



Overview of Selected Accounting and Tax News in the First Half of 2025



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In this newsletter, we provide an overview of selected news, particularly in the areas of accounting and taxation. These updates result from legislative procedures that primarily took place in the first half of 2025.

I. CHANGES IN ACCOUNTING

1. Increased Financial Thresholds for Categorizing Accounting Entities

An amendment to the Accounting Act has been approved by the Chamber of Deputies and the Senate of the Czech Republic. This amendment increases (indexes) the financial criteria used to classify accounting entities into relevant categories. The increase stems from the transposition of a European directive, revised in connection with inflation trends within the EU. The new threshold values for each category are as follows:

Category of entity	Total Assets	Yearly Net Turnover	Average Number of Employees
Micro	up to CZK 11 mil. (previously 9 mil.)	up to CZK 22 mil. (previously 18 mil.)	up to 10
Small	up to CZK 120 mil. (previously 100 mil.)	up to CZK 240 mil. (previously 200 mil.)	up to 50
Medium-size	up to CZK 600 mil. (previously 500 mil.)	up to CZK 1.2 billion (previously 1 billion)	up to 250
Large	above these values	above these values	above 250

As a result, an entity may be reclassified (e.g. to a lower category), which may reduce the scope of its accounting duties.

Financial thresholds for categorizing the so-called groups of entities have also been raised. However, the rule for reclassification (exceeding at least two criteria in two consecutive periods) remains unchanged.

2. No Mandatory Audits for Small Accounting Entities

Although it was not part of the original government proposal, the adopted amendment cancels the mandatory audit of financial statements for small entities effective 2026. The current criteria (CZK 40 mil. in assets, CZK 80 mil. net turnover, and 50 employees) will no longer apply to small entities. Micro and small entities will not be subject to a mandatory audit, whereas medium-size and large entities will continue to have the duty to have their financial statements audited.

3. Sustainability (ESG) Reporting

The original amendment also aimed to implement further phases of ESG reporting. Currently, only the largest companies are subject to it, and its expansion has been delayed due to changes at the EU level (due to the Omnibus I package aiming to reduce the administrative burden of companies in certain areas). The reporting obligation now only applies to companies with more than 1,000 employees (originally, the ESG reporting duty was to apply to entities meeting a set of criteria, e.g. the number of employees exceeding 500). Further developments depend on political decisions at the EU level.

4. Draft of New Accounting Legislation

The Ministry of Finance of the Czech Republic has published an updated draft of a new Accounting Act and related draft accounting regulations. This new legislation, intended to modernize Czech accounting rules has been in preparation for many years. The draft legislation will be discussed by the new Chamber of Deputies after the October 2025 elections.

II. Reminders on VAT Changes

As we have informed you in our previous newsletter, a major amendment to the VAT Act became effective at the beginning of 2025. Two key changes came into effect on 1 July 2025:

1. New Rules Concerning Immovable Property

From 1 July 2025, the following changes took effect:

- a) Application of VAT rates on construction work, and provision of construction and assembly services
- b) VAT exemption of the supply (in particular, sale) and lease of land and immovable property

No major changes occurred in VAT rate application to constructions (e.g. when construction or assembly services are provided in finished or unfinished construction works, or when applying the relevant VAT rate on supply of real estates). However, buildings are now assessed based on records in the Real Estate Cadastre, or in the Register of Territorial Identification.

Significant changes have been introduced in the field of exemption of supplies of lands and other selected real estates: effective 1 July 2025, the definition of a "building ground", the transactions of which are subject to VAT, was narrowed. Under the old rules, a "building ground" was any land where you could – in theory – build. Under new rules, a piece of land is no longer considered a building ground (and thus subject to VAT) if it's clear that construction is not possible or highly unlikely. Therefore, fewer building ground transactions are now subject to VAT.

Also, VAT exemption of certain real estates has been extended. Under the old rules, sale/resale of a real estate was subject to VAT in a five-year period (in simple terms, after an occupancy permit was issued). Under the new rules, only the first supply of a completed immovable property within 23 months after completion (or after a significant change in an immovable property) is subject to VAT. Any later resale is VAT-exempt.

2. Duty of Customers to Return VAT Deduction on Certain Overdue Invoices

Effective 2025, under the amendment of the VAT Act, a new significant rule has been introduced: buyers must reduce their claimed VAT deduction if they do not pay their supplier within 6 calendar months after the due date. In fact, customers must return to the authorities claimed VAT deduction on their received invoices which are more than 6 months overdue. As the amendment of the VAT Act came into effect on 1 January 2025, and the rule applies to received supplies after such date, July 2025 is the first period when VAT deductions will be returned based on this ground.

Once payment is made, the buyer may re-claim the deduction in the tax period when the payment was made.

