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Tax & Legal

Taxes
Tips and tricks
Legal
Subsidies
Case law
In brief

October 2025

Obsah

Editorial

Taxes

JMHZ accompanying bill passed by chamber of deputies

Single monthly employer reporting: questions for GFD and ministry representatives

GFD clarifies employee benefit treatment

What to prepare for with introduction of JMHZ (part 3): sports and healthcare employee benefits

GFD's new instruction: penalty waivers of up to 100 percent

Tips and tricks

Courts adopting stricter stance on 'Svarc system' – what to watch out for?

Legal

Packaging regulation in jeopardy?

Faster and easier corporate changes in EU

Subsidies

Additional research and development subsidies under TREND

Subsidies for digitisation of SMEs under OP TAC

Case law

VAT implications of transfer pricing adjustments

SAC: tax treatment of non-deductible expenses does not change by including them in transfer price calculation

SAC rules on tax non-deductibility of interest on intra-group financing

In brief

News in Brief, October 2025

Editorial

In September, the chamber of deputies put the finishing touches to the Act on Single Monthly Employer Reporting (in Czech Jednotné měsíční hlášení zaměstnavatele or JMHZ) by passing its accompanying bill, concluding the significant tax changes introduced during the ninth term of the lower house. We will of course continue to monitor the news the upcoming term will bring.

Our ongoing series on the taxation of employee benefits continues with a focus on sports and healthcare. These areas are traditionally popular among employees, yet they often present challenges for employers in terms of their tax treatment and compliance.

Looking ahead, while the future remains uncertain, emerging trends do offer some insight. The recent KPMG Global CEO Outlook survey shows that although current economic instability is prompting greater caution among companies, a certain optimism remains. Key topics for the coming period include talent development, artificial intelligence integration, and strengthening digital skills—steps designed to help companies navigate the uncertainties and structural changes of today's world.

However, of one thing we can be certain: the months ahead will be anything but uneventful. Our tax and legal conferences have been designed to help you stay ahead of expected legislative changes. In Moravia, we are this year hosting our flagship event in two locations. Choose the city closest to you - a programme filled with practical insights and expert guidance awaits you in Brno as well as Ostrava.



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Taxes

JMHZ accompanying bill passed by chamber of deputies

On 10 September 2025, the chamber of deputies passed an accompanying bill to the Act on Single Monthly Employer Reporting (in Czech Jednotné měsíční hlášení zaměstnavatelů or JMHZ) reflecting the senate's amending proposals.



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The changes proposed by the senate, mainly concerning the Income Tax Act, have thus been adopted.

We have already reported on the main changes resulting from the accompanying bill and the senate's amendments.

Apart from amending the employers' administrative duties, the JMHZ accompanying bill also contains **major changes to the Income Tax Act**, including:

- changes to provisions concerning research and development allowances;
- abolition of the annual limit of CZK 40 million for the exemption of income from the sale of securities and shares in commercial corporations, while retaining this limit only for income from the sale of crypto assets;
- introduction of a new system of taxing income from exercising qualified employee options granted by qualified employers to qualified employees;
- abolition of withholding tax for agreements on work outside employment (or small-scale employment) and remuneration of statutory body members who are Czech tax non-residents;
- clarification of the definition of leisure-related employee benefits;
- addition of the definition of a low-emission vehicle for Income Tax Act purposes to the act's wording.

The bill will now go to the president for signature. If signed, it will be published in the Collection of Laws and will enter into force in accordance with its transitional provisions.

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Single monthly employer reporting: questions for GFD and ministry representatives

Next year, employers will get to see fundamental changes in taxes and mandatory contributions. The dozens of prescribed forms and reports they now must use will be replaced by a single monthly employer report (JMHZ). With Director General of the General Financial Directorate Simona Hornochová and Director of the Social Insurance Department at the Ministry of Labour and Social Affairs Tomáš Machanec, KPMG's Petr Toman discussed what is coming and for what companies should prepare on the Daňovky On Air programme.



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Petr Toman: In my opinion, the JMHZ represents one of the most significant changes in the tax collection process in years, perhaps even in decades. Can you briefly summarise what the JMHZ will be about?

Tomáš Machanec: A major change in the reporting by employers to state institutions is being prepared for 1 April next year and has already been largely legislatively approved. Currently, employers must send numerous reports, register with the Czech Social Security Administration (CSSA) and the tax authorities, and then submit their reports not only to these two organisations but also to the Czech Statistical Office, the Labour Office, and others. By 1 April next year, we will consolidate this reporting. There will be only one employer registration, with the CSSA. The financial administration will assume the data from this registration, and we will replace the current 25 or so different reports with a regular and single monthly report that the employer will send to one entity, the CSSA, which will receive a considerable set of data on all their employees. The Ministry of Labour and Social Affairs will then forward this data to the individual organisations, but only the data that pertains to each of them.

