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Legislation Passed by the Senate: Amendments to Tax Laws Starting from 1 January 2014

The Senate has approved the government's amendments to the Income Tax Act and other laws to be introduced on 1 January 2014. To come to effect on 1 January 2014 they will have to be passed at the first meeting of the newly-elected Chamber of Deputies. We will inform you of developments. Meanwhile, here is an overview of the most important changes as well as those which, despite broad discussion, have not been adopted.

Tax exemption for income from the sale of securities

The time limit for the exemption of private individuals' income from the sale of securities will be extended from six months to three years. The exemption shall now also apply to income from the sale of securities of up to CZK 100,000 per year. However, if the income exceeds the stipulated limit then all securities sold will be subject to tax.

Transfer of ownership interest

Limitations will be placed on tax exemption regarding income from the transfer of an ownership interest in a company or cooperative related to an interest increased via a contribution to equity. If someone sells an ownership interest and simultaneously increases their company's or cooperative's equity, i.e. their own interest, during the five-year tax-exempt period, the amount corresponding to the increase will be subject to personal income tax.

Deduction of gifts for public benefit purposes

The limit for the deduction of gifts for public benefit purposes will be increased to 15% of the tax base for individuals and to 10% for legal entities.

Limitations on personal tax relief

The use of items deductible from the tax base, tax reliefs (with the exception of the basic one per taxpayer and the student tax relief) and tax credit for children shall now apply only to private individuals who are tax residents of the CR or another EU Member State, Norway or Iceland (non-residents in the CR complying with the 90% limit on total income from sources in the CR).

Supporting research, development and professional education

Up to 110% of an R&D project's costs will qualify as items deductible from the tax base subject to a year-on-year cost increase. Also, the list of tax-deductible items will be extended to include, for example, rent in cases of financial leases. A new deduction will be introduced to support professional education. It will be possible to deduct the costs of education and asset acquisition.

Adjustments to receivables

The creation of so-called "time adjustments" to receivables exceeding CZK 200,000 will no longer be subject to the launch of legal proceedings (with the exception of receivables acquired via assignment). The number of time periods will also change from six to two:

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for receivables overdue for more than 18 months (50% adjustment) and 36 months (100% adjustment).

Incorporation of inheritance and gift taxes into Income Tax Act

Inheritance and gift taxes will be abolished; gratis receipts will now be subject to income tax. Income from inheritance and bequests will now be tax-exempt for all taxpayers, including legal entities. Income arising from donations will be exempt within a similar scope to that currently applied to gift tax. In the case of tax non-residents, income from donations will be subject to withholding tax.

Real property item acquisition tax

The current real property transfer tax will be replaced by the real property item acquisition tax. The tax rate remains the same – 4%. However, the tax base calculation method will be amended. The agreed price will now be compared to 75% of the price determined by an expert or the so-called "guiding value", i.e. information set by the Ministry of Finance based on the prices of similar real property at the given place and time.

Tax will still be payable by the transferor (seller) unless it is agreed that the acquirer (buyer) becomes the tax payer. It will also represent a tax deductible cost for the taxpayer – for the acquirer, however, only by means of the depreciation of the acquired property.

Contributions of real property to a company's or cooperative's share capital will no longer be exempt from taxes as well as any first transfers of new constructions. The new statutory measure also lowers the number of transfers subject to the submission of an expert opinion. If such an expert opinion is still required, the costs incurred to procure it will be deductible from the tax base.

VAT

The liability for any unpaid value added tax when the payment is made to a bank account other than the one disclosed by the tax administrator will only apply if the payment exceeds CZK 700,000.

Any transfer of land containing a building or underground services will be subject to the same tax as the transfer of a building. This means it will not be exempt from VAT until five years after the issue of the first occupancy permit or the use of the building or underground services built therein.

Extraordinary tax deduction not approved

The Senate has not approved the government bill to introduce extra short tax depreciation of 12 months. This possibility should have applied to new property included in depreciation classes 1 and 2 and acquired from 1 July 2013 to 30 June 2014.

No changes in the taxation of investment funds

The approved statutory measures will not change the taxation of investment funds, including qualified investor funds. Hence, investment funds are still subject to 5% income tax, and profit distributions are subject to 15% withholding tax. Legal entities meeting the conditions in the guideline on the taxation of parent companies and subsidiaries can still use the exemption.

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No changes in dividend payments and profit distributions

The taxation of dividend payments and profit distributions to persons not meeting the conditions in the guideline on the taxation of parent companies and subsidiaries will remain unchanged as of 1 January 2014. Initially, the bill assumed the exemption for dividend payments and profit distributions made to, for example, Czech tax residents by tax residents in the CR or another EU Member State.

New terminology and new legal institutes

Although it is not entirely evident from the aforementioned changes, the main declared reason for the new statutory measures is the tax regulation of new legal institutes arising from the recodification of private law, and the adoption of new terminology in tax legislation. Brand new legal institutes include, for instance, trusts, and the aforementioned bequest. The following table shows examples of the current and new private law terminology used in tax laws:

Current terminology	*Future terminology*
company, cooperative	corporation
company partner, cooperative member	member of corporation
association without legal personality	company
participant in an association without legal personality	partner
civic association	association
enterprise	business plant
enterprise lease	business plant tenure
real property	real property item
obligation	debt
loan	borrowing

Should you require more detailed information, please feel free to contact us.

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