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Editorial

"Another year over and a new one just begun. A very merry Christmas and a happy New Year. Let's hope it's a good one, without any fear." As John Lennon's famous Christmas song goes, every ending holds the promise of a new beginning. And it is at this time of the year that we take stock of the past and make resolutions for the future. Our legislators should do the same. Recently, it has become rather common to use legislative riders tacked onto various bills, sometimes already during their second reading in the chamber of deputies, to amend the Income Tax Act.

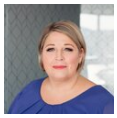
Unfortunately, these constant legislative changes have a significant and usually negative practical impact. One of the most notable examples is the repeatedly amended Sickness Insurance Act, which has once again changed the rules for agreements on work performed outside employment. Employers thus must constantly adapt to the new rules, often unnecessarily. It is yet to be seen whether the related wasted efforts will affect the upcoming parliamentary election when the bill for the previous term will be tallied.

January brings more changes in employee benefits, although not as dramatic as those at the beginning of the last year. A new limit is introduced for the exemption of health-related benefits provided in non-financial form, up to the average wage for the calendar year. This exemption limit will have to be watched separately from the limit for leisure-related benefits, which is set at half the average wage.

A controversial change is the introduction of an exemption of income from the sale of crypto assets, affording both opportunities and challenges. The exemption is based on principles like those of the exemption of income from the sale of securities. As for the three-year time test, the exemption will be limited to CZK 40 million of gross income in the taxable period, in aggregate with the income from the sale of securities and shareholdings.

The taxation of employee stock option plans should revert to the regime in force until the end of 2023, with the possibility of postponing the moment of taxation. This postponement will be possible if the employer notifies the tax authorities of their intention by the 20th day of the month following the acquisition of the share or option. The law allows not only the postponement of taxation in the future but also adjustments for 2024.

Another turnaround concerns tax corrections for 2024. Originally, these were proposed to be made retroactively, in individual months of 2024. However, during the third reading in the chamber of deputies, a technical adjustment was adopted, under which corrections of tax payments, together with insurance premium payments, should be made on a one-off basis in 2025. These changes may cause significant complications, especially from an international taxation perspective. Clearly, legislators have not thought through all consequences. How shall we deal with them? And can such fundamental changes still be considered mere technical adjustments? These are the questions we must ask ourselves as we enter the new year. I wish you every success in rising to its challenges and making the most of the opportunities it brings.



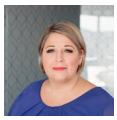
Lenka Nováková
Director
KPMG Czech Republic

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Taxes

Changes in employee taxation in 2025

With the new year come changes in employee taxation and social security and health insurance. Below, we present an overview of the most important issues.



Lenka Nováková
lnovakova@kpmg.cz



Iva Krákorová
ikrakorova@kpmg.cz



Mária Marhefková
mmarhefkova@kpmg.cz

Increases in maximum annual assessment base and threshold for applying progressive tax

For 2025, the maximum annual assessment base for social security contributions has been increased to **CZK 2,234,736** (up by CZK 124,320 over the previous year). Once the income threshold is reached, no further social security contributions shall be paid by neither employee nor employer. At the same time, the threshold for the application of the 23% tax rate has been increased to an annual income of **CZK 1,676,052**, which corresponds to a monthly income above CZK 139,671. Income below this threshold will continue to be taxed at 15%.

Minimum wage increase

From January 2025, the minimum wage has been increased from CZK 18,900 to **CZK 20,800** for a fixed weekly working time of 40 hours; the hourly minimum wage is CZK 124.40.

As a result, the minimum monthly assessment base for the health insurance of employees has also increased.

Changes to exemption of non-financial benefits

At the end of last year, an amendment to the Income Tax Act was approved singling out health-related benefits from employee benefits and setting a new limit up to which they are exempt from tax and social security and health contributions, at the amount of the average wage, i.e. **CZK 46,557** for 2025.

The exemption limit for the remaining leisure-related non-financial benefits remains at 50% of the average wage, i.e. **CZK 23,278.50** for 2025.

Benefits above these limits will be subject to taxation and social security and health insurance contributions.

Changes in domestic and foreign travel allowances

Decree No. 475/2024 as of 1 January 2025 increased the minimum basic compensation for the use of a passenger road motor vehicle on a business trip from CZK 5.60 to **CZK 5.80 per km**. Meal allowances for domestic business

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trips have also risen.

Decree No. 373/2024 Coll. has increased foreign meal allowances for some countries.

Lump-sum compensation for remote work

The lump-sum compensation for expenses related to remote work (home office), which employers can provide under the Labour Code, has been increased from CZK 4.50 to **CZK 4.80 per hour**.

