 2029 for goods whose transport to the destination EU member state is completed by 30 June 2028. A new special OSS scheme for transfers of own goods, which will replace the call-off stock simplification, will be addressed in a subsequent amendment. Businesses using call-off stock arrangements should therefore review their warehousing models and related VAT registration obligations in good time.

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Public CbCR: first obligations as early as 2026

Public country-by-country reporting (Public CbCR) introduces a new obligation for large multinational groups and standalone undertakings to publish a report on income tax information. Unlike the 'traditional' CbCR intended for the tax authorities, this will be a public document. The first reports will begin to appear in the Collection of Deeds of the Commercial Register and on companies' websites this year.

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When does the obligation arise?

Under Directive (EU) 2021/2101 and Sections 32m to 32r of the Accounting Act, Public CbCR applies to accounting periods beginning after **22 June 2024**. The obligation to prepare and publish an income tax information report arises where the following statutory thresholds have been met in **two consecutive accounting periods**:

- for a multinational group, consolidated revenue reaches EUR 750 million;
- for a standalone undertaking with a cross-border dimension, net turnover exceeds CZK 19 billion.

A standalone undertaking with a cross-border dimension is a Czech company with a branch outside the Czech Republic or a foreign company with a branch or permanent establishment in the Czech Republic. However, such cases will be rare in the Czech Republic: in most cases, the obligation will concern multinational groups, which are discussed below.

The situation is the simplest for groups operating solely within the EU. In such cases, the ultimate consolidating undertaking will fulfil the obligation to prepare and publish the report, and the other EU entities in the group will generally have no further obligations.

Greater attention is required where a Czech entity's ultimate consolidating undertaking is based outside the EU. If the obligation is not addressed at group level, the Czech entity must fulfil it separately, provided that it meets the statutory conditions (i.e., it is a medium-sized or large undertaking).

First reports as early as 2026

For entities whose accounting period began after 22 June 2024, the first reporting period may already have ended in **2025**. The report must be published **within 12 months of the balance sheet date**. For example, for an accounting

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period ending on 30 June 2025, the report had to be prepared and published by 30 June 2026.

For companies that use the calendar year as their accounting period and meet the relevant conditions, 2025 will be the first reporting period. They will therefore be required to prepare and publish the report by the end of 2026.

What must the report contain?

The report includes basic identification, descriptive and financial information, such as the name of the undertaking, the reporting period, the reporting currency, a brief description of activities in each tax jurisdiction, and the number of employees on a full-time equivalent basis.

The financial section includes, in particular, total revenue, profit or loss before income tax, current income tax, income tax paid on a cash basis, and accumulated profits and losses at the end of the period.

The information is also broken down by tax jurisdiction. EU member states and jurisdictions included on the EU lists of non-cooperative jurisdictions / jurisdictions with pending commitments —the 'blacklist' and 'greylist'—must be disclosed separately, while all other jurisdictions may be reported on an aggregated basis.

Who will see the report and where

In the Czech Republic, the income tax information report under the Public CbCR obligation is published by filing it in the Collection of Deeds of the Commercial Register no later than 12 months after the balance sheet date.

The undertaking must also publish information about the report on its website. In practice, it may choose one of two options:

- to publish the full text of the report directly on the company's website; or
- to publish a link to the Collection of Deeds together with a brief notice stating that the report is not published in full directly on the company's website.

Whichever option is chosen, this information (i.e., the income tax information report or the link with the notice) must remain available on the website for at least five years.

Multiple reporting exemption: when a group report may be used

Groups with a parent undertaking outside the EU may benefit from the multiple reporting exemption (MRE) introduced by the EU directive. The MRE allows a single equivalent group report to be used instead of separate local reports, provided that the statutory conditions are met.

In practice, this means that the non-EU parent undertaking must publish the report on its website in a machine-readable format and in one of the EU's official languages within 12 months after the end of the accounting period. The report must also identify a specific subsidiary or branch in the EU—the representative entity—which will file it in its national register. It is important that this filing in the national register actually takes place.

If these conditions are met, the Czech entity should generally not be required to prepare its own report, as the

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obligation is covered by the group report. However, the Czech Accounting Act uses the term ‘equivalent reports’ and does not transpose the MRE mechanism verbatim. From the perspective of Czech companies, we therefore recommend determining whether and how the report was published in national registers and on websites, and verifying whether the MRE conditions were met in the Czech Republic. According to an informal opinion of the General Financial Directorate, the obligation to prepare a separate report should not arise if these conditions are met. We believe that any risk of a strict interpretation can be reduced by voluntarily filing the group report in the Czech Commercial Register.