Content of reported information

Petr Toman: If we focus on the content of the data that will be reported and compare it with the current situation: will it only be a summary, or will there also be new information so far not reported to the financial administration or the CSSA?

Simona Hornochová: For the financial administration, it will be new in that employers will provide data that was previously only recorded internally by them, in payroll sheets. We have tried to set up the data set so that it will not include any data that employers do not already collect. The financial administration will thus have detailed information every month, individually for all employees, so far held only by the employers. The other institutions currently rely on 25 forms that will be merged into one, and of course the data should not be duplicated.

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Petr Toman: I understand that employers will only report the data that they already have to record now. So, they will not be required to collect additional data but only provide the data that they already have but currently do not report.

Tomáš Machanec: Yes, employers will not be collecting any new information, so the situation will not change for them in this respect. However, they will be exporting data more frequently and in a more detailed structure. In the mandatory insurance area, I can mention, for example, the pension insurance record sheet currently submitted once a year. This sheet will cease to exist as the CSSA will prepare it themselves, from data on employee wages and assessment bases.

Petr Toman: The main advantage for employers will be a reduction in the number of prescribed forms and deadlines, and their unification. The state, on the other hand, will obtain the data all at once and at a single point in time. It will also obtain new information that will lead to the tax administration's digitisation.

Simona Hornochová: This is a huge step that needs to be successful, as it is a prerequisite for moving on to the next phase – the establishment of a single collection point. That is why it is now extremely important for all employers to turn to their payroll software providers to ensure that they are already modifying their systems so that their data can be sent to the JMHZ collection point monthly and in the required structure. A government regulation providing for the structure of the data to be reported is currently undergoing comment procedure.

Key deadlines and first-time reporting

Petr Toman: Looking on the basic JMHZ processes, I would like to know what other information employers will have to report and by what deadlines.
Tomáš Machanec: Employers will be required to register each new employee in the JMHZ register. From 1 April, this will have to be done within eight days, which is the same as is currently the case with the Czech Social Security Administration. What is new is that they will have to register all employees, including those working under agreements to perform work or agreements to carry out a job.

Simona Hornochová: This will be a single registration, meaning that it will no longer be necessary to report to the financial administration, as it will draw data from the CSSA records. Employers who have not yet been registered with the CSSA because they paid only tax in the Czech Republic will also be registered here.

Petr Toman: What procedure will apply to existing employees?

Tomáš Machanec: The data on individual employees will be communicated with a unique identifier: an employee's personal identification number. After 1 April 2026, on its portal with guaranteed identity, the CSSA will issue lists of employees with these identifiers. Every employer will have access to them and will be able to download them. Employers will then use the identifiers to send employee data every month by the 20th day of the following month. The identifier is intended to simplify the process – employers will not have to provide all the data every month but only the identifier under which the data will be linked.

Petr Toman: Let's look at the key deadlines when the law will come into effect and when the obligations will arise.

Simona Hornochová: The key date when the employer systems should be up and running is 1 April 2026 as at that date, the registration process will start and the financial administration will stop accepting employer registrations. The first reports should be submitted by 20 May for the month of April. Data for the first quarter should be reported by the end of June.

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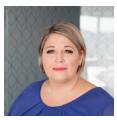
You can listen to the complete recording of the interview from the Daňovky On Air programme, including a summary of important deadlines, here.

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Taxes

GFD clarifies employee benefit treatment

An accompanying law to the JMHZ that amends the Income Tax Act is currently awaiting the president's signature. The amendment clarifies the rules for providing employee benefits with the aim of preventing salary/bonus swaps. Following this new regulation that responds to the SAC's recent case law, the General Financial Directorate (GFD) has now issued additional information on the procedure for distinguishing between wage components and employee benefits.



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More details about the adoption of the accompanying law to the Single Monthly Employer Reporting Act (in Czech Jednotné měsíční hlášení zaměstnavatele or JMHZ) can be found in our previous article here.

The amendment to the Income Tax Act specifies the tax treatment of employee benefits (Section 6(9)(d) of the Income Tax Act). To be tax exempt, specified non-financial benefits, e.g. for health, cultural, and sports purposes, must not be simultaneously considered wages, salaries, remuneration, or compensation for lost income. The amendment thus legislatively anchors the long-standing interpretation of the financial administration, according to which income linked to the performance of work should always be taxable.

In response to the adoption of the amendment to the Income Tax Act, the GFD has now issued its information explaining the reasons behind the amendment in more detail, confirming its aim to clearly distinguish between employee benefits and income linked to work performance, while only employee benefits may be exempt from tax on income from employment (dependent activity), subject to meeting additional legal conditions (purpose, total amount, non-deductible expenses on the employer's part).

According to the GFD's information, **to distinguish between consideration for the performance of work on one hand, and employee benefits on the other**, the provisions of the Labour Code commonly used in practice to calculate average earnings shall be applied. In general, employees are entitled to **wages, salaries**, or **remuneration** for the work they perform. The same treatment should also be used for income for the completion of extraordinary work tasks, half-yearly and annual bonuses, etc. Such payments are always subject to income tax on employment (dependent activity) and social security and health insurance contributions.

