Czech Republic:  
Legislative Changes in 2012 and 2013

Summary

For 2013, a significant tax reform has been planned by the Czech government, so we would like to introduce the new provisions in advance. We would also like to inform you about the legislative changes proposed for 2012.

Legislative changes in 2012

The following tax changes are proposed as of 1 January 2012:

- Increase of an annual discount for children to 13,404 CZK (2011: 11,604 CZK);
- Increase of a maximum annual tax bonus to 60,300 CZK (2011: 52,200 CZK) and of a maximum monthly tax bonus to 5,025 CZK (2011: 4,350 CZK);
- Interest received on the account of “Savings for housing purposes – stavební spoření” will no longer be exempt from taxation, i.e., 15% withholding tax rate will apply; and
- Remuneration paid to the members of statutory bodies and other bodies of legal entities will be considered as tax deductible cost for the company.

In the area of social security and health insurance, the following changes are expected:

- Remuneration paid to the members of statutory bodies and other bodies of legal entities will be subject to social security contributions (6.5% additional costs for the individual, 25% for the company);
- Remuneration paid to executives (jednatel) will be subject to sickness insurance (3.5% of additional costs for the company);
- Proxies and branch heads will be subject to social security insurance (6.5% additional costs for the individual, 25% for the company);
- Contracts on performance of work (dohoda o provedení práce) – if the monthly income is higher than CZK 10,000 CZK, the remuneration will be subject to social security and health insurance contributions; and
- Maximum assessment base for social security and health insurance contributions becomes different for social security (CZK 1,206,576 CZK) and for health insurance contributions (CZK 1,809,864) (2011: CZK 1,781,280 for both).

Deloitte’s view

Increase of tax bonuses and tax discounts is aimed as a compensation for the increasing value added tax rates.

Changes related to statutory bodies are proposed to address the issue of concurrence of employment and statutory body function, which we informed you about at the beginning of 2011. Corporate tax deductibility of remuneration of members of statutory bodies is a positive change; however, overall employment costs associated with these individuals will increase since full social security/health insurance contributions will be due.

Calculation of the base for social security, health insurance contributions, and tax becomes more complex. We suggest paying attention so that the changes are correctly reflected in the payroll/tax return software. Companies shall consider payments of 2011 bonuses before the new 2012 increased social security and health insurance caps become applicable.

As a separate change, there is a proposed cancellation of the labor agency license requirement for Czech companies assigning their employees to other group companies abroad (this is provided that renting out employees is not a company’s normal business activity.). This is a positive change for many Czech companies, since obtaining the license is costly and time consuming.
Legislative changes in 2013

A major legislative reform is proposed as of 1 January 2013 (although the reform might not be effective or go into effect until 2014). In the scope of this reform, there is an introduction of a “Unified Collecting Place” or “Jednotne Inkasni Misto” in Czech. Below are the main changes associated with this proposal:

- “Super gross income” – calculation of the personal income tax base will no longer be used;
- Tax rate is changed from 15% to 19%;
- Employee’s health insurance contributions and pension contributions will be unified to 6.5% (2011: health insurance 4.5%);
- A new “payment from gross wages”, representing the employer’s contribution to the social security and health insurance systems at a rate of 32.4% (accident insurance included) is introduced;
- A social security and health insurance cap will apply only if it is exceeded by all employees;
- “Payment from gross wages” will not be applicable to employees excluded from the Czech social security system;
- New discount for employees to cover employee lump sum expenses – CZK 3,000;
- Maximum tax base deduction of mortgage interest paid is reduced to CZK 80,000 CZK (2011: CZK 300,000);
- The maximum nontaxable amount for training, sport, health care, cultural, and other purposes provided as a benefit to employees and their family members is capped at CZK 10,000 (2011: uncapped except for company-sponsored holidays);
- Elimination of favorable tax treatment of meal vouchers (stravenky);
- Time limit to tax, social security, and health insurance audits is three years (with maximum possibility to assess in 10 years);
- Administration connected with social security and health insurance will be provided by the tax authorities according to the tax code;
- Tax, social security, and health insurance will have one form and will be paid by one payment; and
- Annual calculation of tax withholdings and tax advantages is due by 15 March (2011: 31 March).

Deloitte’s view

In view of the broad political and social discussion of the reform, it is not clear at the moment if the reform or its particular provisions will be approved as of 2013. It is very likely that the tax reform would be postponed to 2014. Talking about the current contents of the amendments and cancellation of the “super-gross” wage is welcomed. On the other hand, companies will only be able to benefit from the cap for the social security and health insurance if the average earnings of all of their employees exceed the cap, which might be rare. Practical implications of the unification of tax, social security, and health insurance payments are currently hardly predictable. We will keep you informed about the development of the reform.

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