Penalties: why it pays to start early

Failure to prepare or publish the report, or to ensure its publication, may result in a fine of up to **3% of the undertaking’s total assets**, or **3% of consolidated assets** in the case of a parent undertaking preparing consolidated financial statements.

Public CbCR is not merely an administrative obligation. As the reported information will be publicly accessible, companies should focus not only on ensuring its accuracy and timely publication but also on how it is presented to the public. Early preparation will help groups establish a consistent approach and reduce both penalty and reputational risks.

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EET 2.0 in practice: self-service premises, cancellations and foreign-currency payments

The financial administration has provided answers to further practical questions concerning EET 2.0. These cover, e.g., self-service premises, foreign-currency payments, and corrections and cancellations of electronically reported sales.

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Sales of goods or services through vending machines are to be excluded from reporting. A vending machine is a self-service technical device that requires customer involvement only to the extent necessary to order or receive the goods or service. One example is a coffee machine that prepares and dispenses the final product after the customer places an order. By contrast, self-service petrol stations and self-service grocery stores do not qualify for this exemption because customers actively participate in the purchase process. Payments made at these premises should therefore be subject to electronic sales reporting.

Sales received in a foreign currency are converted into Czech crowns using the exchange rate normally applied by the business at the time of the sale, e.g., in its point-of-sale or accounting system. If the business does not use its own exchange rate, it may choose another appropriate rate, such as the Czech National Bank exchange rate. The amount actually received must always be reported. A cash payment rounded to whole crowns is therefore reported at the rounded amount, whereas a card payment including halers is reported at the exact amount paid, i.e. to two decimal places in Czech crowns.

A specific approach applies to fleet cards used to purchase fuel. Transactions made using these cards will not be subject to reporting because their use generally does not involve a payment at that point: it merely records the amount that will be subsequently invoiced to the customer. The reporting obligation therefore applies when the invoice is subsequently paid.

The financial administration has also clarified the procedure for correcting and cancelling individual sales. When correcting an incorrectly reported sale, returning goods or cancelling a transaction, the relevant amount shall be reported as a negative amount. The correction message will not be technically linked to the original sale and will have its own sequential number, date and time. It should be submitted when the circumstances justifying the correction or cancellation arise.

The financial administration's answers also revisit the definition of an in-person payment: if a customer pays a business directly at the place where a service is provided (e.g., for a plumber's services) by cash, card or QR code, the payment should qualify as an in-person payment subject to reporting. If the business merely issues an invoice which the customer subsequently pays remotely, no reporting obligation should arise. This distinction is

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consistent with the principles previously described by the financial administration, e.g., in relation to e-shops and payments made upon delivery of goods.

By contrast, the bill does not provide an option to request a binding ruling from the tax authority on whether a particular payment is subject to reporting. Businesses with doubts should contact the financial administration's helpline.

The above answers are based on the current wording of the bill. However, the Senate has returned it to the Chamber of Deputies with, among other proposals, an amendment to exclude non-cash payments from reporting. Such a change would fundamentally affect the overall concept of EET 2.0, which is based on reporting in-person payments irrespective of their form. It therefore appears more likely that the Chamber of Deputies will override the Senate on this point and retain the original scope of reportable payments.

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Senate returns EET 2.0 to deputies with amending proposals

Following its debate by the Senate, the EET 2.0 bill is returning to the Chamber of Deputies. Senators recommend several amendments, including removing non-cash payments from the electronic sales reporting and proposing changes to employee benefits. The final wording of the bill will now be put to another vote in the chamber.

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The legislative process will therefore continue with further consideration in the Chamber of Deputies, which may approve the Senate version, insist on its original wording or reject the bill in its entirety.

One of the most significant amending proposals is the removal of non-cash payments from the electronic sales reporting regime. While under the version approved by deputies, reporting should also cover in-person payments made, e.g., by payment card or QR code, the Senate proposes that such payments be excluded.

In addition to reinstating electronic sales reporting, the bill contains a number of other tax measures that we discussed here and here. These include the reintroduction of the tax credit for being a student and the tax credit for placing a child in a preschool facility, and the introduction of an income tax exemption of voluntary tips in catering services.

