LEGAL ALERT

SELECTION OF LEGAL UPDATES

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ŠIROKÝ ZRZAVECKÝ
ADVOKÁTNÍ KANCELÁŘ

Relaxation of non-financial reporting rules in the context of the launch of the new EU initiative "Clean Industrial Deal"

At the end of February, the European Commission unveiled a new initiative called the Clean Industrial Deal, which aims to boost the competitiveness of European industry while meeting climate targets. The deal has implications in a wide range of areas, including changes to sustainability reporting for both large corporations and smaller businesses. One of the changes resulting from this initiative is the narrowing of the scope of the Corporate Sustainability Reporting Directive (CSRD) and the Directive establishing a framework to facilitate sustainable investments.

The new obligation to report on sustainability would only apply to companies with more than 1,000 employees and a net turnover exceeding €450 million (CZK 11.3 billion). This means that around 80% of companies would be exempted from the Directive. It is precisely these largest companies, which have a significant environmental impact, rather than small and medium-sized enterprises, which the revision of the directives aims to relieve of this non-financial reporting and the associated administrative burden. The move is part of a broader plan to simplify the administrative requirements for smaller businesses, which will be able to choose whether to report on sustainability. The CSRD Directive as such is also planned to be postponed for two years.

In addition to changes in sustainability reporting, there will also be some changes in the area of public procurement. The European Commission plans to move away from an exclusive focus on cost in the evaluation of public procurement to include new criteria on sustainability, resilience, performance and a preference for European origin.

It is of course envisaged that this legally non-binding document (Clean Industrial Deal) will be followed up over time by specific, already binding, legislative proposals (in the form of directives and regulations).

Introduction of the single monthly report: how will changes in tax and administration affect employers and employees?

At the beginning of March, the government approved a bill introducing the so-called single monthly report, which should replace the considerable number of forms employers currently use to send the required information to individual authorities and thus unify the entire process, including the deadlines by which it must be done. The digital form, which would consolidate individual submissions to, for example, the Ministry of Labour, the Labour Office, the Social Security Agency or the Tax Office, would be sent once a month, between the first and twentieth day of the calendar month following the month to which the report relates. However, the single report will not (yet) include the report to the health insurance company. This will still have to be submitted separately.

The government's ambition is to have the bill debated and passed in Parliament before the autumn elections, so that the changes will apply from January 2026.

Moreover, the proposal also includes changes to some of the rules relating to income tax filing obligations.

It is planned to abolish the withholding tax, which is currently levied on

agreements on work performance (if the earnings do not exceed CZK 11,500), small-scale employment (if the remuneration is up to CZK 4,500) or the income of managing directors and other members of bodies of legal entities of Czech tax non-residents. Even those who have not had to do so for the time being would be obliged to file income tax returns. The same regime should thus be applied to all employee income from employment. However, for employees working on the basis of agreements, there should be some relief in the context of filling in the electronic tax return (pre-filling of data already available to the authorities, such as information from banks or insurance companies).

Withdrawal by a public limited company from non-compete clause on the last day of period: abuse of rights or legitimate step?

The Supreme Court in the present proceedings followed the conclusions expressed by the Constitutional Court in its ruling of 2021 (Case No. II. ÚS 1889/19), which for the situation of a non-compete clause in employment relations set out a demonstrative list of circumstances that the courts should examine in the proceedings in order to determine whether or not the withdrawal from non-compete clause was an abuse of rights. The Supreme Court stated that there was no reason why these considerations could not also be taken into account when assessing the withdrawal from a non-competition clause agreed in a contract for the performance of duties as a member of an elected body of a commercial corporation. A public limited company may also abuse its right to withdraw from a non-compete clause in respect of a member of its elected body (the chairman of the board of directors). The fact that it does not have the status of a weaker party to the contract is not legally relevant in this respect.

In the present dispute, the public limited company withdrew from the non-compete clause it had validly negotiated with its (now former) member of the board of directors on the last day of the period in which it could have done so. The company had been aware of the resignation of the member of the elected body for some time. However, it had not communicated its intention (to withdraw from the competition clause) at any earlier stage.

Previous courts have taken a position on this matter in which they have been content to simply find that the board member and the company agreed on the option to withdraw from the non-compete clause and the company withdrew within the agreed time period. However, the Supreme Court pointed out that the fact that a public limited company could withdraw from a non-compete clause even on the last day of the board member's term of office says nothing about whether the company did not abuse that right (to withdraw).

As regards the prohibition of abuse of rights, it is clear from settled case law that this prohibition is an institute embodying the corrective function of the principle of fairness. It serves to deny legal protection to an exercise of law which, although formally in accordance with the law or the content of an existing legal relationship, is manifestly unacceptable in the circumstances of the case.

In view of the foregoing, the Supreme Court therefore considers that it is necessary to assess whether the company's conduct was not a manifest abuse of law aimed at avoiding payment of the consideration under the competition clause, which, moreover, had the effect of harming the board member by significantly reducing his chances of finding a new (either employment or corporate) position in the sector corresponding to his profession (banking) within a reasonable period of time, and in

effect obliging the board member to comply with the competition clause without receiving the agreed consideration.

(according to the judgment of the Supreme Court of the Czech Republic, case No. 27 Cdo 1236/2024)

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If you have any questions or need a consultation, please do not hesitate to contact us via email at info@sirokyzrzavecky.cz.