Employee meal allowances

Both financial and non-financial allowances are exempt up to an aggregate of 70% of the upper limit of the meal allowance that can be provided to salaried employees for domestic business trips of 5 to 12 hours. For 2025, an allowance of **CZK 123.90** is thus exempt.

The meal allowance exemption is nonetheless conditional upon the employee having worked at least three hours per shift; employees without a set shift (e.g. statutory bodies) must work at least three hours per calendar day. At the same time, employees must not be entitled to a meal allowance as part of a travel allowance. Employees will be entitled to an additional exempt allowance (in the same amount) if the total shift including breaks exceeds 11 hours (employees without a set shift must work at least 11 hours per calendar day).

The planned introduction of a notified agreement regime for agreements on work performed outside employment has been abolished.

Employers remain obliged to monthly report all employees working under such agreements to the Czech Social Security Administration. However, the limit for social security and health insurance contributions has been changed, as has the taxation of income from such agreements.

From 1 January 2025, the limit for social security and health insurance contributions for employees working under agreements to perform work has been set at **25% of the average wage**, i.e. for 2025 at **CZK 11,500**. This limit also has an impact on withholding tax on the agreements: it will only apply if the income from the agreement does not reach this threshold and the employee does not sign a taxpayer's statement.

Discount on social security premiums for working pensioners

From 2025, a discount on the **social security premium at 6.5%** of the employee's assessment base has been introduced for working pensioners receiving an old-age pension. Instead of the current rate of 7.1%, employers will only deduct **0.6%**. The discount is intended to compensate working pensioners for the abolition of the possibility to increase their pension by the years worked after they began to draw their retirement pension. However, employers will continue to pay the employer's portion of social security contributions at the full rate of 24.8% of the working pensioner's assessment base.

Certain other changes to employee taxation expected in 2025 (e.g., changes to employee stock option plans) are pending in the senate.

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Coordination Committee clarifies VAT treatment of employee benefits, leaves open symbolic payment issue

The Coordination Committee of the Chamber of Tax Advisors and the General Financial Directorate recently discussed a paper on the VAT treatment of employee benefits and the symbolic payment for a taxable supply. The discussion conclusions confirmed that if a benefit is provided to the employee free of charge and serves their personal needs, the right to deduct VAT on the received supply does not arise (or, in some cases, output VAT on the value of such benefit must be paid).



Tomáš Havel
thavel@kpmg.cz



Lucia Balážová
lbalazova@kpmg.cz

For **gratuitous provisions**, it is always necessary to assess whether the personal needs of the employees prevail over the needs of the employer and their economic activity. This will particularly be important for supplies covered by the Income Tax Act under the term ‘supplies provided by the employer to create and comply with work conditions for the performance of work’. Unlike the paper’s submitters, the GFD believes that the supplies included in this category cannot automatically be considered as not having the characteristics of personal consumption. In the GFD’s view, it is necessary to assess in these cases individually whether the personal consumption component prevails over the requirement to perform the employer's activity or vice versa. This may also be crucial for supplies that are explicitly included in this category for personal income tax purposes by the Information on the Taxation of Benefits and Other Supplies Provided by Employers (e.g., provision of sports equipment such as billiard tables, climbing walls, etc.).

The second part of the paper deals with **benefits provided for consideration**. The discussion conclusions clearly show that where an employee benefit is provided for consideration, the basis for paying VAT is the consideration amount (an exception from 1 January 2025 is the supply of immovable property). At the same time, the employer is entitled to deduct VAT on the taxable supplies received. The fact that the consideration received from the employee is possibly (even significantly) lower than the value of the purchased supply is not usually decisive for the application of VAT.

According to relevant case law, however, an exception could be the situation where **the payment from the employee is symbolic**. In such a case, the supply could then be reclassified as a supply without consideration without the right to deduct VAT. The crucial question is what constitutes a symbolic payment, or, more precisely, what payment amount should no longer be considered symbolic. The paper in its underlying rationale assumes that a payment of 10% of the costs incurred for the supply would not be a symbolic payment, in line with CJEU decision C-267/15 Gemeente Woerden. However, the financial administration has not accepted this general assumption on the grounds that the circumstances of a particular case must always be considered and that the

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threshold for a symbolic payment can therefore not be set with general applicability.

This conclusion particularly goes substantially beyond the issue of employee benefits discussed above.

Wherever a consideration for a supply provided (not only to employees but also within standard supplier relationships) is significantly lower than the costs incurred for such a supply, we recommend assessing the VAT treatment and any potential VAT impacts in advance.

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Changes in taxation of immovable property in 2025

On 1 January 2025, the second part of the amendment to the Real Estate Tax Act, which already in 2024 introduced numerous significant changes, entered into force. Below, we summarise the most important changes for this year.