As part of these measures, the Senate proposes abolishing the tax exemption limit for non-financial employee benefits provided by employers in the form of specified health-related benefits.

Deputies will decide the bill's further fate in a further vote. If the legislative process is completed according to the current timetable, most of the measures, including EET 2.0, should take effect on 1 January 2027.

We discuss the financial administration's answers to practical questions concerning the operation of EET 2.0 in this article.

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End of greenwashing? Sellers face tighter scrutiny of ‘green’ advertising

Sellers‘ claims of being ‘eco-friendly’, ‘environmentally friendly’ or ‘climate-friendly’ will soon no longer be permitted without appropriate substantiation. In addition to introducing rules on greenwashing, the proposed amendments to the Civil Code and the Consumer Protection Act are also intended to tighten the rules on the premature obsolescence of products. Companies will face new information requirements concerning, e.g., product life, repairability and software updates.

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Greenwashing refers to misleading communication about the environmental characteristics of a product, service or company that is not supported by relevant and verifiable facts. As a result, consumers may be led to believe that their purchase contributes to environmental protection and may make economic decisions they would not otherwise have made.

These practices may soon come to an end. New rules based on Directive (EU) 2024/825, which are intended to strengthen consumer protection against misleading environmental advertising, are due to be transposed into the Consumer Protection Act and the Civil Code. The relevant bill has already passed its second reading in the Chamber of Deputies.

Stricter rules for “green” claims

Sellers will be permitted to refer to the environmental benefits of their products or services only if such claims are supported by a specific plan with measurable targets. For example, a seller wishing to present its company as climate-neutral by 2030 would have to substantiate the claim with a specific strategy setting out how the target will be achieved.

Such a strategy should be publicly available, and progress in implementing it should be regularly verified by an independent expert. It will also no longer be possible to present an entire product or company as environmentally friendly if the environmental benefit relates only to part of the product or business.

The list of commercial practices that will be prohibited in all circumstances will also be expanded: companies will not be allowed to use sustainability labels that are not based on a certification scheme or established by public authorities. In practice, this will mainly affect private sustainability labels or certifications created and awarded by

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sellers themselves or by business associations.

Similarly, generic claims such as ‘environmentally friendly’ will not be permitted unless the product has demonstrated outstanding environmental performance. Nor will it be possible to claim that a product or company is ‘climate-neutral’ or ‘carbon-positive’ where the claim is based solely on offsetting its carbon footprint rather than actually reducing it.

The end of premature product obsolescence

Another part of the amendment is intended to prevent the premature obsolescence of products. Sellers will not be permitted to withhold information about software updates that may adversely affect the functioning or use of a product, such as a computer or telephone. Nor will they be allowed to present an update as necessary if it merely enhances the product’s functionality.

The rules will also address product durability. The new legislation is intended to prevent practices that compel consumers to replace consumable parts, such as batteries or toner cartridges, prematurely even though replacement is not necessary. It will also prohibit the sale of products with features that artificially limit their lifespan, as well as misleading consumers about product lifespan or durability. Likewise, sellers will be prohibited from claiming that a product is repairable where repair is not in fact possible.

Compliance will be supervised primarily by the Czech Trade Inspection Authority and, in regulated sectors, by the relevant supervisory authorities, such as the Czech National Bank or the Energy Regulatory Office. Fines may amount to up to 4% of a company’s annual turnover; where the seller’s turnover cannot be determined, the penalty may reach CZK 50 million.

Companies should therefore review whether any of their marketing practices constitute prohibited conduct. Misleading consumers entails not only the risk of substantial fines but may also result in other sanctions or a loss of customer trust.

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EU employment law updates: third-country jobseeker database and changes to the EGF

In the first half of the year, two noteworthy EU regulations affecting employment law entered into force: the first establishes the EU Talent Pool for recruiting workers from third countries, while the second strengthens the role of the European Globalisation Adjustment Fund for Displaced Workers (EGF) in restructuring situations.

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New EU-wide talent database: the EU Talent Pool

The EU Talent Pool is a voluntary digital platform connecting employers in the EU with jobseekers from third countries. It is intended to address lasting labour and skills shortages, particularly in sectors where vacancies cannot be filled by local workers, while supporting fair and transparent recruitment. The platform will allow jobseekers to create profiles and employers to advertise vacancies. The system will then be able to match job vacancies with suitable candidates automatically.