Contrariwise, **employee benefits** are, according to the GFD, benefits that the employer provides to the employee in addition to their regular wage, salary, or remuneration. They are linked to the very existence of the employment relationship, and their purpose is, e.g., to increase employee loyalty or the attractiveness of the employer in the labour market.

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The amendment does not change the scope of possible purposes of leisure-related benefits and the limits set for their tax exemption.

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Taxes

What to prepare for with introduction of JMHZ (part 3): sports and healthcare employee benefits

For the third month running, we are continuing our series of articles dedicated to selected employee benefits in connection with the planned introduction of the single monthly employer reporting (JMHZ) scheme. This time, we will focus on sports and healthcare benefits, as they are very popular with employees and have become a standard among the non-financial benefits offered by many an employer. Below we discuss some specific features that may cause difficulties for employers when interpreting the new obligations. We therefore also refer to the interpretation of the General Financial Directorate (GFD).



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You can read the previous two articles here (What to prepare for with introduction of JMHZ: employee benefit reporting) and here (Pre-school and school fees as employee benefits).

Sports equipment at workplace

Employers often make the working environment more pleasant for their employees by allowing them to use various exercise equipment free of charge directly at the workplace or by offering them the opportunity to participate in free exercise classes.

In its Methodological Information on the Taxation of Employee Benefits from January 2024, the GFD confirms that, under certain conditions, this benefit can be considered creating and maintaining working conditions for the performance of work. In such circumstances, the provision of these benefits to employees is not subject to personal income tax on the employee's part and is deductible for income tax purposes on the employer's part.

The main condition for this treatment is the purpose for which the employer purchased the sports equipment and the time link between its use and the performance of work: the aim should be to enable the use of sports facilities during working hours or immediately before or after work, e.g., to reduce stress at the workplace, increase work efficiency, or promote team spirit.

According to the GFD, this must be only a few exercise machines or pieces of sports equipment, not a full substitute for commercial services such as a fully equipped gym or comprehensive exercise courses; if that were the case, such benefit would then fall within the exemption limit for leisure-related benefits of half the average wage. The valuation of participation in group exercise classes shall be governed by general valuation rules: the benefit shall

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be included in the exemption limit at the usual price for attending such a class at a given place and time regardless of the actual costs incurred by the employer.

Other sports services and events

Other typical sports-related benefits include contributions to MultiSport cards, tickets to sporting events or sports facilities, and sports season tickets, both for employees and for their family members. In the case of family members, the sports-related benefit may also include, e.g., non-financial contributions to children's camps.

From the employee's point of view, all the above non-financial benefits are classified as leisure-related benefits that may be exempt from income tax up to a total limit of half the average annual wage. On the employer's part, these are non-deductible expenses. Expenses above the exemption limit can only be considered deductible if the employee's or their family members' entitlement to the benefit arises from a collective agreement, the employer's internal regulations, an employment contract, or another contract.

Separate rules apply to events with a sporting element organised directly by the employer, such as an annual sports day or company matches. If such events meet the criterion of a limited group of participants (according to the GFD's interpretation, these must be employees, their family members, and business partners) and the form and scope of the event are reasonable (in terms of its venue, regularity, etc.), the employee's free participation in such an event is exempt from income tax. It is important to note that even though these are events with a sporting element, participation in them is not included in the above exemption limit for leisure-related benefits. The GFD has also confirmed that in the case of these events, refreshments or small gifts provided during the event are also tax-exempt on the part of the employee. The same applies to benefits provided to the employee's family members. However, all related expenses are tax non-deductible for the employer.

Healthcare services and goods

A legislative change effective from 1 January 2025 has expanded the options of advantageous tax treatment of health-related employee benefits. Non-financial benefits consisting of the purchase of goods or services of a health, medical, hygienic, or similar nature from healthcare facilities, or the purchase of medical devices on prescription, have been classified into a separate category with an exemption limit of up to the average wage for the calendar year.

In practice, we often encounter benefit cards that can be used to pay for both healthcare and other leisure-related benefits. It is important that the value provided by the employer is broken down according to the purpose of the benefit points. In this regard, it is necessary for benefit companies to cooperate by informing employers about the purpose of the benefit points used and, where applicable, about the provider of the services.

Employees can thus take advantage of, e.g., above-standard health programmes at private clinics, non-covered vaccinations (e.g., against influenza), or vitamin packages. Employers can also pay for various health examinations and checks, psychological consultations, or therapies.

An important condition for the exemption is that the goods or services must be provided by a healthcare facility. The GFD confirms that a healthcare facility is a provider listed in the National Register of Healthcare Providers. If a voucher for a therapeutic massage is provided by an entity that is not listed in the register, it constitutes a taxable benefit for the employee. The condition of being a registered provider does not need to be met for prescription-based purchases of medical devices, whereby prescriptions may also be issued for goods such as prescription

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glasses or medical footwear.

