
**Ceskoslovenska obchodni banka, a.s.**

**The Czech Republic**

# CSOB Custody Bulletin

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# Contents

# Changes in taxation of bonds

The amendment to the Income Tax Act was approved and published on 31 December 2020, end is effective from 1 January 2021.

The exemption for non-residents on interest income from bonds issued abroad by issuers domiciled in the Czech Republic or the Czech Republic (so-called Eurobonds) is abolished. Under the new regulation, individual taxpayers (both tax residents and non-tax residents) and corporate taxpayers who are non-residents will generally be taxed on such income at a special tax rate (if applicable, i.e. if not covered by a new type of exemption or a transitional provision – further details below). This means that interest income of foreign investors will be taxed in accordance with the applicable DTT rates, upon provision of the necessary tax documents (Certificate of Tax Residence and Beneficial Owner Declaration).

Instead, an exemption for income from bond yields under the law governing bonds issued by an EU Member State or an EEA State (regardless of whether it applies to a tax resident or a non-resident) will apply. This means that income from government bonds issued from the effective date of the amendment will not be subject to tax.

Income in the form of a positive difference between the nominal value of the bond paid at redemption and the purchase price of the bond (applicable to discount bonds / zero bonds) will no longer be a separate tax base for taxation at a special tax rate but taxpayers will include it in their tax return. For taxpayers who are not tax residents of an EU Member State or EEA States, a tax securement of 1% from the amount paid at the maturity of the bond will be paid to the Tax Authority by the issuer.

According to the transitional provisions, the new bond income taxation will generally apply to bonds with an issue date from the effective date of this amendment, and according to the approved amendment, existing rules will still apply to Eurobonds issued from the effective date of this amendment until the end of 2021.

**Impact on foreign investors**:

Taxation of income deriving from bond investments will change, foreign investors may need to consult their tax advisors.

Source: CSOB