In practice, the EU Talent Pool should become another official channel for recruiting workers from third countries in shortage occupations. Participation in the platform is voluntary: member states may decide whether to join, and employers and jobseekers may also choose whether to use it. Importantly, a jobseeker's use of the platform does not in itself confer any right of entry, residence or employment in a member state and does not replace the necessary national immigration procedures.

Broadening the European Globalisation Adjustment Fund

The EU has also adopted a regulation amending the rules governing the EGF, which supports workers affected by restructuring. Until now, it primarily focused on workers who had already lost their jobs. Under the new rules, it may also support workers at imminent risk of redundancy. The aim is to help them acquire new skills or prepare to move into another role before they lose their current jobs.

The EGF will support affected workers through reskilling, upskilling and preparing for a new role with the same employer or a move to another employer. It will also assist them in finding a new job elsewhere in the EU, including through improved information exchange between member states. Support may be initiated by the undertaking undergoing restructuring itself, allowing it to use EU funding to retrain employees before planned redundancies.

Other key changes include:

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- a stronger coordinating role for the EGF in cross-border restructuring;
- an amended definition of an undertaking undergoing restructuring, which will also include an undertaking carrying out collective redundancies.

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EU tightens conditions for granting temporary protection to Ukrainian nationals

On 5 August 2026, a new Council of the EU implementing decision entered into force, extending the temporary protection regime for people fleeing the war in Ukraine until 31 March 2028. At the same time, the conditions for granting temporary protection to new applicants have been tightened.

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Temporary protection may no longer be granted to Ukrainian nationals aged 18 to 60 who do not provide evidence that they have fulfilled their military obligations or have been fully exempted from them under Ukrainian law. This condition applies to initial and repeat applications for temporary protection, as well as applications for temporary protection for the purpose of family reunification, submitted from 5 August 2026 onwards.

Compliance with military obligations is demonstrated by means of an electronic military registration document (eVOD) in Ukraine's Reserv+ application. Applicants aged 18 to 22 must provide evidence of registration in Reserv+ and present a printed copy of their eVOD. Applicants aged 23 to 60 must demonstrate that they have been fully exempted from military obligations and that this is recorded in their printed eVOD. When submitting an application, applicants must also demonstrate that their eVOD is up to date by allowing an official of the Czech Ministry of the Interior to view their profile in the Reserv+ application.

An important exemption applies to persons whose temporary protection was already valid on the date the decision entered into force and who maintain it without interruption. The new condition does not apply to these persons, and their temporary protection will continue to be extended in much the same way as in previous years. In the Czech Republic, applicants will again first register online and then visit a Ministry of the Interior office in person to have a new visa sticker affixed. Once both steps have been completed, the ministry will extend temporary protection until 31 March 2028.

The new rules represent a significant change for Ukrainian nationals planning to travel to the Czech Republic and apply for temporary protection after 5 August 2026, as well as for those whose previous temporary protection expired without being extended and who intend to reapply. We therefore recommend that employers and applicants themselves verify compliance with the new conditions before an application is submitted.

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EU customs updates: suspensions, quotas and sanctions

An updated list of tariff suspensions and autonomous tariff quotas, a new regulation to protect the steel market, and a further package of sanctions against Russia and Belarus: these are the EU customs updates from this summer.

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With effect from July this year, the Council of the EU updated the list of tariff suspensions for selected industrial and agricultural products that are currently in short supply in the EU. New products have been added to the list, and some existing suspensions have been extended.

A tariff suspension – reducing import duty to zero or at least to a rate below the standard tariff – may be applied when goods are imported from third countries into the Czech Republic (and the EU as a whole) provided that the imported product qualifies for the relevant suspension. In other words, it must correspond to the applicable tariff code and product description or technical specification. This can be checked using the TARIC web application (Taric CZ | Celní správa ČR) and subsequently verified against Council Regulation (EU) 2026/1463. The suspension is claimed in the import customs declaration. However, if an importer fails to claim it when the goods are released for free circulation, the customs relief may also be claimed retrospectively.

The list of autonomous tariff quotas was also updated in July. These likewise allow importers to benefit from a reduced (zero) customs duty rate. Unlike tariff suspensions, however, tariff quota relief is available only up to the specified quantity imported into the EU, and quota usage must therefore be monitored.

