

GMS Flash Alert

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Czech Republic – New Company Car Taxation Rules in Effect

The Czech Parliament approved a bill that reduces the non-monetary taxable income arising for employees using low-emission company cars for both business and private purposes. The bill was published in the Collection of Acts No.142/2022¹ and is effective as of 1 July 2022.

WHY THIS MATTERS

The Czech government has granted tax advantages to employees for using of low-emission company cars for both business and private purposes. Reduction of employees' taxable income should lead to wider use of low-emission company vehicles whose purchase price is currently much higher than cars powered by traditional petroleum fuels.

Since this benefit-in-kind is subject to the obligatory social and health insurance contributions payable both by the employer and the employee, it is likely that this change might bring some savings not only for the employees but for the employers as well.

Details

For low-emission vehicles, the amount of taxable income of employees who use a company car also for private purposes was reduced and is now 0.5 percent of the purchase price of the vehicle.

A low-emission vehicle is defined by the Act as a road vehicle in the M1, M2 or N1 category that does not exceed the CO₂ emission limit of 50 g/km and 80 percent of the emission limits for air pollutants as per the supplement/EU regulation No. 715/2007 on type-approval of motor vehicles with respect to emissions from light passenger vehicles (€ 5 and € 6). The legislators specifically confirm that "low-emission vehicles" include electric vehicles, hydrogen vehicles and further plug-in hybrids or extended-range electric vehicle, provided they meet the above environmental parameters.

While the amendment is effective from 1 July 2022, transitional provisions allow the new rule to be applied for the entire taxable period of 2022 (i.e., the entire calendar year of 2022). The recent General Financial Directorate's Information² addresses how to treat the reduction in non-monetary income (and the resulting tax overpayment) for months prior to the effective date of the law (the period of January - June 2022), both with respect to the annual settlement of income tax prepayments done by the employer and to the certificate of taxable income from employment issued by the employer for employees who file their own income tax returns.

Insurance and Social Security

The General Financial Directorate's information does not address how to proceed with social security and health insurance contributions for the first six months of 2022, nor does it provide a more detailed definition of low-emission vehicles. This raises several questions, namely as to which cars fall under this category and how taxpayers can prove that the conditions set out in the law have been met.

A Czech health insurance company responded to a query from the Chamber of Tax Advisor that for the purposes of calculating health insurance premiums, the reduced value of a given non-cash benefit can be included in the assessment base only from the effective date of the law, i.e., from 1 July 2022 and not retroactively for the first half of 2022.

The same approach is followed by Czech Social Security Administration, which also confirmed that it is not possible to consider the reduced taxable income of employees for the period of January-June 2022 and make any amendments to social security premiums for these months.

KPMG NOTE

In practice, this means that the total annual assessment base for health insurance contributions and social security contributions and the employee's total annual taxable income for 2022 will differ if the employee is provided with a low-emission company car.

FOOTNOTES:

1 Information for Payers of Income Tax on Employment (in Czech), [*Informace pro plátce daně z příjmů ze závislé činnosti*](#).

2 Act No. 142/2022 Coll. amending Czech Income Tax Act No. 586/1992 Coll. (in Czech), [*142/2022 Sb. - Zákon, kterým se mění zákon č. 586/1992 Sb., o daních z příjmů, ve znění pozdějších předpisů, zákon č. 16/1993 Sb., o dani silniční, ve znění pozdějších předpisů, a zákon č. 201/2012 Sb., o ochraně ovzduší, ve znění pozdějších předpisů \(sbírka.cz\)*](#).

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