Mirka Malá
mmala@kpmg.cz



Jana Barotová
jbarotova@kpmg.cz



Magdaléna Vindišová
mlukasova@kpmg.cz

As regards the **land tax**, the subject of the tax on forest land has been extended. From January 2025, any exclusion from the scope of the tax only applies to parts of land on which protective or special-purpose forests are located; until now, for an entire land plot to fall outside the scope of the tax, it was sufficient that such a forest be located on just part of the land. The methodology for calculating the tax base for taxable forest land has also changed, since now it can no longer be based on the price determined by pricing regulations but solely on the actual square area of the land multiplied by **CZK 3.80**. If any of these changes apply to you, you are obliged to file a tax return for 2025.

Changes in the **exemption from tax** concern land as well as structures and units. The law now sets restrictive conditions for claiming an exemption for taxable structures of and at railways, airways, waterways, and ports used in accordance with an issued permit for public transport. From 1 January 2025, only the parts of these structures and units used in public transport shall be exempt. Thus, if, e.g., a section of a railway station is rented out to a restaurant operator on 1 January 2025, that part of the building will not be exempt. Any changes in the extent of the exemption will also have to be reflected in the tax return for 2025.

Further changes to tax exemptions have been made for **ecologically significant elements**: these shall be exempted if they are listed in the register of ecologically significant elements under the act governing agriculture (previously, only selected elements were exempted). At the same time, the exemption for marshes, swamps, rock formations, etc. has been abolished. Taxpayers do not have to file a tax return due to the abolition of this exemption, as the conversion to the subject of the tax according to the type of land and its use as per the Real Estate Register shall be made automatically by the tax administration.

As regards the exemption of publicly accessible land, its definition is further specified as **public spaces**, **publicly accessible sports ground**s, and **selected publicly accessible roads**. Here as well, only the part of the land on which the public space, publicly accessible sports ground, or publicly accessible road is located may now be exempted. The restrictive condition that the exemption cannot be claimed if the land is used for business purposes, rented out or leased out remains in force. If this means a change in the scope of a tax exemption for a taxpayer, they must file a tax return for 2025.

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Coefficients have also changed significantly from 2025. Firstly, the **1.5 coefficient** whereby municipalities could increase the tax rate for holiday homes, garages, and structures and units used for business purposes has now been abolished.
Changes have also been made to local coefficients. For 2025, a municipality can set them between 0.5 and 5.0 (for agricultural land only between 0.5 to 1.5), at up to five levels. The first four levels (i.e. the local coefficient for the whole municipality; for individual cadastral areas; for an individual urban district or part; for an individual group of immovable property) will be set by the municipality by decree.

The fifth level will be the **local coefficient** for selected immovable property, which will be set by the municipality by a measure of a general nature. Unlike a decree, in the measure the municipality must state the reason for setting the coefficient and clearly identify the selected immovable property in accordance with the rules set out in the law. Taxpayers may defend themselves by raising objections or submitting comments against impending measures, or in court against already issued measures. For this reason, it is advisable to monitor the municipality's official noticeboard where measures must be published for comments before they are adopted.

A rather significant change concerns the **population coefficient**, both for building land and for selected structures and units. A municipality can no longer decrease but only increase the coefficient by one category. The number of inhabitants of the municipality to determine the basic coefficient amount shall now be based on the decree implementing the Act on Budgetary Determination of Taxes, as amended as at the first day of the taxable period (until now, the last census was used as a basis).

The **inflation coefficient** remains at 1 for 2025, i.e., it will not affect the amount of tax liability.

The good news is that the changes to the coefficients do not require taxpayers to file tax returns; the tax authority will take the changes into account when assessing the tax *ex officio*.

For the sake of completeness, here are examples of the most common circumstances that trigger an **obligation to file a real estate tax return**:

- acquisition or disposal of immovable property
- changes to selected data recorded in the Real Estate Register
- issuance of a final building permit
- reinforcement of land without a vertical load bearing structure
- commencement of the use of the building (regardless of the entry in the Real Estate Register)
- increase in the number of additional floors of a building.

If you are unsure whether the 2025 changes in real estate tax apply to you or if you are required to file a tax return for any other reason, please do not hesitate to contact us.

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Taxes

Amendment to VAT Act in effect from new year

The amendment to the VAT Act introduces several key changes that will affect all VAT payers. Selected changes have a delayed effect - e.g., changes in immovable property will apply from 1 July 2025, while some changes in financial services will take effect from 1 January 2026. The General Financial Directorate has also issued summary information on selected changes applicable from 1 January 2025. More detailed updates on other areas should be published later.