Suppliers, however, may not automatically reduce their VAT liability for unpaid issued invoices six months after the due date. This is only possible in specific cases, and when certain requirements are met.

III. News in Income Taxes and in Related Areas

1. Depreciation of Photovoltaic Power Plants

Effective 1 August 2025, depreciation rules for photovoltaic systems have been changed. In essence, special regime of tax depreciation of “tangible assets used for generating photovoltaic electricity” (depreciated for 240 months) have been canceled. Instead, standard depreciation rules in compliance with the Income Taxes Act now apply to photovoltaic powerplants. Under the information issued by the General Financial Directorate, the photovoltaic systems are split into the following parts:

- Structural part – depreciated as a building, or as a part of a building (in groups 4–6)
- Technological part – such as panels and inverters, usually in group 3 (or 2)

If the PV system is part of a building (it generates electricity for a specific building), it is depreciated jointly with that building. If a PV system is temporary construction (with a limited useful life based on the decision of a building authority), it is depreciated over its permitted lifespan.

2. Mortgage Interest Deductions of Members of Housing Cooperatives

From 2026, individuals who are members of housing cooperatives may deduct part of the interest paid by the cooperative on loans for housing purposes. Under the old rules, only individuals who personally took out a mortgage were allowed to claim such interest on mortgage.

3. Changes in Taxation of ESOPs (Employee Share/Option Plans)

Since 2024, taxation of ESOPs has been shifted from the moment of granting to the moment of sale. Under the new amendment, employers may choose whether taxation occurs at grant or upon sale. If employers choose deferred taxation, they must notify the tax authority by the 20th day of the following calendar month.

Further changes to ESOPs are planned in the upcoming accompanying legislation related to the Unified Monthly Employer Report (“jednotné měsíční hlášení zaměstnavatelů”).

4. Amendment to the Top-Up Tax Act (Pillar 2)

A major amendment was passed, implementing OECD rules to ensure a minimum 15% tax on profits of large multinational groups. It includes technical changes and extended deadlines for filing top-up tax returns and reports. There are ongoing discussions about this concept and how it might be applied in the future, especially considering the position of the United States.

IV. Unified Monthly Employer Reporting

A new law, effective from 2026, introduces a Unified Monthly Report for Employers (“jednotné měsíční hlášení zaměstnavatelů”) aimed at reducing the administrative burden of employers. The Unified Monthly Employer Report replaces about 25 different monthly filings. It is coordinated with the following authorities:

- the Czech Social Security Administration
- Tax Authorities
- the Czech Statistical Office
- (health insurance companies will join later)

Employers will submit one monthly detailed report which will provide details about their employees, including their wages. The procedure is to simplify administrative duties both for employers (certain mandatory reports filed on annual basis are to be cancelled), and for employees (the system is to enable automatic pre-filling of tax returns of employees).

The project is planned to start in 2026, but employers will be allowed to report the first quarter by 1 April 2026 to allow time for adjustments of payroll and personnel software.

One key change: employers must register a new employee before they begin work (instead of within the old time-limit: within 8 days after an employee started to work). Partial registration (basic info first, full data within 8 days after an employee started to work) is allowed.

The accompanying act also includes several “pre-election” tax amendments (e.g. improvements to R&D tax deductions, ESOPs, and low-value receivables provisions). The Chamber of Deputies passed the bill, but the Senate returned the bill with modifications, for example, cancelling the CZK 40 mil. exemption limit for individual capital gains introduced effective 1 January 2025 (the limit is not to apply to revenues from sale of cryptoassets). However, we will still have to wait for further legislative developments.

V. “Flexi” Amendment to the Labour Code

Effective 1 June 2025, the so-called “flexi amendment” of the Labour Code came into effect. The aim of the new legislation is to support a modern and flexible labor market. Key changes include:

- Work under agreements during parental leave
- Extended trial periods of employees
- Modified start and end dates of notice periods
- Changes in the possibilities to repeatedly make fixed-term employment contracts

VI. Mandatory Employer Contributions to Retirement Savings

The Parliament has approved a draft legislation introducing mandatory contributions to retirement savings products. This legislation, which will come into effect in 2026, establishes an obligation for employers to make contributions to the retirement savings product of any employee performing hazardous work classified in the third risk category. For the purposes of this legislation, retirement savings products refer to supplementary pension insurance with a state contribution or additional pension savings.

The mandatory contribution to a retirement savings product will amount to 4% of the assessment base for social security contributions (in simplified terms, gross salary). A prerequisite for entitlement to the contribution is that the employee must work at least three shifts during the given month. While the employer's contribution will be mandatory, it will be up to the employee to claim the entitlement from the employer. However, the employer will be subject to a duty to inform employees accordingly.

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