For some universally available benefits, such as anonymous psychological helplines or online therapy, the GFD states that this is generally not a matter of creating and maintaining working conditions but rather a benefit for the employee. According to the GFD, the mere possibility of using the service is a benefit and therefore must be subject to additional tax (if it does not meet the definition of a health-related benefit or is provided above the exemption limit) or must be included in the exemption limit for each employee. Exceptions apply if the employer can prove who actually used the services or if the employer is able to prove that the employee refused to use the benefit.

On employers' part, standard tax deductibility rules apply: benefits exempt from income tax for employees are non-deductible expenses for employers, and expenses incurred for benefits that employees are entitled to and that exceed the exemption limit can be claimed as deductible for income tax purposes. The same applies to benefits that do not meet the definition of health-related benefits (i.e., are not provided by a healthcare facility), but only if the employer is able to prove that these are expenses related to working and social conditions and employee health care.

Finally, we would like to draw your attention to the issue of commercial (or other than mandatory public) health insurance paid by the employer for employees or their family members. Such insurance does not meet the definition of the purchase of health services and will therefore always be taxable income for the employee that is also subject to mandatory insurance contributions. On the employers' part, these expenses can be claimed as deductible if the employee is entitled to this type of benefit.

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GFD's new instruction: penalty waivers of up to 100 percent

The General Financial Directorate's (GFD) Instruction D-72 on the waiver of tax accessories (tax-related penalties and interest) became effective on 15 September, responding to the amendment to the Tax Procedure Code in effect from 1 July 2025 that regulates the rules for waiving penalties.



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Until now, it was possible to waive up to a maximum of 75 percent of a penalty depending on the level of the taxpayer's cooperation in the assessment of the additional tax. This remains in place also after the amendment. However, the new instruction also anticipates a waiver of 100 percent of a penalty incurred after 1 July 2025 if it arose on justifiable grounds. For the new regulation to be applicable, the delivery of the order to pay additional tax, or another demonstrable communication of its contents to the recipient, must have taken place after 1 July.

The GFD Instruction lists only one situation in which the penalty may be waived in its full amount:

"An inadmissible additional tax assertion was filed by the taxpayer before an inspection procedure was initiated, and the information asserted therein was used by the tax administrator in determining the final tax, whereas the additionally assessed tax does not exceed twice the tax asserted by the taxpayer."

However, defining one justifiable situation does not completely rule out the possibility that the tax administrator may also waive higher percentages of penalties on other justifiable grounds not specified in the instruction.

If the tax administrator determines that there were no justifiable grounds on the taxpayer's part for the tax penalty to arise, they may waive up to 75 percent of the penalty charged, as has been the case to date.

Prohibition of double jeopardy

The instruction also considers cases where the taxpayer has been punished (finally and conclusively) for a tax-related crime. Following the Tax Procedure Code, the instruction allows for a reduction of the tax penalty depending on the type and amount of the punishment imposed in criminal proceedings. In these cases as well, a waiver of up to 100 percent of the penalty may be granted.

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Concurrence of a waiver and court proceedings

A new procedure has been laid down to deal with situations where a taxpayer has filed an application to waive tax-related penalties and interest, and the tax itself is then revoked following a judicial review and returned to the appellate authority for further proceedings. In such cases, the tax administrator shall informally notify the taxpayer that their application will only be dealt with after the decision on the assessed tax becomes final and conclusive.

The full wording of GFD Instruction D-72 can be found here.

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Tips and tricks

Courts adopting stricter stance on 'Svarc system' – what to watch out for?

Situations where cooperation with entrepreneurs may be classified by the authorities as illegal work are a frequent cause for concern among employers. Structuring these relationships in a way that avoids falling under the definition of the 'Svarc system'—where dependent work is formally carried out by independent contractors —can be particularly challenging. Failure to do so may result in substantial penalties, including not only fines but also other sanctions for the companies. As to taxation, companies may also face significant additional tax assessments. In this article, we explore how to mitigate the risk in this area.



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Cooperation options and types of activities

Before engaging self-employed persons for specific tasks, employers must first assess the nature of the work involved. Self-employed persons by definition (in Czech OSVČ or independent gainfully active persons) cannot perform dependent professions. Activities such as cashier or warehouse worker do not allow for any degree of independence.

The greatest risk arises for employers in cases involving ambiguous activities, i.e. those that allow for both work performed under an employment contract and work based on cooperation with an entrepreneur (self-employed person). If an employer opts for the latter, they must ensure that the work does not show characteristics of dependent work. Otherwise, the arrangement may be deemed illegal work. The characteristics of dependent work include the personal performance of work, a relationship of superiority and subordination, and execution of work on behalf of and according to the instructions of the employer. On the other hand, the length of work performance is not significant.

