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# Tax & Legal

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## In brief

News in Brief, June 2025

# Editorial

June is usually not a month of major legislative activity in tax area, as the year end is still far away. However, 2025 is an election year and the proverbial sword of Damocles is thus hanging over several currently debated, tax-related and other bills. Those not passed before the elections will have to start the legislative process from scratch.

Passing laws can sometimes be as thrilling as horseracing. While some tax changes (such as the extension of the deduction of interest on loans) have bravely made it to the finish line of the legislative process, we see new racers, legislative riders, unexpectedly appearing halfway through the racetrack. They attach themselves to the favourite in the race – the one with political priority.  For instance, the single monthly employer reporting bill now has several amending proposals attached to it (an overview can be found in this issue). Investors will be pleased with the somewhat unexpected proposal to remove the CZK 40 million limit on the exemption of income from sales of securities, business shares/interests, and crypto assets once a time test has been met. If the proposal passes, the limit will only apply for one year.

One racer that I personally will be watching with great anticipation is the partial amendment to the Accounting Act, which includes an amendment to the Act on Top-Up Taxes (Pillar Two). It should postpone the deadline for first-time tax returns and information returns, which is already coming up in October of this year while taxpayers still do not know what the template forms will look like and whether they will have to create their own xml schemas.

If you are wondering whether and how artificial intelligence could help you navigate the legislative storm, make sure to watch our webinar on 18 June where we will present our journey to AI and show the DG GenAI tool we use. If you'd like to try the tool in real time or discuss whether AI can help you with your taxes, we'd love to have you.



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Taxes

# Changes in tax legislation: news for ESOPs, abolition of limit for exempting selected income, increase in R&D allowance

During the debate of the draft Act on Single Monthly Employer Reporting (in Czech: jednotné měsíční hlášení zaměstnavatele or JMHZ) in the chamber of deputies, several amending proposals have been submitted and attached to the bill as legislative riders amending the Income Tax Act.




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Below we summarise selected tax-related amending proposals that will be voted on by the chamber of deputies in the final third reading. They partly concern changes arising from the planned abolition of withholding tax on employment from **2027**, but many of them may also bring important changes in other areas, with effect from **1 January 2026**.

One of these amending proposals changes the start of JMHZ to 1 April 2026 instead of the originally planned beginning of 2026. We reported on the JMHZ bill in more detail here.

**Abolition of withholding tax**

Several of the amending proposals respond to the planned abolition of withholding tax on **1 January 2027**.
One of the proposals requires that small earnings or small-scale income from agreements to perform work (outside employment) or small-scale employment should be subject to monthly personal income tax prepayments. The filing of a tax return would remain voluntary. Taxpayers would retain the right to file a tax return if they wished to take advantage of annual deductions from the tax base, tax credits, or tax relief.

**Abolition of the CZK 40 million limit for the exemption of income from the sale of securities, business shares/interests and crypto currencies**

It is proposed to abolish the current aggregate limit of CZK 40 million in a taxable year for the tax exemption of income from the sale of securities, business shares/interests and crypto-currencies that meet the time-test for exemption, with effect from 1 January 2026. The limit was introduced for securities and business shares/interests and took effect from 1 January 2025, for crypto assets from 15 February 2025. The reason for the proposal to abolish this limit are practical problems in its application.

**Employee stock and option plans (ESOPs)**

Amending proposals relating to ESOPs propose to extend the maximum period for the taxation of income from



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ESOPs from 10 to 15 years from the acquisition of shares or options. It is also proposed to delete one of the taxable moments (the points at which such income is taxed), namely the moment when the employer or employee ceases to be tax resident in the Czech Republic, which has proven problematic in practice.

Another amending proposal introduces qualified employee stock options, a new category of option plans. The taxation of income from the realisation (exercise or financial settlement) of a qualified employee option is proposed so that the income equal to the difference in the market price at the time of exercising the qualified employee option and at the time of granting the option shall be taxed as other income under Section 10 of the Income Tax Act.

The amending proposal stipulates several conditions that must be met for the proposed method of taxation to apply, such as a minimum period of holding the option, a maximum annual turnover and maximum aggregate assets of the qualified employer, and the obligation to inform the tax administrator of having granted a qualified employee option. This method of taxation would mean that the income would not be subject to compulsory social security and health insurance contributions.

According to the drafters, these changes aim to support start-ups and young innovative companies.