Veronika Výborná
vvyborna@kpmg.cz



Michaela Baumann
michaelabaumann@kpmg.cz

The amendment introduces several substantive changes to tax base corrections that are mainly triggered by business reasons. These changes also affect VAT deduction corrections. Under the amendment, the rules for correcting the tax base and the tax deduction shall also apply to persons who are no longer VAT payers. The time limit for correcting the tax base on the supplier's part and the related correction of VAT deduction on the customer's part has been changed.

Time limit for correcting the tax base

The time limit for correcting the tax base has been extended to seven years. The main reason for extending this time limit is the provision of guarantees. However, in the case of advances, the time limit for correcting the tax base will remain three years.

Time limit for correcting the input VAT deduction

The time limit differs depending on the direction of the correction: if the deduction is decreased, the time limit is the seven years mentioned above; if the deduction is increased, the time limit is the basic time limit for claiming the deduction.

Time limit for claiming the VAT deduction

The time limit for claiming the deduction has been reduced to two years, i.e., the VAT deduction can be claimed by the end of the second year following the year in which the obligation to correct the deduction arose.

The GFD's Information also draws attention to these changes being only effective for taxable supplies carried out after 1 January 2025, i.e., supplies with the date of taxable supply in 2025.

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Corrections for irrecoverable debts

The rules for correcting the tax base for irrecoverable debts have also changed. The rules are being softened, with the most significant change being that the debtor no longer must be a VAT payer (provided that the debtor was a VAT payer at the time the unpaid supply was carried out). The amendment also provides for a new title to make automatic correction: the non-payment of 'small' debts. For the purposes of correcting the tax base, small debts are defined as debts up to CZK 10,000 that are six months overdue. After sending two written notices to the debtor to pay, creditors may reduce their tax base.

The amendment also imposes an obligation on customers to monitor the maturity of their debts and to correct their right to deduct and reduce their deduction up to the amount of the unpaid debt if the debt is not paid within six months after its due date.

The GFD intends to comment on the issue of VAT deduction corrections for irrecoverable or unpaid debts in a separate information paper.

Other related novelties

A new decree on submissions via prescribed forms introduces changes to VAT reports, specifically VAT ledger statements and VAT returns. These changes only involve the modification of the format of the prescribed forms and are intended to simplify and streamline the filing process. In addition to format changes, there are also new updated instructions for completing these forms.

The VAT return will also have two new lines to report that an obligation to make the correction arose within the time limit for correcting the tax base but that the supplier or the customer are no longer VAT payers.

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Proposal to simplify administration – single monthly employer report

From 2026, the Ministry of Labour and Social Affairs wants to launch a single monthly employer reporting project that could significantly reduce the administrative burden for businesses as regards employees, and today's up to 25 different monthly reports could be replaced by one.



Iva Krákorová
ikrakorova@kpmg.cz



Mária Marhefková
mmarhefkova@kpmg.cz

Currently, employers submit various forms to many authorities (e.g. the Ministry of Labour and Social Affairs, social security administrations, labour offices, tax administration authorities, the Czech Statistical Office). These often contain duplicate data on employees, their earnings, insurance contributions, etc. According to the bill on single monthly employer reporting (in Czech *Jednotné měsíční hlášení zaměstnavatelů* or JMHZ), all obligations will be merged into a single monthly report. The data will thus be centralised and shared between individual authorities.

The single monthly employer report should be submitted electronically to a single entity – the Ministry of Labour and Social Affairs, by the 20thday of the calendar month following the calendar month which is the subject of the report. Employers who have not yet communicated electronically with the authorities will have to adapt their systems or use the existing portal of the ministry or their data boxes.

Within the single monthly employer reporting system, individual employee records will also be kept, hence offering benefits like a tax return pre-filled by the administration as regards income from employment, and the provision of underlying data for applications for state social support to employees as well.

The current proposal does not yet cover the employers' obligations towards health insurance companies but its extension to include them is being considered for the next stages of the project.

The single monthly employer report is to be introduced from **1 January 2026**, with its pilot stage beginning at the state administration and selected employers in July 2025.

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Changes in protection of appellations of origin and geographical indications

Currently, the EU does offer any protection of appellations of origin and geographical indications for craft and industrial products and mineral waters and salts. However, this should soon change, and thus, users of existing national protection of appellations of origin or geographical indications for these products should take note.



Tomáš Hric
thric@kpmg.cz



Martin Vanek
mvanek@kpmg.cz

Abolition of national protection and transition to the EU system

Recently, two EU regulations have been adopted that will lead to a full harmonisation of the legislation on appellations of origin and geographical indications, so that designations for all types of goods will be covered by EU law:

- Regulation (EU) 2024/1143 of the European Parliament and of the Council of 11 April 2024 extends the scope of EU legislation on the protection of designations of agricultural products to mineral waters and salts, with effect from 13 May 2024
- Regulation (EU) 2023/2411 of the European Parliament and of the Council of 18 October 2023 harmonises the rules of protection of appellations of origin and geographical indications for craft and industrial products at the EU level with effect from 1 December 2025, affecting, e.g., leather products, woodwork, jewellery, textiles, glass and porcelain.

