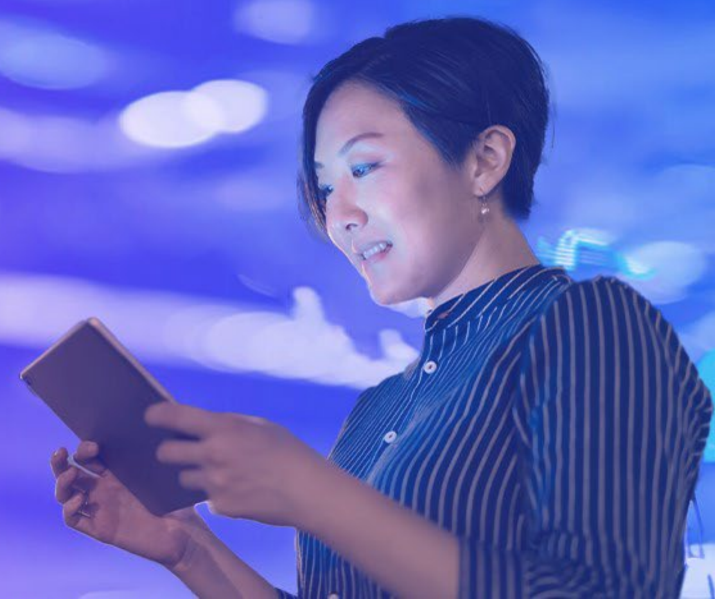

GMS Flash Alert

Global Compensation

2024-225 | November 14, 2024

Czech Republic – Taxation of Employee Share and Stock Option Plans Back to Pre-2024 Situation

After nearly a year of uncertainty regarding the taxation of income from employee share and stock option plans in the Czech Republic, a parliamentary proposal[1] aims to amend the Income Tax Act[2] and allow employers to revert to the method of taxing such income that was applied until the end of 2023. (For related coverage, see *GMS Flash Alert* 2024-070, 25 March 2024.)

WHY THIS MATTERS

Since January 2024, administering employee share and stock option plans has become significantly more complicated due to changes in the timing of employee income taxation. In most cases, the timing of taxation was postponed[3]. Czech social security and health insurance contributions began reflecting this shift in the taxation moment only from 1 July 2024, because the original proposal overlooked the deferral of contributions.

These changes have complicated tracking the date of taxation (i.e., when to tax the employment income via the monthly payroll tax or in which year to reflect it in the Czech personal income tax return) and have raised issues such as avoiding double taxation.

If the parliamentary proposal is adopted, employers can choose whether to defer taxation of such income.

More Details

According to the parliamentary proposal, tax deferral applies only if employers notify the Czech tax authority by the 20th day of the month following the month in which the employee acquired the share or option, indicating their (the employer's) wish to defer taxation.

Otherwise, the employee income would be taxed as it was until the end of 2023. This means taxation occurs in the month of acquisition of the share or transferable option, or upon exercising a non-transferable option if there is an obligation to tax this employment income via the monthly payroll tax. If the income is taxed through the employee's annual Czech personal income tax return, it will be considered taxable income in the period of acquisition or exercise of the shares or options.

At the same date that the income tax applies, Czech social security and health insurance contributions would also be due, if the employee is subject to the Czech social security and health insurance system.

The proposed legislative changes aim to address the year 2024 as well. For this year, tax deferral would apply only if the employer notifies the Czech tax authority of such intent within two months from the amendment's effective date. Otherwise, the employer would be obliged to retroactively pay tax advances on the employee share/option income received during 2024 (without any penalties for late tax payment) if there was a duty to tax such employment income via the monthly payroll tax.

KPMG INSIGHTS

The proposed amendment is expected to pass due to a political agreement in this respect and to be effective as of January 2025. The "voluntary" deferral of taxation and the possibility to tax employee income in the same manner as before 2024 would simplify plan administration, especially for companies participating in global share and stock option schemes, for whom tracking the taxation moment for each employee would otherwise be very problematic.

If employers and/or their mobile employees have concerns about how the measures could impact them, they should consult with their qualified tax professional or a member of the Global Mobility Services / People Services team at KPMG in the Czech Republic (see the Contacts section).

FOOTNOTES:

1 Parliamentary Print 716 - Amendment to the Act on the Provision of Childcare Services in a Children's Group (*Novela z. o poskytování služby péče o dítě v dět. skup*) – (in Czech) Sněmovní tisk 716.

2 Czech National Council on Income Taxes No. 586/1992 Coll. At (in Czech): *586/1992 Sb. Zákon o daních z příjmů* (zakonyprolidi.cz).

3 See *GMS Flash Alert* 2023-229, 1 December 2023.

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Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in the Czech Republic:

Iva Krakorova
Tel. + 420 222 123 837
ikrakorova@kpmg.cz

Marie Smekalova
Tel. + 420 222 123 181
msmekalova@kpmg.cz

The information contained in this newsletter was submitted by the KPMG International member firm in the Czech Republic.

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