Tariff quotas are also relevant to the EU's new measure to protect the steel market, Regulation (EU) 2026/1384, which introduced tariff quotas in July for specified categories of steel products totalling approximately 18 million tonnes annually. In this case, however, the tariff quota operates differently from the quotas referred to in the preceding paragraph, as an additional duty equal to 50% of the customs value of the goods applies once the quota has been exhausted.

We also draw attention to the EU's 21st package of sanctions against Russia and Belarus, aimed primarily at combating circumvention of the sanctions already in force. Further entities have become subject to stricter restrictions on exports of dual-use goods and technologies, and the ban on imports of goods that generate significant revenue for Russia and Belarus has also been extended to include certain metal ores, glass products and other goods.

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SAC: stricter interpretation of conditions for residence under 'other' category

In its recent judgment (2 Azs 64/2024), the Supreme Administrative Court confirmed that the purpose of residence under the 'other' category must have a sufficiently strong, close and genuine connection to the Czech Republic. The mere fact that a foreign national's activity takes place in the Czech Republic and requires their long-term presence is no longer sufficient, according to the court.

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The case concerned a foreign national who originally resided in the Czech Republic under a long-term residence permit for the purpose of studying in Brno. After he ceased to meet the conditions for that residence, he applied for a new permit under the 'other purpose' category—specifically for the purpose of educational activities that do not qualify as studies under the Foreign Nationals Residence Act.

He stated that the purpose of his residence was an intensive English-language course comprising 20 lesson hours per week. The Ministry of the Interior rejected the application on the grounds that studying English did not constitute a sufficient purpose of residence to justify a long-term stay in the Czech Republic. This conclusion was subsequently upheld by the Commission for Decision-Making in Matters of Residence of Foreign Nationals.

The Regional Court in Brno, by contrast, agreed with the foreign national. In the court's view, he had sufficiently substantiated the purpose of his residence because the educational activity was time-intensive and required his presence in the Czech Republic for more than three months. The court also noted that the administrative authorities had previously accepted similar language courses as a purpose of residence.

The SAC, however, disagreed with the Regional Court's approach. It set aside the judgment, relying on the conclusions of its extended chamber that not every activity taking place in the Czech Republic is sufficient. A purpose of residence not expressly regulated by law must have a sufficiently strong, close and genuine connection with the Czech Republic. The court also emphasised that English can be studied virtually anywhere in the world, including in the applicant's country of origin, and that studying English in an English-speaking country would be a more logical course of action. It therefore concluded that the stated English course was not a sufficient reason for granting long-term residence.

The SAC also addressed the previous administrative practice and the foreign national's legitimate expectations referred to by the Regional Court. It recalled that the legitimate expectations of parties to proceedings are not absolute and are limited, in particular, by the principle of legality. A person cannot require an administrative authority to continue a previous practice if that practice is found to have been contrary to law. Accordingly, even if the administrative authorities had approved similar applications in the past, that fact alone does not create an entitlement to the same decision in the future.

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This decision is important for applicants for long-term residence under the ‘other’ category, particularly in relation to other educational activities that do not themselves qualify as studies. The SAC confirmed that merely documenting a course or another activity taking place in the Czech Republic will no longer be sufficient; applicants will be required to demonstrate a genuine and sufficiently strong connection with the Czech environment.

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Case law sets boundaries for determining local real estate tax coefficients

If a municipality decides to introduce a local coefficient for specified real estate, since 1 January 2025 it has been required to do so by means of a measure of a general nature. The first wave of court disputes already sheds light on the requirements that such measures must meet to avoid being discriminatory. Through a local coefficient, a municipality may either reduce (coefficient of 0.5) or significantly increase (coefficient of 1.1–5) the overall real estate tax burden on specified real estate.

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The first court decisions (e.g., 1 Afs 82/2025-33 (Lovosice)) confirmed that municipalities could adopt these measures as early as 2024 even though the relevant enabling provision did not take effect until 1 January 2025. The Supreme Administrative Court concluded that this procedure was not unlawful provided that the measure was actually applied only to the 2025 taxable period. This conclusion was subsequently reflected in a number of other disputes (e.g., 5 Afs 237/2025-46 (Opatovice)).

The case law to date also shows that courts exercise considerable restraint when reviewing these measures. They have repeatedly emphasised that determining a local coefficient falls within a municipality's independent competence and that it is not for the courts to replace political decisions of municipal councils with their own assessment.

