TAXES ON REAL ESTATE

REAL ESTATE TAXES IN 2019

Current developments in taxes are not fast paced, so fewer innovations are directly associated with real estate. Although we have said at this point last year that 2019 will bring significant changes, these expectations have not really come true. 2019 innovations can be divided into two categories. The first category are already approved innovations effective from January 1, 2019, and the second part of innovations come in a tax package, which is still in a legislative process. The effect of the change resulting from these innovations can only be expected in March or April 2019.

The most significant changes since January 2019 related to the real estate sector are as follows:

• **VAT in a company** (formerly an association with legal personality)
From 2019 onwards, it will no longer be possible to use a simplified procedure for companies, which is often used in construction, whereby VAT obligations were performed exclusively by an authorized participant. From 2019 all parties are obliged to fulfill their VAT obligations independently.

• **Taxation of investment funds**
This measure tightens the conditions for taxation with a 5% income tax rate. A new condition applies that no corporate income taxpayer will be able to hold more than 10% of the share capital of an investment fund. Again, this legislation may affect some real estate investors.

The following changes arise from the tax package that is still in a legislative process, and they at least partially affect the real estate sector:

- A provision that generally applies the institute of abuse of rights will be incorporated into the tax code. This institute should prevent the use of the tax system to optimize tax obligations.
- The amendment approved by the Chamber of Deputies should move heat and cold into a 10% VAT rate.
- The current wording of the Value Added Tax Act indicates the obligation to adjust VAT deduction when acquiring property in assocation with the possible use of this property for exempt transactions. This obligation also applies to VAT applied to the acquisition of technical improvements in property. The scope of transactions that will be subject to this adjustment should be expanded, namely by a Significant Correction. A correction that can be considered significant is one that exceeds 200,000 CZK.
- Another upcoming innovation directly related to the rental of real estate is the treatment of the day of taxable supply in the “re-invoicing” of services provided in direct connection with the rental of real estate. In these cases, the date of the discovery of the actual re-invoiced amount will be newly considered as the date of taxable supply. We believe that this clarification will give lessors the simplification they desire.
- Other expected changes are not as fundamental, but in normal practice their impact will certainly be frequent. Here is a brief description below:
  • Certain changes should also be made to taxpayers’ obligation to issue tax documents. Current legislation implies the obligation to issue a tax document in connection with taxable supply. The proposed amendment considers this obligation to be inadequate, and it should re-establish the obligation to make the necessary efforts to make sure the issued document is delivered to the recipient.
  • This obligation should also apply to tax incentives. Another change should also apply to tax incentives. Specifically, corrective tax documents should also include the date of the taxable supply, i.e. the decisive date for the correction of the tax base.

In the past, we have already mentioned the increasing importance of rental housing in developers’ business plans here. However, this trend is also noticed by legislators, and a new regulation has been in preparation for a long time, the aim of which is to limit the possibility of applying VAT to rent. According to the latest proposed version, this restriction should apply to buildings where at least 60% of the area is composed of living space. Although the legislators’ original intention was to apply this limitation as soon as possible, it is currently expected to come into effect on January 1, 2021.

SPECIALIZED TAX AUDITS

In 2019, we expect a continuation of the trend of originally unambiguous tax audits, which will expand over time to other areas. It can also be expected that newly launched audits will continue to be in line with current developments in the company. This trend can be pointed out on the basis of a comparison of topics discussed in the media and currently initiated and ongoing tax audits.

FUTURE OUTLOOK

We believe that the future development of tax legislation will be mostly influenced by the effort to reduce and prevent tax evasion, and in this context the expected legislation will tighten and introduce new control mechanisms, which often impose additional administrative burdens on taxpayers.

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Trend Report 2019 has been published by the Association for Real Estate Market Development as its 12 publication with the aim to offer to the professional and general public the objective and comprehensive report on the real estate market in the Czech Republic. This edition is to give its readers the expert view of actual problems and trends of the market and to show the opinion platform within the association.

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