The protection of designations will thus be exclusively within the EU's competence, and any existing national protection will cease. However, the regulation allows users of national protection to smoothly transition to the EU level if they take active steps in due time.

In this respect, we draw your attention to the currently debated amendment to the Act on the Protection of Appellations of Origin and Geographical Indications and to the Consumer Protection Act prepared by the Ministry of Industry and Trade in cooperation with the Industrial Property Office. The amendment responds to the adopted EU regulations, aiming to adapt Czech laws to these innovations.

How can I prevent losing protection?

Users of the national protection of designations affected by the above EU regulations who wish to maintain the protection of their designations should **apply for their EU registration in due time**. As regards designations of mineral waters and salts, users need to apply by **13 May 2025**. As regards designations of craft and industrial products, under the pending amendment to the Act on the Protection of Appellations of Origin and Geographical Indications and the Consumer Protection Act, the application needs to be submitted by **31 August 2026**. However, for procedural reasons, we recommend applying as soon as possible, as the protection for such designations will expire on the effective date of the relevant regulation if the application for EU registration is not submitted on

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time.

To conclude, users of national protection should respond to this major transition in a proactive and timely manner to preserve their rights to the protection of their products. If you have any questions or are unsure how to properly apply for EU registration, we will be happy to help you secure protection for your designation.

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Legal

New ESPR regulation bans destruction of unsold clothes

The EU has introduced its new Ecodesign for Sustainable Products Regulation (ESPR) which applies to most products and aims to improve their sustainability and promote the circular economy. Below we summarise what exactly the regulation introduces and what it means for consumers and businesses.



Tomáš Kočař
tkocar@kpmg.cz



Karolína Kubíčková
kkubickova@kpmg.cz

The ESPR largely replaces the Ecodesign Directive and significantly extends its scope. While the old directive only applies to energy-related products such as household appliances, the ESPR covers virtually all physical products from clothing to books, furniture, building products, packaging, and electronics. Exempted are food, feed, and medicinal products.

The ESPR does not set specific requirements for the ecodesign of products but only a framework for further rules to be set by the European Commission. These will have to include requirements on the improvement of product aspects like durability, reliability, reusability, upgradability or repairability, and others. However, ecodesign requirements must not have a significant negative impact on the functionality of the product for users, its price, or the competitiveness of the producing businesses. In addition to ecodesign requirements, the Commission will also set rules for product performance and information provided.

Digital product passport

The ESPR introduces a digital product passport where information on sustainability will be recorded. The information will be accessible electronically, allowing for easier decisions by consumers, businesses, and public authorities.

The information to be included in the digital passport will be determined by the Commission in close consultation with stakeholders and will always depend on the specific product. The information may include, e.g.:

- the technical parameters of the product
- materials and their origin
- activities relating to repairs
- recycling options
- environmental impact over the life cycle.

Ban on destruction of unsold products

The ESPR also introduces a ban on the destruction of unsold textiles and footwear, paving the way for similar bans

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in other sectors if this proves necessary.

Large and medium-sized businesses in all manufacturing sectors will annually have to publish information on unsold consumer products (e.g. the number and weight of products discarded and the reasons they did so) on their websites. Large enterprises will have to disclose this information for the first time during the first accounting period of the ESPR being in force, medium-sized enterprises from 19 July 2030.

The regulation is already in force and applicable. The ban on the destruction of unsold products will be effective from **19 July 2026**.

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UK introduces ETA

The UK continues to digitise its border controls and is introducing ETA, a new electronic travel authorisation system. The system, which is similar to the US' ESTA, will be mandatory from April 2025 for citizens of the European Union who want to travel to the UK.



Vojtěch Kotora
vkotora@kpmg.cz



Petr Štětina
pstetina@kpmg.cz

The ETA programme was introduced in October 2023 to replace the electronic visa waiver and was initially only available to citizens of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. ETA is a pre-travel security clearance but not a visa, hence it carries a six-month limit for stays and does not allow any work in the UK.

To whom will the obligation apply?

An ETA will be required for all European Union citizens and other nationals who do not normally need a visa to visit the UK for up to 6 months. It will also be required for travellers planning to transit through the UK, including those who do not pass through border controls.

The UK will thus gradually require travel permits for all foreigners who do not need a visa to enter and stay in its territory or do not fall under one of the specific exceptions:

- non-Irish residents of Ireland travelling within the common travel area (CTA) comprising the UK, Ireland, the Isle of Man and the Channel Islands
- people with a valid visa or another form of permit to stay, work or study in the UK (for example, EU Settlement Scheme status holders)
- British Overseas Territories passport holders.