However, municipal autonomy is not unlimited. In several decisions (e.g., 22 Afs 257/2025-71 (Řepov) and 7 Afs 232/2025-41 (Cheb)), the administrative courts emphasised that a higher tax burden must be based on objective and reviewable criteria making it possible to verify that it is neither discriminatory nor based on arbitrary criteria. A municipality must therefore be able to explain not only the objective it pursued but also why it selected the particular real estate to which the higher local coefficient applies.

Mere reference to the existence of externalities is insufficient

The courts generally accept reasoning based, e.g., on the existence of negative externalities. In particular, they regard increased traffic, emissions, noise, dust, greater demands on infrastructure and adverse effects on the landscape as legitimate grounds. However, the case law shows that merely referring to the existence of negative externalities is insufficient. A municipality should identify objective and reviewable criteria on the basis of which it subjected selected real estate to a higher local coefficient.

Accordingly, where it was not clear from the measure why certain real estate had been selected, the courts abolished the measure—e.g., 21 Afs 203/2025-38 (Zápy) and 66 A 10/2026-79 (Veselí nad Moravou).

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The courts took a particularly strict approach where a measure effectively applied only to a very limited group of owners or even to a single entity—e.g., 4 Afs 214/2025-42 (Hronov). In such cases, the court imposed substantially higher requirements on the quality of the reasoning to prevent the risk of a selective and discriminatory approach.

Another noteworthy conclusion from the case law to date is that the courts generally do not require detailed reasons for the level of the coefficient selected. As long as a municipality remains within the statutory range of 0.5 to 5, the level is primarily a political decision of the municipal council for which the municipality's elected representatives are accountable. The review therefore focuses primarily on whether the municipality selected the real estate subject to the coefficient in a lawful and non-discriminatory manner.

The case law to date therefore provides municipalities with useful guidance. Although they retain considerable discretion in applying local coefficients, they must define and clearly justify the objective criteria used to identify the real estate concerned. Measures that fail to provide such justification risk being abolished by the courts.

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SAC on obligation to pay VAT stated in invoice

The Supreme Administrative Court (SAC) considered whether VAT stated in an invoice must be paid even where the invoiced supply is fictitious. It confirmed that the decisive factor is not the mere statement of VAT in the invoice but the existence of a genuine risk of loss of tax revenue.

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The case concerned a company that claimed to purchase solar panels and subsequently supply and install them for end customers. The company claimed input VAT deductions on purchases at the standard rate, while taxing its output supplies at the reduced rate, resulting in an excess VAT deduction. During a tax inspection, the tax authority found that the supplies to end customers had not in fact taken place.

The SAC considered whether the company was required to pay the VAT stated in the invoices it had issued even though the invoiced supplies were fictitious. Drawing on the case law of the Court of Justice of the European Union and its own previous decisions, it emphasised that the purpose of the obligation to pay VAT stated in an invoice is to protect the state budget against the risk of loss of revenue. Such a loss may arise if the recipient of the invoice improperly claims an input VAT deduction. Where no such risk objectively exists—typically because the recipient is a final consumer with no right to deduct input VAT—the VAT should not be assessed or additionally assessed.

The SAC confirmed that merely stating VAT in an invoice does not automatically give rise to an obligation to pay that VAT irrespective of whether the supply actually took place. The decisive consideration is always whether the invoice recipient could have claimed an input VAT deduction and whether there was therefore a genuine risk of loss of tax revenue to the state budget.

In the case at hand, the end customer could not in practice claim an input VAT deduction and the supplier's manifestly fraudulent conduct did not actually create an obligation to pay VAT stated in the fictitious invoice. According to the SAC, payment of VAT stated in an invoice should be neither a standard tax liability nor a punitive measure for fraudulent or improper conduct. In view of the principle of VAT neutrality, the court further noted that assessing or additionally assessing the VAT would breach that principle, as it would increase state revenue even though no supply had taken place and there was no risk of tax revenue being lost.

The SAC's conclusions may therefore be relevant not only to fictitious supplies but also to other situations in which the VAT stated in an invoice is incorrect.

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Constitutional Court reiterates obligation to address new arguments in tax dispute

The Constitutional Court set aside a judgment of the Supreme Administrative Court (SAC) concerning the tax deductibility of interest between related parties. According to the Constitutional Court, the SAC failed to address adequately the taxpayer's new arguments, thereby infringing its right to a properly reasoned judicial decision. The judgment confirms the importance of well-developed legal arguments and a thorough knowledge of previous case law when defending taxpayers' rights.