New clues for determining illegal work

While in the past it seemed that that courts were becoming more lenient in their assessment of the 'Svarc system', their current decision-making practice shows the opposite, as they now consider not only the formal definition of cooperation in the contract, but also its actual functioning. Case law provides many clues that make it easier to identify illegal work.

An example of this is a recent ruling (8 Ads 65/2024-53) of the Supreme Administrative Court, according to which income from cooperation with a single client should not exceed 50% of the total income of a self-employed person.

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Another significant shift in understanding the matter is the conclusion that self-employed persons planning their own work and not renting work equipment from the client is not automatically proof that there is no 'Svarc system'.

The courts have also rejected the practice of combining both types of cooperation simultaneously for the ambiguous activities. Such an arrangement would only be permissible if the employee/self-employed person performed clearly distinct tasks under each form of cooperation.

Moreover, having a self-employed contractor switch to an employment relationship may not necessarily eliminate legal exposure. Contrariwise: labour inspectorates may interpret such a change as a retrospective confirmation that the previous arrangement did constitute illegal work under the 'Svarc system'.

Risks for employers

Engaging in illegal work practices may expose employers to significant sanctions, including fines of up to CZK 10 million, a prohibition on conducting business activities for up to two years, and the public disclosure of the penalty decision for a period of one year. In addition, employers may temporarily lose their eligibility for state support and subsidies, or the right to employ foreign nationals. Notably, the risk also extends to the individuals involved—employees or self-employed persons—who may face fines of up to CZK 100,000.

Employers also potentially face the risk of being subject to additional assessments of social security contributions, health insurance premiums and income tax they would have been obliged to pay on behalf of their employees/self-employed persons, including related penalties and default interest accruing for each day of delayed payment.

Conclusion

It is important to comprehend that many of the characteristics commonly associated with the 'Svarc system' may also occur in practice within legitimate cooperation with self-employed persons. Their presence does not automatically constitute a breach of law. A thorough assessment of the specific circumstances and the actual nature of the cooperation is therefore essential.

If you are uncertain whether your cooperation complies with legal requirements, we would be pleased to assist you in structuring the cooperation appropriately and mitigating the risks associated with the 'Svarc system'.

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Packaging regulation in jeopardy?

Companies across numerous EU member states are voicing strong concerns over the new packaging regulation (Regulation (EU) 2025/40), which they will have to comply with as early as next year. What are the most contentious points? Can changes still be made or the regulation even be repealed?



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The new packaging regulation (we wrote about it here) primarily aims at reducing single-use plastics, enhancing recycling rates, minimising packaging size, and introducing mandatory deposit systems. The regulation was adopted by the EU in December 2024 and will come into force in August 2026.

However, companies in the packaging sector across the EU have brought actions before the EU's General Court, criticising particularly the following points of the regulation:

- **Obligation to reuse transport packaging.** The regulation stipulates that by 2030, at least 40 percent of transport packaging (e.g. pallets, crates) must be reusable, increasing to 70 percent by 2040. However, the applicants argue that this obligation does not effectively contribute to the intended objective of the regulation and is not a suitable tool for achieving it.
- **Ban on selected single-use plastics.** The ban on certain single-use plastic packaging is also controversial. According to the applicants it is discriminatory, because other materials are not subject to such restrictions.
- **Mandatory deposit systems.** Some applicants consider the introduction of mandatory deposit systems to be a disproportionate intervention in entrepreneurial freedom that will restrict the EU internal market and freedom of trade.

Tension between environmental objectives and industrial sector

The packaging regulation is an important pillar of the Green Deal and the EU's efforts to promote sustainable resource management and reduce (not only) plastic waste. However, the ongoing legal disputes underscore the tension between ambitious environmental objectives and the practical implementation of the measures in the industrial sector. While environmental organisations welcome the regulation as a necessary step, packaging companies caution that it may disrupt production chains, increase costs, and hinder innovation.

What will happen next?

The matter now rests with the EU Court of Justice's General Court that will assess whether or not the individual actions are inadmissible or unfounded. If the General Court finds the actions to be well founded, it will then rule whether the regulation – or specific provisions within it – conflicts with EU law and therefore cannot be applied.

In the meantime, however, companies must be prepared to comply with the regulation from August 2026.

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Faster and easier corporate changes in EU

With a recently adopted EU directive, the EU undertakes a major step toward digitising company law in the EU and simplifying doing business. The directive's goal is to expand and modernise the use of digital tools to streamline procedures for establishing and managing corporations.



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The key objectives of Directive (EU) 2025/25 of the European Parliament and of the Council are to simplify access to company data in a cross-border context, interconnect national registers, and ensure accurate, up-to-date, and reliable data. The directive harmonises the procedures for the ex-ante verification of documents and data, thereby increasing trust in business registers and extending the once-only principle: companies submitting data only once, and authorities in the EU exchanging it electronically among themselves. This is the beginning of the end of unnecessary paperwork.