Who already needs an ETA?

In addition to the Middle Eastern countries already mentioned, from 27 November 2024, the ETA has been available to all foreign nationals who do not require a visa, except European citizens who may apply for an ETA voluntarily from 5 March 2025; from 2 April 2025, ETAs will be mandatory for all visa-free foreign nationals travelling to the UK.

How to get an ETA?

You can apply for an ETA online, including via a mobile app. A biometric passport is required to apply. The fee for applying for an ETA is GBP 10, and it is generally advisable to apply at least 5 days before travel.

Once approved, the ETA will be valid for 2 years or until the passport expires, whichever comes first. It is possible to travel to the UK repeatedly with an ETA, but you will need to apply for a new ETA if you obtain a new passport.

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Impact on employers

We recommend that starting January 2025, employers take into account the obligation to obtain an ETA when planning business trips for their employees. It is important to inform employees of the need to apply for an ETA well in advance of the planned travel.

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Case law

CJEU: VAT application upon contract termination

The Court of Justice of the European Union (CJEU) has addressed the issue of applying VAT upon the withdrawal from a contract for services. The court concluded that any amount to be paid after withdrawal from a contract for the supply of services is subject to VAT.



Tomáš Havel
thavel@kpmg.cz



Petra Němcová
pnemcova@kpmg.cz



Daniela Sommer
ddsommer@kpmg.cz

The CJEU considered Case C-622/23 rhtb: projekt gmbh v Parkring 14-16 Immobilienverwaltung GmbH where the provider had started construction work based on a contract for services, but the recipient subsequently withdrew from this contract. In accordance with the contractual arrangement, the provider demanded payment of the agreed consideration after deduction of the costs saved due to the termination of the contract, including the relevant VAT. The supply recipient did not agree with the application of VAT, arguing that the service provider was no longer obliged to provide the remainder of the supply and that the condition of the direct link between the consideration received and the service supplied had therefore not been met.

The CJEU recalled that, for VAT purposes, a supply of services for consideration is a supply of services where there is a direct link between the supplied service and the received consideration. This means that there must be a legal relationship between the provider and the recipient, and that the consideration received constitutes actual consideration for an identifiable service.

According to relevant case law, e.g. the judgment in Case C-43/19 Vodafone Portugal, a contractually pre-agreed amount received upon the early termination of a contract and corresponding to the amount that would have been received during the contracted period must be regarded as remuneration for the services. Thus, it is subject to VAT, notwithstanding that the termination of the contract implies the termination of the obligation to provide the agreed services.

Based on these principles, the CJEU ruled in the present case that the payment of the agreed price was subject to VAT since the provider had begun to perform under the contract and was prepared to do so throughout its term. The consideration for the amount to be paid by the supply recipient is the recipient's right to benefit from the fulfilment of the contractual obligations even if the recipient has chosen not to exercise that right. According to the court, account must also be taken of the economic and commercial realities of the transaction, where, based on an economic approach, the due amount not only reflects the contractually agreed remuneration after the deduction of the saved amounts, but also provides the supplier of the services with a minimum contractual remuneration.

Contrariwise, factual differences can be found, e.g., in judgment C-277/05 Société thermale d'Eugénie-les-Bains,

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where the CJEU held that non-refundable deposits for room bookings constitute only compensation for damage that is not subject to VAT. There was no direct link between the service supplied and the consideration received, as the room reservation did not constitute an individual service. The non-refundable deposit was therefore considered to be fixed compensation for the cancellation of the contract.

In the present case, C 622/23, the payment of the contract price cannot be regarded as fixed compensation for damage.

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Subsidies

First public call under new subsidy programme TWIST

In early December 2024, the Ministry of Industry and Trade announced the first public call under its new programme called TWIST, which supports the research and development of artificial intelligence.



Silvie Beranová
kpmg@kpmg.cz



Lukáš Otýpka
lotypka@kpmg.cz

Applications for support will be accepted until 12 February 2025. The call will provide support to projects focusing on the development and use of artificial intelligence to strengthen the innovation performance of companies responding to industrial transformation and technological and social change. Large enterprises can also apply for support provided that at least one research organisation or at least one SME is involved in the project.

The subsidy per project can reach up to CZK 30 million. The maximum aid intensity for a large enterprise is 40% of eligible costs for experimental development, or 65% of eligible costs for industrial research. Eligible costs may include personnel costs, costs of selected services, and other direct and indirect costs.

The project output must be one of the following: a utility model or industrial design, a prototype, a working sample, software, a pilot plant, a proven technology, or a digital solution. The project must be started between 1 March 2025 to 1 September 2025 and must not exceed 24 months. Only one project proposal may be submitted per applicant.

