

# Tax Flash

March 2020

## What are the impacts of the Liberation Tax Package?

Dear clients and business partners,

We would like to inform you that in connection with the spread of coronavirus COVID-19, the Government of the Czech Republic has prepared and approved a Liberation Tax Package. The Government has adopted a significant relaxation of sanctions that could result from non-compliance with time-limits and other requirements under the law.

Below we are summarising the impact on individual taxes:

### Corporate Income Tax ("CIT") and Personal Income Tax ("PIT")

- There is a **general waiver of the fine for late filing of PIT and CIT returns and of default interest until 1 July 2020**. The statutory deadline for filing tax returns is effectively extended until 1 July 2020 without the need to prove reasons related to coronavirus.
- Overpayments from PIT returns filed before 1 April 2020 will normally be returned within 30 days.
- The office hours for filing at the tax offices have been limited to Mondays and Wednesdays from 8 am to 11 am, and some tax offices may be closed completely. We recommend that you follow the Financial Administration website.
- Filing of payroll returns and related tax payments must be made by 20 March 2020, as this act is not subject to any exception. On the other hand, any penalties associated with late filing of a Withholding Tax Statement under a special tax rate may be waived in certain cases and under specified conditions.
- Notification of exempt income received in 2019 must be submitted by 1 April 2020.

### Social security and health insurance ("SSHI")

- Obligations in the area of SSHI for employers (especially submitting monthly reports or the upcoming issuing of pension insurance records, insurance payments) are currently without relief. However, with regard to tax measures, we expect a similar waiver of penalties for late payments, especially in the case of sickness/quarantine of responsible employees.

- No statements have been issued regarding the annual Reports on the income and expenditures of self-employed persons (OSVČ) (postponing deadlines or sanction reliefs); the relevant information will be published. Now, the obligation to submit reports is still valid within one month of the date on which the self-employed person should file a tax return, i.e. **no later than 4 May 2020**.

### Value added tax ("VAT")

- **General waiver of fines for the late submission of a control report of CZK 1,000** incurred between 1 March 2020 and 31 July 2020 without the need to prove the reasons related to coronavirus;
- **Individual waiver of fines for failure to submit a control report** for the period from 1 March 2020 to 31 July 2020 when connection with coronavirus is proved;
- **Individual waiver of fines for late submission of VAT returns** on an individual request for waiver of late payment interest (or for delaying or tax instalments) when connection with coronavirus is proved.

### Electronic Sales Record ("EET")

- It is not legally possible to postpone the start of the third and fourth wave of EET, however possible checks should not penalize entrepreneurs for late recording the sales of the entities concerned until 31 July 2020.

### Waving fines upon request

- In addition to the measures described above, **the tax administrator will waive fines for late filing of tax returns, reporting or billing for all types of taxes administered by the Ministry of Finance, if the taxpayer individually requests a waiver of late payment interest (or for delaying or tax instalments) when a connection with coronavirus is proved.**

Therefore, we recommend you to store all evidence proving coronavirus connections (for example documents and orders on mandatory quarantines or medical reports of key personnel, etc.)

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## Miscellaneous

To summarize “standard” mechanisms - taxpayers have the possibility to apply for:

- reduction or cancellation of advances for PIT and CIT;
- extension of the deadline for filing tax returns for PIT and CIT;
- delays of tax payments or tax instalments;
- waiver of any penalties (i.e. late payment interest).

Any application should be granted if a coronavirus connection is proved. The charges should be waived for the applications that involve administrative charges.

In addition to the information on the Liberation Tax Package, we summarize the possible tax implications of home office work that many employers have now negotiated with their employees. Specifically, this involves providing compensation for the costs incurred by the employee when working from home.

- The employer must reimburse the employee for the costs (heating, cooling, electricity, cleaning, internet connection, etc.) that are **demonstrably** incurred to the employee when working from home. If no costs are incurred, there will be no claim for compensation.
- The employer, in cooperation with the employee, must be able to prove that the performance provided by

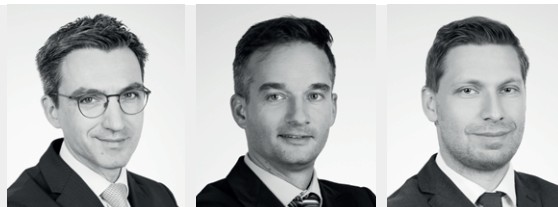
the employee is indeed a compensation for the costs actually incurred. The compensation provided must be supported by expenditure receipts and calculations proving how much of the costs incurred is related to the performance of the employee's work. This calculation must be economically rational. Flat-rate costs cannot be used in the above-mentioned cases (this is mited by the law to a flat-rate for the maintenance of work clothes and the use of own tools or equipment stipulated by the employer's internal regulations or employment contract or collective agreement).

- Providing reimbursement of expenses incurred by an employee while working from home does not result in employee's taxable income (provided that the employee's assets do not increase). If the employee receives compensation beyond the proven expenses, it is the employee's income subject to income tax and SSHI payments.
- If the conditions above are met, this is a tax-deductible expense for the employer.

Of course, the situation is developing, and further measures can be expected, we will keep you informed. Do not hesitate to contact us with any questions. Our experts will look at your specific situation and together we will find a solution.

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