**Transferring a part of wages to employee benefits**

Another amending proposal sets clearer rules for the provision of non-monetary employee benefits and explicitly states that these benefits must not include a wage, salary, or other consideration related to the performance of work. The aim is to prevent the practice of transferring a part of wages to non-monetary benefits to gain a tax advantage.

**Increase in research and development allowance**

Another proposed change should make research and development allowances more attractive, especially by introducing a **150%** deduction for the first CZK 50 million of costs. However, this increased deduction shall be claimed for an allowance group to avoid the splitting of costs between several companies within a group. Costs above this threshold could be claimed at 100% without a limit. The proposal also includes an extension of the period for claiming the allowance from the current three to five taxable periods (years), and the option to choose when to claim it during those five years (e.g. if the entity wishes to claim a tax credit for disabled employees first).

**Increase in the limit for receivables that can covered by 100% adjustments**

It has also been proposed to increase the limit for receivables for which 100% tax-deductible adjustments can be created on a one-off basis, from TCZK 30 to TCZK 50. This increase should also apply to tax-deductible adjustments/provisions applied by banks.



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# Employee stock and option plans: notifying tax administrator of taxation postponement

The amendment to the Income Tax Act under which the taxation of an employee's income from share and option plans can only be postponed if the employer notifies the tax administrator of this choice, became effective from 1 April 2025. The General Financial Directorate (GFD) has now issued a (non-obligatory) template form: "Notice of postponement of taxation of employee's income".



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We wrote in detail about the amendment in the Tax and Legal Update at the beginning of March.

The amendment introduces the possibility to postpone the taxation of income acquired by employees under employee stock and option plans, subject to notifying a tax administrator of this choice. This applies not only to income acquired after the amendment's effective date (i.e. after 1 April 2025) but also to income acquired by employees before the amendment entered into effect.

For income acquired after 1 April 2025, the choice to postpone the taxation must be reported by the 20$^{th}$ day of the calendar month following the calendar month in which the employee acquired the income. The related social security and health insurance contributions shall then be postponed accordingly.

If the employer does not notify the tax administrator of the choice to postpone taxation, the income becomes taxable in the month of acquisition of the shares or convertible options, or in the calendar year (in line with the taxation regime in force until the end of 2023).

For shares and options acquired between 1 January 2024 and 31 March 2025, employers must notify the tax administrator of their choice to postpone taxation by 2 June 2025 (i.e. within months of the amendment's effective date).

Czech employers shall notify their local competent tax authority; for foreign entities (e.g. a foreign parent company) not registered for taxes in the Czech Republic, the tax authority for the Ústí nad Labem Region shall be the relevant tax authority.



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# Extension of loan interest deduction: new tax relief for cooperative housing

The Senate of the Czech Republic approved a bill extending the possibility to deduct interest from the personal income tax base: apart from interest on mortgage loans, it will also be possible to deduct interest on housing cooperatives' loans. An amending proposal to this provision was submitted during the deputies' second reading of the bill. Individuals will now be able to deduct from their tax base a proportionate part of the loan interest paid by housing cooperatives.



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This change is proposed to take effect on 1 January 2026, which means that taxpayers will be able to claim these deductions for the 2026 taxable period. The bill is now awaiting the president's signature, which should be just a formal step to complete the legislative process.

We informed you about this bill in our article of 6 March 2025. The extension of interest deduction represents a significant step towards greater housing affordability. It will encourage cooperative housing, which is often associated with the payment of annuities that include interest on loans that up until now could not be treated as an item deductible from the personal income tax base



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# Top-up taxes: information exchange within EU and other legislative developments

On 6 May 2025, Council Directive (EU) 2025/872 amending Directive 2011/16/EU on administrative cooperation in the field of taxation was published in the EU Official Journal. The directive creates the conditions for the EU-wide filing of single top-up tax information returns. Member states are obliged to transpose the directive into their legislations by 31 December 2025. The Czech government has already been working on the implementing law, which is about to be debated by the chamber of deputies.



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### DAC 9

We report on the forthcoming directive here Pillar Two: Exchange of information on information returns within EU (DAC 9).

The main tools for the centralised filing of information returns are:

- a uniform format of the global information return on allocated top-up tax, valid EU-wide (based on the OECD format) and
- a mandatory scope of information that financial administrations must provide to other member states where the group operates within the EU.

The EU-wide information return shall be filed centrally by the ultimate parent entity or another designated entity within the group, with the tax administration in its member state. Tax administrations of the other member states in which the group operates shall only be notified of the member state in which the information return was filed. Subsequently, they will also receive information concerning constituent entities in their jurisdiction (i.e. not the entire information return, just its predefined parts shall be shared).

