

# LEGAL ALERT

SELECTION FROM LEGAL NEWS

May 2025



## Changes in Labour Law in 2026

The new legislative changes for 2026 focus primarily on the **digitalisation of public administration and the reduction of tax optimisation practices**. For employers, this means not only less paperwork thanks to unified reporting, but also new **financial costs associated with hazardous work** and the need to adjust employee benefit systems.

### 1. Savings for Employees in Hazardous Occupations

Companies employing individuals in the third risk category (e.g. warehouse workers, labourers or machine operators) must newly pay a mandatory old-age contribution amounting to **4 % of the assessment base**. Employers also have a strict information obligation towards employees – failure to comply may result in a fine of up to CZK 20,000.

### 2. End of Tax Optimisation

The popular practice of **exchanging part of an employee's salary for non-cash benefits** (such as vouchers for sports, books or groceries) is no longer tax advantageous as of January. If a benefit is provided in the form of a reduction of the salary base, it will be taxed as regular income. Tax exemption remains available only for benefits granted as a **bonus above the agreed salary**.

### 3. Digital Reporting and Records

A Unified Monthly Report is being introduced, which will gradually replace up to 25 different forms submitted to the Czech Social Security Administration, the tax authority and the labour office. A major new requirement is the **obligation to register a new employee in the system before their first day of employment**. Digitalisation will also

newly apply to the reporting of workplace accidents via the Labour Inspectorate portal.

In practice, companies will need to reconfigure payroll systems and review job categorisation due to the new contributions. It is also essential to train HR departments in the new reporting system in time, as its full operation begins in April 2026, in order to avoid unnecessary sanctions for late employee registration.

## New EU Rules Against Unfair Trading Practices

The European Union is preparing a groundbreaking regulation that aims to **significantly strengthen the protection of farmers and smaller suppliers** in the food supply chain. The new rules respond to the inefficiency of previous directives, which faced complications in cross-border enforcement when large multinational companies abused their market power against weaker actors.

### 1. Cross-Border Enforcement

Until now, it has been very difficult to penalise unfair conduct by companies headquartered in another EU Member State. Under the new rules, the Czech Office for the Protection of Competition (ÚOHS), at the request of a foreign authority, will be able to directly enforce a fine or corrective measure imposed, for example, in Germany or Poland, thereby ensuring **effective enforceability of the law across the Union**.

### 2. Mandatory Cooperation Between Authorities

Clear procedural rules are being introduced for rapid information exchange between national supervisory authorities. Through secure digital platforms and standardised forms, authorities will share evidence of unfair conduct (e.g. late payments or unilateral

contract amendments) without lengthy administrative delays.

### 3. Coordinated Investigations

In cases of large-scale unfair practices affecting multiple countries at once, authorities will be able to carry out **joint inspection actions**. This European cooperation aims to prevent large corporate groups from evading liability through differing procedural rules in individual countries and from exploiting market fragmentation.

For companies operating within the supply chain, this means the need for a thorough **review of contractual relationships** on an international level. Due to the interconnectedness of European authorities, it will no longer be sufficient to comply only with local standards; any misconduct in one country may quickly come under the scrutiny of supervisory authorities across Europe thanks to the new mechanism.

### A New Era of Trade: Europe and India Connect Their Markets

The European Union and India have signed a **free trade agreement** aimed at removing up to 90 % of customs barriers and facilitating exports. The agreement is expected to save European exporters approximately EUR 4 billion annually in customs duties alone.

The agreement was signed on 27 January 2026 in New Delhi and must still be **ratified by the European Parliament and all Member States**.

It will create a free trade zone for nearly two billion people, significantly improving access for European companies to the previously relatively closed Indian market.

For the Czech Republic, the agreement has enormous potential, particularly in the **engineering and automotive sectors**. Tariffs on engineering products, which have reached up to 44 %, will be reduced to zero, and tariffs in the automotive sector will fall to 10 %.

### The Chamber of Deputies Approved a New Employee Share Scheme (ESOP) Regime

As of January 2026, a major amendment to the **Income Tax Act** has entered into force, introducing the so-called **qualified employee stock option programme**.

#### 1. Introduction of the “Qualified Regime”

The amendment introduces a special ESOP category for startups and smaller companies:

- **No social security contributions:** Gains from such an ESOP (the difference between the purchase price and the market price at the time of sale) are no longer subject to social security and health insurance contributions. Previously, these gains were taxed as “salary” (including contributions); they are now treated more like capital or other income,
- **axed only upon sale (No Tax Before Cash):** Tax is not payable at the moment the option is exercised (i.e. when the shares are acquired), but only when the shares are actually sold and the employee **receives cash proceeds**.

#### 2. Conditions for Application

To qualify for this advantageous regime, several statutory conditions must be met:

- The company must qualify as a small or medium-sized companies with annual turnover not exceeding CZK 2.5 billion and assets not exceeding CZK 2 billion,
- The employee may exercise the option no earlier than three years after it is granted and must have been employed by the employer for at least 12 months between the grant and exercise. It is possible to contractually regulate what happens to the option if the employee terminates employment before exercising it (good leaver / bad leaver provisions),

- The total value of shares allocated to a single employee is limited to a maximum of 5 % of the company's registered capital.

### 3. Additional Key Restrictions for Eligibility

In order for an ESOP to be considered “qualified” and thus exempt from costly social contributions, it must also meet the following specific criteria:

- **ESOPs must not replace salary:** The state aims to prevent circumvention of the law whereby a company would pay only a symbolic salary and compensate the remainder through untaxed options. Therefore, the employee must receive a gross salary of at least **1.2 times the minimum wage during the relevant period,**

- **Excluded sectors:** The preferential regime is intended to support innovative startups and technology companies. The law therefore explicitly **excludes** certain regulated and specific sectors from this regime, such as banks, insurance companies, law firms, audit firms, etc.

*This document may only be used for personal purposes. Any other use, including reproduction, distribution, or further disclosure, is prohibited without the consent of ŠIROKÝ ZRZAVECKÝ advokátní kancelář, s.r.o. (“ŠZ”). Use of this document does not create any legal relationship between the user and ŠZ, and the user does not acquire any rights against ŠZ arising from its use. Offering this document to the public does not constitute the provision of legal advice under the Advocacy Act. ŠZ is not liable for the use of this document without its direct assistance and review of its final content. The information provided herein is not exhaustive and therefore cannot be considered specific legal advice.*