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The dispute concerned whether the transfer of a 100% ownership interest to a bank by way of security created a capital relationship between the bank and the debtor (the taxpayer) for the purposes of the Income Taxes Act. Both the financial administration and the administrative courts concluded that it did and therefore disallowed the relevant interest expenses for income tax purposes. In doing so, the SAC relied on its earlier judgment in Grand Class, which concerned a similar legal question.

In its constitutional complaint, however, the taxpayer argued that their case could not be treated as directly comparable to the earlier case without further analysis. In its cassation complaint, the taxpayer presented a number of new arguments concerning the legal nature of a transfer of rights by way of security, the differences between that arrangement and a conventional transfer of an ownership interest or a pledge. In the taxpayer's view, the SAC had failed to address these arguments and had merely taken over the conclusions of its earlier judgment.

Judgment primarily significant from a procedural perspective

The Constitutional Court (Judgment IV. ÚS 583/26 of 29 July 2026) reiterated that reference to established case law is a legitimate means of reasoning where a party merely repeats arguments that have already been addressed by that case law. The position is different, however, where the party presents new and potentially significant legal arguments. In that situation, the court must explain why those arguments do not warrant a departure from the existing legal position.

According to the Constitutional Court, this was precisely where the SAC had erred. The Grand Class judgment was based on a very brief cassation complaint, whereas the arguments in the present case were considerably more extensive and sophisticated. Nevertheless, the SAC largely referred to its earlier conclusions without considering the new arguments separately. The Constitutional Court also found that parts of the SAC's reasoning were contradictory.

The Constitutional Court did not consider whether the transfer of the ownership interest by way of security actually created a capital relationship or whether the interest was tax deductible: it left those issues for the SAC to

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reassess. The significance of the judgment lies in confirming that established case law cannot in itself replace proper reasoning and statement of grounds in a judicial decision. Where a party to proceedings presents new and relevant arguments, the court must address them on their merits and explain why they do not warrant a departure from the existing legal position.

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In brief

News in Brief, September 2026

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

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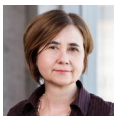

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DOMESTIC NEWS

- The Ministry of Industry and Trade announced that the government had approved the Ministry of Industry and Trade's Business Package, comprising 11 specific measures to reduce the administrative burden on companies and sole traders. The measures are scheduled to be implemented by 30 September 2027. One measure is to establish a legislative basis for the Business Portal, which is intended to provide businesses with a single point of access to public services and the information systems of tax authorities and health insurance companies. Businesses should further benefit from the Unified Inspection Register Portal (Jednotný portál evidence kontrol, JePEK), which will enable inspections to be recorded and coordinated in one place, their dates and results to be shared among authorities, and this information to be made available to businesses; a pilot is planned for the first half of 2027. Another measure is a single payment gateway within the Trade Licensing Portal, enabling administrative fees for electronic filings to be paid centrally.

- In close cooperation with the Ministry of Industry and Trade, the Ministry for Regional Development is initiating the process of transferring CzechTourism, an executive and marketing agency, to the competence of the Ministry of Industry and Trade. According to the Ministry of Industry and Trade, the objective is to better align the promotion of the Czech Republic abroad with support for business, investment and exports of services. Where tourism is concerned, the Ministry for Regional Development will remain responsible for its policy, legislation, and support for the regions.

- The government considered a bill prepared by the Ministry of Justice amending several laws concerning the protection of trade secrets. The amendment is intended to enable companies to defend themselves more effectively against the misuse of confidential information, technological processes, formulas, production methods and other valuable know-how.

- Decree No. 147/2026, amending several decrees following the adoption of the amendment to the Act on Investment Companies and Investment Funds, has been published in the Collection of Laws and will take effect on 1 September 2026.

- Government Regulation No. 151/2026, amending Government Regulation No. 278/2008 Coll. on the scope of activities covered by individual trades, has been published in the Collection of Laws.

FOREIGN NEWS

- The European Commission has published an updated version of the draft taxonomy for Public CbCR (income

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tax information reporting). The document describes the architecture and content of the taxonomy for preparing reports and it is intended primarily for reporting entities and software companies providing report preparation solutions.

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