Establishing a company or branch in another member state will be much easier. If a company has already submitted the necessary documents and data to the register of its home country, it will not need to submit them again. The exchange of information will take place automatically between interconnected registers, saving time and money. Notaries, administrative authorities, and other entities will obtain the necessary documents directly from the register or via the European e-Justice portal.

A harmonised EU Company Certificate (EUCC) is also being introduced, which will be recognised in all member states as sufficient proof of a company's incorporation and the information held in the register. Each company will be able to obtain this certificate in electronic form free of charge at least once a year, charges for additional copies may not exceed the administrative costs.

Another new feature is **the EU digital power of attorney**. A multilingual template will enable companies to effectively represent their interests in cross-border procedures without the need for apostilles or translations. The power of attorney will be authenticated using trust services and will be compatible with the EU Digital Identity Wallet (EUDI Wallet).

The directive also **abolishes the requirement for the legalisation and apostilles** for certified copies and extracts from registers or documents issued by the relevant authorities, which will significantly simplify cross-border operations and save costs and time.

The directive is already in force, and member states have until 31 July 2027 to adopt and publish legislation implementing most of its provisions. The new rules are to enter into effect one year later, on 31 July 2028.

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Additional research and development subsidies under TREND

The Technology Agency of the Czech Republic (TA CR) is about to launch its thirteenth call under the TREND programme to support projects in industrial research and experimental development.



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UPDATE: The Technology Agency of the Czech Republic has decided that, due to the proposed state budget, the competition will be postponed until 2026. We'll keep you updated on any new developments.

Applications for subsidies will be accepted from 9 October to 26 November 2025. The call is intended for companies that already have experience in research and development (R&D), either in their own activities or by having purchased R&D services from research organisations.

The maximum subsidy per project is CZK 25 million. The aid intensity for large enterprises generally ranges from 25 to 65 percent of eligible expenses, depending on whether the project consists of industrial research or experimental development and whether it is carried out in effective cooperation with another relevant entity. Support can be obtained for operating expenses.

The project must start between June and August 2026 and cannot exceed 36 months. The output of the project must be, e.g., industrial designs or utility models, prototypes, functional samples, pilot plants or proven technologies.

If you are interested, we will be happy to help you with the preparation of your subsidy application.

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Subsidies for digitisation of SMEs under OP TAC

The Ministry of Industry and Trade has announced a call in the Digital Enterprise – Digital Technologies programme, aiming to increase the competitiveness of small and medium-sized enterprises (SMEs) by supporting investments in advanced technologies, robotics and automation, including Industry 4.0 (integration of modern technology into all phases of industrial production).



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The call will be open for applications from 20 October 2025 to 18 February 2026. It has been designed to provide support to projects implemented in transition regions, i.e. Central Bohemia, South-West or South-East and involving the acquisition of new machinery, technological equipment, software solutions, and IT infrastructure. The measures should increase a company's technological level and competitiveness, further its digitisation and production automation, or lead to a more efficient provision of services.

Funds intended for allocation amount to CZK 1 billion. Maximum total eligible expenses have been limited to CZK 100 million per project. The aid intensity set by the ministry is 25 to 45 percent of eligible expenses, depending on the size of the company and the region in which the project is to be implemented.

The project must be completed by 31 January 2028. Within this call, applicants may submit only one subsidy application.

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Case law

VAT implications of transfer pricing adjustments

The CJEU has confirmed that amounts invoiced for services between related companies calculated according to the OECD methodology are subject to VAT. If a parent company provides services to a subsidiary that are linked to its operating profit margin, they constitute a taxable supply. Tax authorities may even require additional documents to prove the existence of the services and their link to the company's activities.



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Romanian Arcomet engaged in renting cranes. Contractual terms and conditions were negotiated by its parent company in Belgium; the actual purchases and rentals were then carried out by Arcomet in Romania. The transfer prices between the two were set in such a way that the operating profit margin of the subsidiary was in line with the methodology under the OECD international rules for corporate income tax.

Arcomet Romania concluded a contract with its parent company under which the parent company assumed most of the commercial responsibilities such as strategy and planning, negotiating (framework) contracts with third-party suppliers, negotiating the terms of financing contracts, quality and safety management, etc. In addition, the parent company also committed itself to bear the main economic risks associated with its subsidiary’s activities.

On the other hand, Arcomet Romania undertook to purchase and hold all goods necessary for the exercise of its activity and to be responsible for their sale and rental. At year-end, a settlement invoice was issued (under the contract), based on the operating profit margin actually achieved by Arcomet Romania.

In the period under review, Arcomet Romania achieved a higher profitability, and the parent company issued an annual settlement invoice. The heart of the dispute was whether the invoiced amount was subject to VAT.

The court emphasised that to answer the question, the legal relationship between the provider and the recipient was of key importance, and that the remuneration must correspond to the actual value of the services provided.