The rules specified in the directive can only be applied to constituent entities within the EU. As the single format contains all essentials of the information return as approved at the OECD level, it should also be possible to apply the single-filing principle in relation to other countries. However, a prerequisite is that a qualified agreement on the exchange of information for Pillar Two purposes is concluded with that country (the directive is a multilateral agreement on the exchange of such information within the EU). The draft Czech implementation law already foresees this possibility.

The new directive does not prevent member states from requesting further information or filings concerning domestic top-up taxes. As the approved single information return already contains information for the determination of the domestic top-up tax, these requests should not be excessive.

The new directive should apply to filings for the first top-up tax reporting period started after 31 December 2023.

### Czech implementation of DAC 9



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The directive's Czech implementation is being prepared as an amendment to the Act on International Cooperation in Tax Administration (the exchange of information about crypto assets has also been moved to the draft amendment). When defining the information return, the proposed amendment refers to the Act on Top-up Taxes. It can therefore be expected that the mandatory elements of the single information return format will be provided for in a separate decree on the essentials of submissions via prescribed forms for top-up tax.

### Amendment to the Act on Top-up Taxes

So far, the chamber of deputies has not initiated the second reading of the amendment to the Act on Top-up Taxes, which includes an extension of the deadlines for certain submissions in this area. For comparison, we present the deadlines for first-time filing under current legislation and under the proposed amendment (calculated in months from the end of the first reporting period).

| | **Valid legislation** | **Amendment** |
|---|---|---|
| Information return on allocated top-up tax | 18 | 18 |
| Allocated top-up tax return | 22 | 22 |
| Information return on Czech top-up tax | 10 | 18 |
| Czech top-up tax return | 10 | 22 |

The prescribed forms for these submissions have not been published yet.



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# VAT treatment of compensation for stolen goods

The Coordination Committee of the Chamber of Tax Advisors and the General Financial Directorate recently considered compensation for stolen goods from a VAT perspective and concluded that such compensation is only subject to VAT if two conditions are met: the right to dispose of the stolen goods as their owner is transferred to a person different from the original owner, and there is a direct link between the stolen goods and the compensation.



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The GFD agreed with the paper submitters that the theft of goods cannot be considered a supply of goods for consideration if the original owner of the stolen goods is not compensated in any way. This conclusion emanates from the CJEU's decision in Case C-435/03 British American Tobacco International and Newman Shipping, ruling that the theft of goods does not constitute a supply of goods for consideration and as such cannot be subject to VAT due to the lack of financial consideration and the perpetrator being a mere possessor of the goods without the right to dispose of them as owner.

Two other scenarios were also considered during the discussion of the paper:

1. The person who stole the goods is discovered and ordered to pay for the value of the goods.

2. A person other than the person who stole the goods is held responsible and ordered to pay the incurred damage.

In these cases, it is crucial to determine whether they involve a supply of goods under the VAT Act.

The supply of goods for consideration may also involve a situation where consideration is provided upon agreement: having first stolen the goods, the perpetrator or another person then agrees to pay for the stolen goods or contractually undertakes to pay for them. At the same time, the condition must be met that a person other than the original owner of the goods acquires the right to dispose of the stolen goods as their owner, i.e. the right to decide on the further legal fate of the goods (e.g. if the stolen goods are subsequently found, on their sale or consumption).

It thus becomes clear that the assessment of whether compensation for stolen goods constitutes a supply of goods for consideration and therefore a taxable supply will depend on the contractual arrangement. Where the compensation paid for the stolen goods arises from an insurance policy or other liability relationship, the compensation will not constitute consideration for the supply of the goods unless the right to dispose of the stolen goods as their owner is transferred to another person (e.g. an insurance company, a warehouse). The transfer of



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ownership determines whether the compensation in a given situation will be taxable.

For a theft to be classified as a supply of goods for consideration, it is not decisive whether the compensation for the stolen goods is paid to the victim by the perpetrator or by another person. What is decisive is whether by mutual agreement the right to dispose of the goods as owner was transferred to another person and whether the compensation received constitutes direct consideration for that delivery.

If the compensation for stolen goods is not considered a supply of goods for consideration, the original owner of the goods must decide whether it will be necessary to adjust or settle the VAT deduction originally claimed, i.e., they must proceed in accordance with the GFD's information. If they can prove the facts mentioned in the GFD's information (e.g. the origination of a shortfall up to the amount of the shrinkage, confirmation from the Police of the Czech Republic), the settlement or adjustment of the VAT deduction is not performed. If they are unable to prove them, they must settle or adjust the VAT deduction.