If you are interested, we will be happy to help you check the compliance of your project with the conditions of the call.

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Subsidies

Innovation Fund: subsidies for deployment of low-carbon and innovative technologies

The European Climate, Infrastructure and Environment Executive Agency (CINEA) has announced new calls under the Innovation Fund to support the deployment of highly innovative and low-carbon technologies helping the transition to a low-carbon economy.



Silvie Beranová
kpmg@kpmg.cz



Lukáš Otýpka
lotypka@kpmg.cz

Like the previous year, CINEA has announced several calls under the Innovation Fund to support projects focusing on highly innovative technologies that will contribute to a significant reduction of greenhouse gas emissions. A new call has also been launched to support the production of battery cells for electric vehicles. Applications for support will be accepted until 24 April 2025. Total funds for allocation for all calls are EUR 2.4 billion. The maximum subsidy amount can reach up to 60% of eligible project costs.

Below is a basic overview of individual calls.

Net Zero Technologies - General Decarbonisation - Small/Medium/Large-Scale Projects

The general decarbonisation theme has been divided into three separate calls depending on the scope of the project or the capital expenditure of the project. The limits of eligible costs per call are as follows:

- Small-Scale Projects – EUR 2.5 million to EUR 20 million
- Medium-Scale Projects – EUR 20 million to EUR 100 million
- Large-Scale Projects – over EUR 100 million.

Calls have been designed to provide support for the decarbonisation of energy-intensive industries, innovative renewable energy production or carbon capture and storage.

Net Zero Technologies - Clean-Tech Manufacturing

This call aims to support projects involving the production of highly innovative components for renewable energy systems, e.g. components for photovoltaic power plants, concentrated solar power, wind power, geothermal, solar thermal and other renewable energy systems. Support may also be given to the production of electrolysers and fuel cells for hydrogen production and consumption, the development and production of heat pumps or energy storage solutions (except for the production of batteries for electric vehicles).

Net Zero Technologies - Pilot Projects

This call aims to support pilot project activities aimed at validating, testing, and optimising highly innovative

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decarbonisation solutions. This call has been designed for projects with a higher level of innovation than the other calls.

Batteries - Manufacturing of Electric Vehicles Battery Cells

This call aims to support the production of battery cells for electric vehicles that demonstrate innovative technologies, processes or products that are sufficiently advanced and have significant potential to reduce greenhouse gas emissions.

In all calls except those in the General Decarbonisation category, a project's eligible costs must be at least EUR 2.5 million. The project should be completed within four years of signing the decision to grant a subsidy and be operational for at least five years after its completion (at least three years after completion for the Small-Scale Projects and Pilot Projects calls). The application for support must also include, e.g., a feasibility study, a business model, a detailed project budget, a financial model, and particularly a GHG emission avoidance calculation.

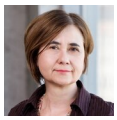
If any of the calls above are relevant to you or if you would like more detailed information, please do not hesitate to contact us.

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In brief

News in Brief, January 2025

Last month's news in one or two sentences.



Lenka Fialková
lfialkova@kpmg.cz



Václav Baňka
vbanka@kpmg.cz

DOMESTIC NEWS

- An amendment to the Value Added Tax Act has been published in the Collection of Laws under No. 461/2024 Coll.
- An amendment to the Excise Duty Act has been published in the Collection of Laws under No. 462/2024 Coll.
- The amendment to the Employment Act and other laws abolishing the notified agreement regime and introducing a special limit for the exemption of health-related employee benefits has been published in the Collection of Laws under No. 470/2024 Coll.
- The chamber of deputies has approved an amendment to the Income Tax Act (as part of the amendment to the laws on the digitisation of the financial market – regulation of crypto-currencies), which introduces an exemption from personal income tax for income from the sale of crypto-currencies in a similar way as for income from the sale of securities. The amendment will be discussed by the senate at its session on 22 January 2025.
- The chamber of deputies has approved an amendment to the Act on Tax Measures in Connection with Support for Ukraine, which extends the effectiveness of these measures for the 2024, 2025, and 2026 taxable periods. The amendment will now be discussed by the senate.
- The chamber of deputies has approved an amendment to the Income Tax Act (as part of the amendment to the Energy Act), which abolishes the special straight-line depreciation of photovoltaic power plants over 240 months. Assets that were subject to this regime will be depreciated according to their classification in the relevant depreciation group. The amendment will now be discussed by the senate.
- The chamber of deputies has approved an amendment to the Income Tax Act (as part of the amendment to the regulations on child care services in children's groups), which restores the taxation for employee stock option plans back to the pre-2024 regime (taxation on an acquisition basis) while also allowing for the postponement of the taxation of this income under the rules in effect from 2024 provided that the employer informs the tax authorities of that. The amendment also makes the rules of tax support for the long-term investment product more flexible (adding up savings periods upon the change of the provider of the tax-supported long-term investment product).
- The Czech Social Security Administration has prepared a technical solution for the digitisation of other sickness insurance benefits brought about by the legal changes published in the Collection of Laws on 16 December 2024. All is ready for launch on 1 January 2025. Changes to the processing of benefits take effect in the new year but the CSSA will allow doctors, healthcare facilities, and employers to adapt to the new solution gradually to have enough time to set up the necessary software.