In the given situation, the legal relationship was supported by a contract, and it was clear from the presented facts that the received services impacted the subsidiary’s operating profit margin, e.g., because of the savings generated due to the activities being carried out by the parent company. The remuneration therefore represented the actual consideration for the received services. As regards the objection that the amount invoiced served merely to adjust the subsidiary's operating profit margin for the purposes of direct taxation, the court disagreed: in its opinion, everything pointed to the existence of the provided services regardless of the fact that the transfer price was set for direct taxation purposes.

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According to the court, the fact that the remuneration was variable and depended on the subsidiary's performance did not affect this conclusion. The remuneration was neither voluntary nor was its amount difficult to quantify or uncertain. Its terms were set in advance and based on precise criteria.

The court did not comment on the alternative situation in which the subsidiary would not have achieved the required profit margin.

The court also stated that the tax authorities may require additional evidence of the receipt and use of services, apart from the invoice, as long as it was necessary and proportionate. The right to deduct VAT cannot be denied simply because an invoice does not meet certain formal requirements, if it contains all the information necessary to verify that the substantive conditions for claiming the VAT deduction were met.

It is therefore not decisive for VAT purposes that the primary reason for transfer pricing adjustments was direct taxation (corporate income tax). It is always necessary to also assess the financial flows from a VAT perspective and to examine whether the payment is based on a supply for VAT purposes (in this case, the supply of services).

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Case law

SAC: tax treatment of non-deductible expenses does not change by including them in transfer price calculation

The Supreme Administrative Court (SAC) has recently addressed again the tax deductibility of expenses, in particular dealing with a section of the Income Tax Act allowing non-deductible expenses (e.g. entertainment expenses) to be treated as deductible for income tax purposes if they are directly linked to the related income. In case 3 Afs 14/2024, the court assessed whether non-deductible expenses being included in the calculation of the price between related parties could justify the application of this ITA provision.



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At issue was whether expenses typically treated as non-deductible (e.g., entertainment, gifts, penalties, or promotional items exceeding the statutory limit) could be claimed as deductible for income tax purposes when these were included in the price of services charged to the parent company using the cost+ model.

The taxpayer argued that this gave rise to a direct link between expenses and revenues (income): if the expenses had not been incurred, they could not have been included in the price of the service and hence no reinvoicing plus a profit margin (in this case, five percent) would have been done.
However, the court emphasised that the mere inclusion of expenses in the calculation of the price between related parties cannot automatically be regarded as a demonstrable link to a specific income and that the tax deductibility of expenses cannot be based on an accounting construct alone. Instead, the key is that the expense has a genuine economic purpose and actually contributes to the generation of income. The court questioned, in this particular case, e.g., how expenses incurred on donations or penalties contributed to the provision of marketing services.

In the case under consideration, the taxpayer did not prove that the expenses in question were directly related to the generation of taxable income. Both the Municipal Court in Prague and the Supreme Administrative Court (SAC) stated that the contractual setting of prices between related parties, e.g., a situation where each CZK 1 of the expense is supposed to generate CZK 1.05 of the income, does not in itself demonstrate a link between the expenses and the provided services. The pricing mechanism serves only to determine the price, not to prove the actual impact of the expenses on taxable income.

With this judgment, the SAC effectively confirmed its earlier approach to the interpretation of the relevant provision of the Income Tax Act, as expressed, e.g., in its judgments 1 Afs 190/2021-30 and 10 Afs 20/2021-55. In both cases, the court held that tax deductibility cannot be inferred solely from the internal pricing setup between related parties when there is no demonstrable and concrete link between the expenses and the taxable income.

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Case law

SAC rules on tax non-deductibility of interest on intra-group financing

In its August 2025 judgement, the Supreme Administrative Court (SAC) revisited the non-deductibility of interest expenses on a loan that arose in the context of a corporate group's internal restructuring. The court assessed the taxation of interest abroad from the perspective of obtaining a tax advantage whist applying the abuse of law concept in the Czech Republic. In addition, it ruled on certain other aspects of payments from equity.



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In its initial ruling, the SAC assessed the tax deductibility of interest expenses incurred during a group's internal restructuring. The tax authorities had concluded that the intra-group restructuring had primarily aimed to obtain a tax advantage (interest as a tax-deductible expense) without any underlying economic rationale, thereby constituting an abuse of law. However, the taxpayer contended that the interest income had been subject to taxation abroad and thus no tax advantage had been obtained. This issue was then subject of subsequent proceedings. In its ruling, the SAC upheld the ruling of the regional court, determining that the taxation abroad had been significantly disproportionate to the tax advantage obtained in the Czech Republic, thereby constituting an abuse of law.

In our view, the judgment is also significant for certain other observations made by the SAC. Notably, the taxpayer in their defence referred to a judgment on the tax deductibility of interest on a loan used to finance dividend payments. However, the municipal court held that the conclusions formulated in this judgment could not be applied to the matter in question, as, among other things, it did not involve the distribution of previously taxed profits to shareholders and no retained earnings were utilised for operating or other investment or acquisition activities. The SAC upheld this reasoning.