For completeness, the GFD states that the right to VAT deduction for a received taxable supply does not arise if the taxpayer is unable to prove for what purpose the goods were used. Thus, the person providing compensation for stolen goods must not only prove that they received a taxable supply but also how they used such supply.

Considering the conclusions adopted by the Coordination Committee we recommend that compensation for damage should always be assessed according to the contractual arrangement and how the stolen goods were disposed of.



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Tips and tricks

# How to extend the deadline for filing income tax returns?

What to do if the six-month deadline seems insufficient to prepare your income tax return, or if for whatever reason you've failed to file within earlier deadlines?




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The basic deadlines for filing income tax returns for the 2024 calendar year already passed on 1 April or 2 May if filed electronically. The last statutory deadline, applying to returns filed by taxpayers subject to a statutory audit or returns filed by tax advisors, is July 1.

Taxpayers who are subject to a three-month or four-month filing deadline can extend it to six months by having a tax advisor or attorney file the return for them under a power of attorney. This power of attorney does not have to be delivered to the tax authorities within the regular (shorter) deadline. So, if you have not managed to file your 2024 return within the standard deadline, you can still grant a power of attorney to a tax advisor or lawyer and ensure the timely filing of your income tax return through them. For taxpayers who are subject to the extended six-month deadline and who are already looking with some trepidation at the 1 July deadline, the Tax Procedure Code provides certain options of how to extend their filing deadline. The tax administrator may grant an extension of up to three months based on an application for extension filed by the taxpayer before the official deadline. If the subject matter of the tax includes income taxed abroad, the tax administrator may grant an extension of up to 10 months from the end of the taxable period.

The application for extension of the deadline does not have a prescribed form or a uniform template but must include certain essential elements. An administrative fee of CZK 300 must also be paid. An essential part of the application is the statement of grounds. The deadline may be extended, for example, if the audit of financial statements or a close-out of accounts remain unfinished due to significant organisational or personnel changes. Another reason may be significant foreign aspects affecting the preparation of the income tax return, such as income subject to taxation abroad.

It is important to keep in mind that there is no entitlement to such an extension. It is therefore entirely within the tax administrator's discretion whether and to what extent the request will be granted. Moreover, past practice shows that the approach of the tax authorities is not uniform and that it has become stricter in recent years.

Should the tax authority not grant an extension, one can still get the necessary time to thoroughly prepare one's tax return by paying the tax on time together with the timely filing of a proper return in its best possible form, and then correcting it through an additional income tax return. By correctly combining the paid tax, the originally declared tax, and the timing of the additional return, it may even be possible to minimise any associated penalties.



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Legal

# Amendment to AICIF: What will it bring and what to prepare for?

The Ministry of Finance has prepared an extensive amendment to the Act on Investment Companies and Investment Funds (AICIF)reflecting the EU AIFMD II directive. Most of it is expected to enter into effect on 16 April 2026 but some of its parts as late as 2027. What will the amendment bring and what to prepare for?




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1. **New obligations for fund managers**

Managers of open-ended investment funds will need to have at least two liquidity management tools in place, and it will be up to each manager to choose a suitable specific tool from a list. The aim is to increase stability and protect investors.

1. **Extension of outsourcing rules**

Requirements for outsourcing will be tightened and reporting requirements to the CNB clarified. In addition to outsourcing certain management and administration activities, the act will explicitly provide for the possibility to outsource fund manager responsibilities such as portfolio management or the custody and administration of investment instruments.

1. **European passport for depositaries**

The amendment will allow a foreign bank from the EU without a branch in the Czech Republic to be the fund's depositary if it has the CNB's approval. This option will apply to special funds and qualifying investor funds.

1. **New services for investment companies and self-managed investment funds**

The proposed law will expressly allow for:

- the management of non-performing loans
- benchmark administration
- the management of special purpose vehicles in the context of securitisation
- the acquisition of receivables from loans granted by investment funds or assigned to a fund if the manager participated in their negotiation.

1. **Regulation of loan-originating funds**

A comprehensive framework will be introduced for funds that acquire loans, including loan-originating funds. The proposed law stipulates:

- the obligation to comply with management and control system requirements



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- the obligation to maintain risk concentration limits
- obligations concerning the establishment and application of policies, procedures, and processes for the acquisition of receivables
- the prohibition of originate-to-distribute (OTD) models.

