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Property Tax and Assessment News from Around the World

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Abolition of real estate acquisition tax - Czech Government seeks streamlining in response to Coronavirus pandemic

October 2020 – A long-debated government bill to abolish the real estate acquisition tax was signed into law by President Miloš Zeman on 18 September 2020. As a final step, the Act will now be formally announced into the Collection of Laws.

Real estate acquisition tax

The Czech Republic's real estate acquisition tax was regulated by Senate statutory measure No. 340/2013 Coll., on a real estate acquisition tax, as amended (the "Statutory measure"). The Statutory measure was adopted back in 2013 (effective from 2014) as a result of a recodification of private law, as well as in response to a repeal of a 1992 law on inheritance taxes, gift taxes and real estate transfer taxes.[1] As a result, the gift tax and the inheritance tax were incorporated into the 1992 Income Tax Act. The real estate transfer tax was transformed into a new legal act, namely the Statutory Measure, shifting tax liability from the seller of a property to the purchaser. Rather than a loss of tax revenue, the law simply switched the respective parties paying the tax.

However, the coronavirus crisis has led to the government adopting a variety of measures designed to ease the burden on taxpayers struggling under the current economic climate. This led to a government proposal repealing Senate statutory measure No. 340/2013 Coll., on a real estate acquisition tax, as amended, and amending and repealing other related legislation. The proposals were then introduced to the Chamber of Deputies as Assembly Press No. 866 [in Czech: sněmovní tisk č. 866] in May 2020 and ultimately passed by parliament over the summer.

The key changes

Chiefly, the new law repeals the real estate acquisition tax retroactively from 31 March 2020. In practice, this means that tax filing deadlines occurring on or after 31 March 2020 will be extinguished with respect to this tax. In other words, the acquirer of a property ownership right will be exempt from the tax if the ownership right was entered in the Land Register after December 2019. Those who submitted a proposal to register a property ownership title into the Land Register no later than December 2019 – and who have already paid the tax – will have their taxes refunded via standard overpayment procedures.

A so-called “General Pardon by the Minister of Finance” is valid until 31 December 2020, enabling the filing of tax returns and the payment of the real estate acquisition tax, if the title to the property in the Land Register was granted no later than 1 December 2019.

Another significant change is the extension of a so-called “time test” from 5 to 10 years. This covers income from the sale of immovable property acquired for another purpose other than satisfying housing needs after 1 January 2021 (included). Until now, if the period between the acquisition of ownership of the immovable property and its sale exceeded 5 years, such sale income (for the immovable property) was exempt from tax. This period is now extended to 10 years. The aim is to reduce real estate speculation and to improve market accessibility for those genuinely interested in finding housing.

The extended time test does not affect real estate acquired prior to 1 January 2021, nor instances where the taxpayer uses the obtained financial resources for housing purposes (i.e. the income from the sale of an immovable property is exempt from income tax, even if the deadline of 10 years is not met if the financial resources are used for the housing needs of the taxpayer).

The term “housing need” (in Czech: bytová potřeba) has been incorporated and legally defined within the Act. Accordingly, clear conditions must be met as a precondition for a taxpayer income tax exemption application based on the fulfilment of a “housing need”.

New rules for deducting from the personal income tax base interest paid on home construction and mortgage loans used to finance housing needs. For mortgage loans concluded from 1 January 2022, it will be possible to deduct the interest paid on the loans from the overall income tax base by up to CZK 150,000 compared to the previous 300,000 CZK (the government previously sought to entirely abolish the option of deducting interest paid on loans).

What are the main motives behind the adoption of the law and what is its anticipated impact?

One key aim of abolishing the real estate acquisition tax is an increase in investments into immovable property as a result of savings incurred on the part of acquirers (who will no longer pay the 4 percent real estate acquisition tax). Even during the current pandemic crisis, investments into Czech real estate have risen by as much as 6.5 percent – but the government wants to further stimulate the market.

Other intended benefits of the changes include an elimination of tax filing or tax proceedings costs for property buyers; saved financial resources can be invested in other areas by the buyer or will simply not burden him unnecessarily when buying immovable property.

Additionally, extending the so-called “time test” from five to ten years is designed to offer greater flexibility to house buyers. A lack of available housing continues to be a pressing issue, particularly in major metropolises such as Prague. The change also eliminates an incentive enjoyed by investor-speculators buying properties with a view to selling them within a five-year timeframe (and benefitting from not having the income from such sales taxed). The government hopes that by extending the period to 10 years, speculative purchases will cease to be as appealing and lucrative for investors – and thus more property will be available for genuine housing needs.

In terms of the Czech state, the government hopes that the abolition of the tax will help ease the administrative burden and help create a more transparent and balanced tax environment with less space for tax exemptions. However, repealing the 4 percent real estate acquisition tax also means the state – already reeling under record deficits – will lose an estimated 13.8 billion CZK per year in revenue and will naturally seek from other sources.