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- Excise duty rates on cigarettes and selected tobacco products have increased by 5% from 1 January 2025, and will continue to increase at the same pace also in 2026 and 2027. Between 2025 and 2027, excise duty rates on heated tobacco will also increase, at a pace of 15% per annum.

- A list of countries for whom the principle of reciprocity for the refund of VAT to a foreign person pursuant to Section 83 of Act No.235/2004 Coll., on Value Added Tax, as amended with effect from 1 January 2025, has been fulfilled with effect from 1 January 2025 has been published in Financial Bulletin 21/2024.

- A notice on the treaty between the Czech Republic and Ukraine and a notice on the treaty between the Czech Republic and the Socialist Republic of Vietnam for the avoidance of double taxation and the prevention of tax evasion in the field of income and property taxes in connection with the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS have been published in Financial Bulletin 20/2024.

- 'An overview of types of taxes and parts thereof for which the tax authorities maintain personal tax accounts, to whose respective bank accounts payments from taxable entities are received' (information obligation of the Ministry of Finance pursuant to Section 149(3) of Act No. 280/2009 Coll., the Tax Procedure Code, as amended) and the 'How to correctly pay tax to the tax authority in 2025, including appendices' guide have been published in Financial Bulletin 19/2024.

- A notice on the treaty between the Czech Republic and Thailand for the avoidance of double taxation and the prevention of tax evasion in the field of income taxes and a notice on the treaty between the Czechoslovak Socialist Republic and the Republic of Tunisia in connection with the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS have been published in Financial Bulletin 18/2024.

FOREIGN NEWS

- The effectiveness of the EU Deforestation Regulation has been postponed for a year, so the new rules will not apply to large enterprises earlier than from 30 December 2025 and to small and micro enterprises from 30 June 2026. Although this has given businesses a little more time, we recommend not to delay in preparing for this regulation given the number of upcoming obligations.

- KPMG's EU Tax Center has prepared a summary of EU legislation on direct taxes that has recently been adopted (Pillar 2, public CbCR) or is in various stages of preparation. As the Polish EU Presidency's programme shows, the highest priority among forthcoming legislation will be an amendment to the Directive on Administrative Cooperation in the Field of Taxation (DAC 9), which regulates the exchange of information within the EU for Pillar 2 purposes. As regards indirect taxes, the Polish EU Presidency will focus on reducing the VAT collection gap, in particular by tightening e-commerce rules. Priority will be given to combating irregularities in the distance selling of goods via electronic interfaces.

- The FASTER (Faster and Safer Relief of Excess Withholding Taxes) Directive has been formally approved by the EU Council. Member states will be required to transpose the rules into their legislations by 31 December 2028, with the directive expected to take effect from 1 January 2030.

- The Implementing Regulation laying down a uniform template and electronic formats for reporting under the EU Public CbCR Directive has been published in the Official Journal of the EU.

Developments in Pillar 2 (minimum taxation)

- **Poland** has approved the rules for minimum taxation under the EU directive. The law came into effect on 31 December 2024, with the possibility of earlier application from 1 January 2024.

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- **Slovakia** has adopted changes to its minimum tax rules, including the introduction of a permanent safe harbour for minor entities and adjustments to the transitional CbCR safe harbour.

- **France** has introduced new reporting obligations for Pillar 2, which include detailed reporting under the GloBE Information Return and an enhanced information obligation in tax returns.

- **Germany** has opened a comment procedure on the minimum tax bill. The bill includes changes to the implementation of transitional safe harbours under the OECD guidelines and rules for hybrid arrangements.

- **Hungary** has adopted legislative changes for Pillar 2 and has published the final registration form. It introduces advance payments for domestic minimum tax, which must be declared by the 20th day of the 11th month following the end of the taxable period. The deadline for Hungarian constituent entities to comply with the registration obligation is 12 months from the beginning of the taxable period in question (31 December 2024 for the 2024 calendar year).

- KPMG's EU Tax Center regularly summarises changes in direct taxes in the EU and internationally that may affect your business. You can read up on important case law and new legislation at OECD, EU, and individual member state levels. The complete latest edition of 20 November.

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www.kpmg.cz
Tel.: +420 222 123 111

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