1. **Deregulation and technical adjustments**

- The amendment also proposes to simplify the legal framework by, e.g.:
- removing the minimum capital requirement for investment funds
- eliminating the obligation to establish an expert committee for real estate valuation
- removing the requirement to prove legal capacity, and the obligation to inform the CNB of the non-approval of financial statements
- reducing the extent of reporting obligations of persons under Section 15 of the AICIF
- abolishing the obligation to have senior staff approved (only changes in the obliged persons will be reported, with the CNB being able to issue a disapproving opinion within 30 days).

**What will this mean for you?**

The amendment will introduce new opportunities and obligations. It will affect funds and their managers as well as investors who use loans provided by investment funds or assigned to a fund where the fund managers participated in their negotiation, and investors planning new investment structures. We recommend assessing the amendment's impact in a timely manner and possibly adjusting any affected internal processes and statutes.

We will be happy to go over the specific implications for your business with you and help you adjust to the new requirements.



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# Impact of US tariffs

The US government is introducing new tariffs on imported goods, which may increase costs for businesses. In collaboration with our US colleagues, we would like to draw your attention to several aspects that can affect the extent of the tariffs, such as the correct classification of goods, the use of free trade zones, or the verification of the origin of goods.



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The US administration has recently introduced new tariffs on imports of goods into the US, which may have a significant impact on the costs of businesses. The basic customs duty rate is currently 10%, and the additional duties imposed on the EU are at 20%. Below, KPMG's tax team aims to offer assistance in identifying savings opportunities and mitigating costs.

In cooperation with our colleagues at KPMG US, we have put together several aspects that can affect the amount of the customs duty. One possibility is to use the *First Sale for Export* concept, which allows to determine the customs duty based on the initial selling price charged by the manufacturer rather than the final price paid by the importer. Another way to lower customs duty rates is the correct determination of the origin of goods to obtain the corresponding preference under free trade agreements and the correct classification of the goods for customs purposes. It is also important to separate the costs that do not have to be included in the customs value, such as commissions, royalties or a portion of transport and insurance costs.

Businesses can also apply for customs duty refunds on downward transfer pricing adjustments, or for 99% customs duty refunds for goods that are ultimately exported from the US or destroyed. Another option is to place the goods in a free trade zone or a bonded warehouse, which allows to postpone the payment of customs duties until the goods leave the zone or warehouse.

Although a US federal court suspended the tariffs imposed by President Trump at the end of May, an appellate court reinstated them less than 24 hours later. It is therefore necessary to respond to this situation, for example, by using one of the options mentioned.

If you are interested in analysing your options, please do not hesitate to contact our team.



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# Effects of tariff changes on transfer prices

The arrival of the new US administration signalled a major turning point in the US approach to international trade. The first months suggest a possible shift away from liberalisation, with tariffs being used to advance US trade interests. For Czech companies that are part of multinational groups, this means not only higher costs but also complex tax challenges in the transfer pricing area.



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Transfer pricing determines at what prices companies belonging to the same multinational group sell goods and services to each other. The price at which a Czech firm sells goods to its US subsidiary will determine in which country the group will generate profit and how much it will pay in taxes. The rules require these prices to be arm's length, i.e., they must be the same as if they had been negotiated between independent parties.

## How tariffs change the game

According to the UN, the volume of international trade reached approximately USD 33 trillion in 2024, of which 60 to 80 percent was trade between related parties – i.e. transactions to which transfer pricing rules apply. The imposition of a 10% tariff on US imports therefore affects a huge part of world trade.

If the US imposes tariffs on imports, someone will have to pay for them. The question is who – the manufacturer in the Czech Republic, the distributor in the US, or the end customer? Companies use various short-term strategies, each of which has its own specific impact on transfer prices.

## Strategy 1: Lower the transfer price

The first strategy is the Czech manufacturer lowering the price at which they sell goods to their American subsidiary. A lower price means a lower base for calculating any customs duties. However, if the Czech manufacturer only manufactures on order of the US company and has no influence on the final price, then they should be compensated for the loss arising from the price reduction. Otherwise, the Czech tax administration may accuse them of acting at the instruction of the parent company and not independently. If, on the other hand, the Czech company makes decisions about the group's strategy, they can compensate themselves for the reduced margin by means of royalties/ licence fees or dividend payments. However, there is a risk that the US tax authorities may consider such actions abusive reductions of tariffs.