The municipal court as well as the SAC emphasised that in similar cases, it is crucial to determine whether the debt financing was used for a new acquisition (from the group's perspective) or whether it objectively generated new income or contributed to maintaining existing income.

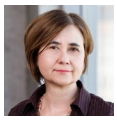
From a practical standpoint, it is thus necessary to consider the tax implications of internal reorganisations (including payments of dividends and other components of equity) where debt financing from related and unrelated parties is used and interest expenses arise.

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In brief

News in Brief, October 2025

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



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DOMESTIC NEWS

- As regards the Czech Republic's double taxation treaties, developments in September were as follows:
  - On 24 September 2025, a treaty with Malta was signed in Rome. It will come into force once the standard legislative processes in both countries have been completed and will replace the existing treaty in force since 1996.
  - On 23 September 2025, a treaty with Kenya was signed in Nairobi. Both countries will now follow the standard legislative process leading to the treaty's entry into force.
  - A communication on the application of the treaty between the Czech Republic and Montenegro on the avoidance of double taxation with respect to taxes on income and on the prevention of tax evasion and avoidance was published in Financial Bulletin 14/2025.
  - The list of valid treaties concluded by the Czech Republic was updated on the website of the Ministry of Finance.

- A list of contracting states applying the common reporting standard and decisive dates disclosed pursuant to Section 13b(2), Section 13e(7), Section 13g(5) and Section 13p(2) and a list for the purposes of fulfilling the information obligation pursuant to Section 13s(1) of Act No. 164/2013 Coll., on international cooperation in tax administration, has been published in Financial Bulletin 13/2025.

- GFD's Instruction D-72 on the waiver of tax-related penalties and interest has been published in Financial Bulletin 12/2025.

- Based on a decision by the Czech Customs Administration, the date for the deployment of the modernised domestic import system (e-Import) has been changed. The implementation of this system will be postponed by approximately six months from the previously planned date of 15 December 2025, specifically to 18 May 2026.

- Among other things, the following was published in the Collection of Laws in September:
  - an act amending Act No. 325/1999 Coll., on asylum, Act No. 326/1999 Coll., on the residence of foreigners in the Czech Republic and on amendments to certain other acts (No. 314/2025, effective 12 June 2026)
  - an act amending Act No. 563/1991 Coll., on accounting, Act No. 93/2009 Coll., on auditors, and Act No. 416/2023 Coll., on top-up taxes for large multinational groups and large domestic groups (effective 1 January 2026, Print 316/2025)
  - an act amending certain acts on the financial market in connection with the establishment and operation of a European Single Access Point (effective 10 January 2028, Print 317/2025)
  - an act amending Act No. 309/2006 Coll., on ensuring further conditions for safety and health protection at work (effective 1 November 2025, Print 318/2025)

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- a government regulation on the obligations of employers in the event of occupational accidents (effective date January 1, 2026, No. 322/2025
- the Act on Single Monthly Employer Reporting (effective 1 January 2026, Print 323/2025) and an act amending certain acts in connection with the adoption of the Act on Single Monthly Employer Reporting (effective 1 January 2026, Print 360/2025)
- the Act on Mandatory Contributions to Retirement Savings Products (effective 1 January 2026, Print 324/2025)
- a government regulation amending Government Regulation No. 240/2014 Coll., on toll rates, toll discounts, and the amount of remuneration for the provision of European electronic toll services (effective 1 January 2026, Print 327/2025)
- an act amending Act No. 89/2012 Coll., the Civil Code (effective 1 January 2026, Print 333/2025)
- Communication of the Ministry of Labour and Social Affairs on the minimum wage, the lowest guaranteed wage levels, and the range of extra pay for work in difficult working conditions for 2026 (Print 356/2025)
- a government regulation on the general assessment base for 2024, the conversion coefficient for adjusting the general assessment base for 2024, the reduction thresholds for determining the calculation base for 2026, basic pension amounts set for 2026, minimum percentage pension amounts for 2026, and pension increases in 2026 (effective 1 January 2026, Print 365/2025).

FOREIGN NEWS

- The European Commission has published its recommendation on increasing the availability of savings and investment accounts with a simplified and more favourable tax regime (SIA). This recommendation calls on EU member states to introduce SIAs to encourage greater participation by small investors in capital markets. The Commission proposes several measures to promote the expansion of SIAs, ranging from incentives for opening and maintaining accounts to simplifying the tax administration relating to the taxation of income from investment portfolio within such accounts.

- The updated list of jurisdictions that have signed the Multilateral Competent Authority Agreement on Exchange of GloBE Information (GIR MCAA) under Pillar 2 includes twenty signatories as of the end of September: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Japan, South Korea, Liechtenstein, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Slovakia, Spain, Switzerland, and the United Kingdom.

- The KPMG EU Tax Center regularly monitors changes in direct taxation in the EU and internationally. It provides regular summaries of the latest news (E-News) and alerts on important events (Tax Flash), which you can subscribe to.

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