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GMS Flash Alert

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Czech Republic - Proposed New Tax Treatment of Donations for Ukraine

In connection with the armed conflict in Ukraine, the Czech Republic's Ministry of Finance has prepared a proposal on new income tax measures, indirectly amending the Income Tax Act and extending tax support for taxpayers' charitable activities.

WHY THIS MATTERS

The new rules should encourage – by means of providing tax incentives – charitable activities in respect of Ukrainian refugees and Ukraine's defense efforts in the conflict with Russia.

Details

The proposal[1] was approved by the government on Wednesday, 9 March 2022, and is currently under discussion in Parliament. The proposed changes should apply to both individuals and legal entities who made donations in 2022, even before the law takes effect.

It will now be possible to deduct from the tax base the value of donations made directly to the State of Ukraine (e.g., through the Ukrainian Embassy) or to its territorial self-government units, as well as donations made to legal entities and individuals who have their registered offices or places of residence in Ukraine if the donation recipient meets the existing conditions under which the donation value can be deducted (i.e., in particular, for humanitarian, charitable, and similar purposes). Beyond the current wording of the law, it will also be possible to deduct donations made to support Ukraine's defense efforts (e.g., provision of military equipment).

Conditions

The possibility to deduct the value of donations from the tax base shall be extended to individuals who are tax residents of Ukraine and whose taxable income from the Czech Republic amounts to at least 90 percent of their worldwide taxable income. Under the legislation currently in effect, only Czech, EU, or EEA tax residents can deduct the value of donations.

The amendment also extends the applicability of the increased 30-percent limits on the maximum value of donations that taxpayers may deduct from the tax base: individuals will continue to apply these limits also in the 2022 taxable period, and legal entities in the taxable periods ended between 1 March 2022 and 28 February 2023. The increased limits shall be used for all donations.

Claiming the Deduction

For non-monetary donations provided in 2022 to help Ukraine, individuals who claim actual expenses (and legal entities) may decide whether to claim the non-monetary donation either as an item deductible from the tax base, or as a tax-deductible expense. In the latter case, it is not necessary to meet the condition related to the eligible recipient, but it should be sufficient to meet the purpose of the non-monetary donation. If the value of the non-monetary donation is not fully claimed in the taxable period in which the donation was provided, the remaining value shall be claimed using the tax loss regime without limitation as regards the amount of the tax base. If the taxpayer chooses to claim the non-monetary donation as a tax-deductible expense, he/she/it will no longer be able to claim it as a donation deductible from the tax base.

Currently, donation recipients may exempt from income tax contributions for humanitarian or charitable purposes or from public fundraisers. The new regulation will also allow a tax exemption for donations received by the taxpayer in support of the defense of Ukraine. By exempting such income from income tax, it will not be necessary for taxpayers to pay withholding tax on such income in the Czech Republic, which otherwise would apply in respect of donations outside the European Union.

Impact for Payroll Taxes

The amendment allows for an all-around payroll tax exemption of an employee's income in the form of accommodation provided by the employer in 2022 to an employee and his or her family members residing in the territory of Ukraine who left the country in connection with an armed conflict. Where an employee receives a monetary donation from his or her employer for the purpose of providing help in a "difficult life situation connected with the armed conflict," the donation may also be exempt from income tax as a non-monetary donation received for humanitarian or charitable reasons.

KPMG NOTE

The new act will only come into force during 2022, which means that employers may have already withheld advances for income tax on the above-mentioned donations for the first few months of 2022. They will thus be able to correct their monthly payroll records by the deadline for the annual settlement of personal income tax for the 2022 taxable period and refund any difference to the employee.

FOOTNOTE:

1 *Sněmovní tisk 173: Vl.n.z. o opatř.v oblasti daní – Ukrajina*. Proposed new income tax measures in connection with the military aggression against Ukraine - see link Sněmovní tisk 173 (psp.cz) (in Czech).

Contact us

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