## Strategy 2: Suspend or limit production

The Czech company may temporarily reduce production and wait to see how the trade negotiations between governments turn out. From a tax perspective, it will be crucial to prove that the Czech company made this decision independently, based on its own business judgment. However, there is a risk that the tax administration will challenge the independence of the decision and claim that the company acted upon the instruction of the foreign parent company. Therefore, it is important to have detailed records of meetings, email communications



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and other documentation proving that the decision was indeed independent and that any losses from suspending or limiting production will be borne by the Czech company.

### Strategy 3: Redirect production

If a multinational group has production facilities in different countries, they can redirect supplies to the US so that they arrive from countries with lower tariffs. Instead of importing from the Czech Republic (10% duty), they can supply from another country where the duty is lower or none. This strategy may cause problems for the Czech manufacturer whose orders will thus drop. If the drop in orders was not their decision and has led to a decrease in profitability, the tax administration may demand that their profitability be compensated in some way.

A special case is a situation where a Czech company continues to produce, with the goods being merely repackaged in another country with a lower tariff and then sent to the US. In this case, attention must be paid to the customs regulations regarding the origin of goods.

## What's next?

The 90-day suspension of tariffs for selected trading partners expires at the beginning of July. Will the tariffs then be permanent, or will a further reduction be negotiated? Current strategies offer only temporary solutions that may prove unsuitable in the future.

The short-term responses described above are just the tip of the iceberg. In subsequent articles, we will therefore look into some deeper questions: Why do tariffs make the whole transfer pricing system so complicated? What are the risks in tax inspections? And how might the whole situation evolve in the long run? Only a comprehensive understanding of all aspects will allow companies to effectively navigate the new environment affected by tariff wars.



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# Grant and investment opportunities for European defence industry

In 2024, the European Commission made EUR 910 million available through the European Defence Fund (EDF). More than EUR 1 billion remains available for projects this year. This initiative is a key step towards strengthening the defence industry in Europe and ensuring the security of the continent. The Czech Republic offers businesses operating in the defence industry a link to state institutions and supports them in obtaining loans to finance their investments.



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The EDF aims to promote innovation and cooperation between member states, scientific institutions, and industrial partners. It is part of a broader EU strategy to create a stronger and autonomous European defence policy. In the current programming period, EUR 7.3 billion are available for allocation until 2027. This year, investments will be directed towards several strategic areas, including force mobility, drone defence and cyber security. In addition, the Ukrainian defence industry will also be able to join EDF projects for the first time.

The EDF programme currently comprises 31 calls, focusing e.g. on the development of technologies and systems for air, land and maritime defence, cyber defence, energy management and propulsion systems for aircraft and ships, detection and surveillance technologies. The calls remain open until 16 October this year.

The Czech Republic sees the defence industry as a key area of investment in the current geopolitical situation. It seeks to encourage both domestic and foreign investment that can bring innovation and technological progress. The Czech Republic intends to become an important player in the European defence industry, which can be seen in its efforts to cooperate with international partners and integrate into European defence structures.

As part of its support for the defence industry, the Czech Republic in cooperation with the CzechInvest agency plans to launch the Defence Hub - a central information and acceleration centre that will support cooperation between start-ups, established commercial entities and state institutions in the defence industry. At national and European levels, the Defence Hub will proactively identify and promote relevant opportunities and grants like the DIANA and the NATO Innovation Fund initiatives. The Defence Hub will also assist with grant applications.

The Czech Republic also offers companies in the defence industry the possibility to use state guarantees to obtain investment loans from commercial banks. These guarantees will be provided by the Export Guarantee and Insurance Corporation (EGAP). CZK 500 million is currently available for allocation, which will make it possible to insure loans worth up to CZK 5 billion.
The plan is also to include projects focusing on dual-use goods among the strategic investments. This will allow them to benefit from more favourable conditions for obtaining investment incentives.



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We are ready to discuss with you how to get support for your projects.



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Case law

# Assignment of receivables secured by pledge agreement

The Supreme Court of the Czech Republic dealt with whether an assignment of a receivable arising from a secured obligation also transfers the ancillary clauses of the pledge agreement, e.g. the right to demand a contractual penalty, to the new owner.




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In case No. 21 Cdo 3283/2024, the creditor assigned a receivable from a loan agreement, which was secured by the real estate of the managing director - the debtor (pledgor), to a third party - the assignee. The new owner of the receivable subsequently demanded that the debtor pay them a contractual penalty under the pledge agreement because they allegedly did not allow the new owner to enter the real estate as was agreed in the pledge agreement. However, according to the general courts, the assignee was not in the position to demand any contractual penalties since the pledge agreement as such had not been transferred to them.

### Assessment by the Supreme Court

The Supreme Court stated that an acquirer of a receivable does not automatically become a party to the pledge agreement. They therefore do not have the right to demand the performance of the pledge agreement's obligations that do not serve to exercise the pledge as such. The statutory regime of the assignment of receivables only covers rights that form a functional whole with the receivable, typically the right to be satisfied from the collateral.

According to the Supreme Court, a contractual penalty for the failure to provide cooperation (e.g. failure to allow access) cannot be considered part of the assigned receivable. For this, the pledge agreement as a whole would have to be assigned. In other words: upon the assignment of a receivable, the collateral as such (more precisely the creditor's right to be satisfied from the realisation of the collateral) is transferred but the separate rights and obligations under the pledge agreement are not.

Therefore, unless the agreement has been expressly assigned to them, the new owners of the receivable cannot without further ado exercise all rights arising from the pledge agreement. The legal effects of a sole agreement on assignment "including security" do not cover individual contractual obligations between the pledgor and the original pledgee that are not directly related to the realisation of the pledge.

The Supreme Court's case law thus confirms that rights under securing agreements are not transferred to the assignee of a (secured) receivable without an express agreement. The application of contractual penalties or other ancillary provisions requires a separate and express assignment of the pledge agreement, not just a general reference to the assignment of a receivable "including security". In the absence of such arrangement, the assignee may easily lose the ability to effectively enforce the related rights.

We will be happy to assist you in reviewing and properly setting up contractual documentation for the assignment of secured receivables to ensure legal continuity in cases of more complex contractual relationships.



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Case law

# Supreme Court: Can blank promissory note be redeemed?

In resolution No. 29 Cdo 2073/2022, the Supreme Court of the Czech Republic has taken the view that it is possible for a blank promissory note to be redeemed, i.e. reestablished in court.




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A blank promissory note is a convenient tool commonly used in various types of transactions. It is a promissory note that is not filled in (usually missing the amount or the due date), while the creditor may fill in the missing information according to rules agreed upon in advance. From the creditor's point of view, it allows for faster and easier debt recovery. However, it has one disadvantage – if the creditor wants to enforce the claim under the blank promissory note, they must present it, filled-in, to the court. A problem then arises when the creditor loses or accidentally destroys the note, as their right to satisfaction is embodied in the deed.

Such an administrative error, namely the shredding of a blank promissory note, was at the heart of the case before the Supreme Court. Having accidently shredded a blank promissory note, the creditor sought it to be redeemed (reestablished) in court – a procedure whereby a lost or destroyed deed that must be presented to exercise a right (typically a security) is replaced. In the proceedings at hand, general courts confirmed that they considered the blank promissory note reestablished. However, the issuer disagreed and filed an extraordinary appeal against the appellate court's decision. According to the issuer, the promissory note could not have been redeemed, as it did not incorporate any right that could be exercised. In their view, until all required information is filled in, a blank promissory note is not a complete promissory note.

A similar opinion has also been held by a part of legal theory. On the other hand, other opinions have argued that a blank promissory note can be redeemed in court, as it would be impossible to fill it in without it first being reestablished. It would also weaken the protection of the creditor (who should not be penalised for not yet having filled in the note) and the debtor (as it should be possible to prevent the misuse of the lost deed).

The Supreme Court held that generally, a blank promissory note is not a deed that cannot be redeemed in court, and thus it remained to be seen whether it is a deed that must be presented to exercise a right. The court then noted that a blank promissory note is issued precisely to become an actual (valid) promissory note in the future. Therefore, the court considered it to be such a deed and took the view that a blank promissory note can be redeemed (reestablished in court).



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# CJEU on VAT treatment of subsidies in public transport

The Court of Justice of the European Union (CJEU) addressed whether a lump-sum compensation provided by a region to a public transport operator to cover their loss is a part of the taxable amount for VAT purposes. In the present case, the compensation was provided ex post to cover financial loss, was independent of the specific use of individual transport services, and according to the court did not have a direct impact on the pricing of an individual ticket. The court concluded that it did not constitute a subsidy directly linked to the price and should not be included in the tax base for the calculation of VAT.



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The case involved a passenger transport company which intended to conclude a contract for the provision of transport with a local authority - the organiser of public transport. The price of passenger tickets was to be determined by the public transport organiser. The proceeds from the sale of the tickets would not be sufficient to cover the costs of the transport operator, which would therefore receive a lump-sum financial compensation from the organiser to cover their losses.

At the heart of the dispute was whether the operator was obliged to pay VAT on that financial compensation. According to the EU VAT Directive, subsidies directly linked to the price shall be a part of the tax base. The question was therefore whether or not the provided compensation fulfilled the parameters of a subsidy directly linked to the price.

**The CJEU stated the following:**

- For an amount to be regarded as a subsidy directly linked to the price, it must first be paid to the recipient to supply particular goods or services.
- It must be verified that the buyers of the goods/services benefit from the subsidy, i.e. that the price for them diminishes in proportion to the subsidy.
- The supplies that the subsidy recipient has undertaken to provide must be at least identifiable.

In the present case, the CJEU concluded that the lump-sum compensation was not paid to the operator to carry out a transport service for a particular recipient of that service, and that it did not affect the price of the ticket. The price was not fixed in such a way that it would diminish in proportion to the compensation paid to the operator. On the contrary, the compensation was granted ex post and was independent of the actual use of the transport services but depended on the number of offered vehicle-kilometres. According to the court, the compensation therefore did not constitute a subsidy directly linked to the price and did not enter into the VAT base.



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The CJEU further stated that this conclusion did not call into question that without the compensation, the price of the tickets for passengers would have been higher. Any subsidy will inevitably affect the price calculation, no matter whether it is done by the subsidy recipient or by the organiser. As is clear from the CJEU's previous case-law, the mere fact that a subsidy may affect the price of goods/services provided by the subsidy recipient is not sufficient for that subsidy to be taxed as a subsidy directly linked to the price.

The CJEU also reflected upon whether the subsidy in the present case constituted consideration obtained from a third party for provided transport services, and concluded that it did not because public transport services benefit not clearly identifiable individuals but all potential passengers and because the compensation had been calculated without considering the identity and number of users of the provided service.

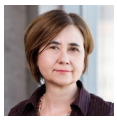


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In brief

# News in Brief, June 2025

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

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## DOMESTIC BRIEFS

- In the e-Collection of Laws, the Ministry of Foreign Affairs has published its communication on concluding the Treaty between the Czech Republic and the Federative Republic of Brazil on Social Security (No. 134/2025), with effect for the Czech Republic from 1 November 2024. At the same time, communication on the Administrative Arrangement for the Implementation of this Treaty has been published under No. 135/2025.

- The Ministry of Finance has announced that the 1990 Treaty between the Czech Republic and the United Kingdom on the Promotion and Protection of Investments was terminated on 1 March 2025. (Published in the e-Collection of Laws under No.145/2025 Coll.). The validity of this investment agreement was terminated in accordance with its Article 14. Both parties have excluded the application of a sunset clause.

- The Ministry of Finance has announced that on 14 May 2025, a treaty between the Government of the Czech Republic and the Government of Tanzania was signed to avoid double taxation and prevent tax evasion and avoidance. Both countries will now follow the standard legislative process leading to the entry into force of the treaty.

- The Ministry of Labour and Social Affairs has announced that the Jenda mobile app is available in the App Store and Google Play. The app allows clients to keep track of the status of their applications now easily accessible in one place.

- In May, the senate debated a pair of bills to bring more clarity to the lobbying sector. The lobbying regulation bill and related amendments to other regulations from the Ministry of Justice are based on the recognition that lobbying is a legitimate part of public policymaking. A key tool for transparency is to be a public register of lobbyists and those lobbied, to be administered by the Ministry of Justice.

## INTERNATIONAL BRIEFS

- The OECD has published an updated consolidated commentary on the GloBE model rules under Pillar 2, which incorporates the agreed administrative guidance issued by the OECD's Inclusive Framework from March 2022 to March 2025.

- The VAT Committee has discussed e-invoicing and the implementation of the VAT in the Digital Age (ViDA) package. Following the committee's meeting, the European Commission will prepare draft guidelines on e-invoicing. Changes to the reporting of imported goods under the Import One-Stop Shop (IOSS) regime have also been discussed. The monthly IOSS reporting should now include the total value of imported goods by the member state of consumption.



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- The EU Council has reached agreement on a directive simplifying the collection of VAT on distance sales of imported goods. Now, foreign sellers and platforms will pay VAT on imports in the member state of destination (consumption) of the goods to encourage them to use the IOSS system. The directive now awaits consultation with the European Parliament and formal adoption by the EU Council.

- The KPMG EU Tax Centre regularly monitors changes in direct taxes in the EU and internationally. For a complete overview of the latest news and the possibility to subscribe, please click here.



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