

# Tax Flash

Tax Flash is an electronic newsletter prepared by PricewaterhouseCoopers Česká republika, s.r.o. to keep you up to date on the latest tax and legal news. A more complex look at key tax changes and their impact on your business is provided in our monthly newsletter, Tax & Business News.

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## Czech Republic

21 December 2012

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## Tax changes for 2013 signed by the President

The President has signed a package of the economic measures intended to keep the state budget deficit under three percent of GDP for the next three years.

### The proposed changes are as follows:

- **Introduction of the three-year “solidarity contribution” amounting to 7 %** of the tax base over the social security payment cap, (approximately CZK 103,000 a month).
  - The solidarity contribution applies only on employment income and self-employment tax base.
  - Individuals paying the 7% solidarity contribution will also have an **obligation to file a personal income tax return for 2013**. The standard filling deadline is 1 April 2014.
- **The limit for the payment of insurance premiums** for public health insurance, currently approximately CZK 1.8 million per year, **will be cancelled for three years**. The limit for the payment of social security, which amounts to CZK 1 242 432 for 2013, will be maintained.
- **The ability to fully benefit** from 30 and 40 percent flat-rate expenditure for self-employed persons and rental income **will only apply to those with an annual income that does not exceed CZK 2 million**.
- **All self-employed persons and persons with rental income claiming any flat rate expenditure will not be able to use some tax discounts**, e.g. for the wife/husband without their own income or child tax benefits. The limitation applies if the sum of partial tax bases where flat-rate expenditures were used is higher than 50 % of the total tax base.
- Pensioners will lose for three years the basic discount that every taxpayer is currently entitled to, i.e. maximum of CZK 24 840 per year.
- Withholding tax on income of foreign tax residents rises to 35 %. This rate will apply to income from sources in the territory of the Czech Republic, e.g. the interests and royalties that are paid to residents of countries with which the Czech Republic has not yet concluded a double tax treaty.
- **Real estate transfer tax** will permanently increase by one percentage point and from 2013 **will be 4 %**.
- **Increase in VAT rates** by one percentage point **to 15 % and 21 %**.

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## Tax changes for 2013

### Yearly comparison of changes in employment income

*“The proposed changes in personal income taxes for 2013 will not have any impact on employees with a monthly income below CZK 100k. As a result, increased taxation of income will be experienced by highly qualified employees, managers and other workers with high income. Not only will their net income decrease, but the cancellation of the cap on health insurance contributions will increase the cost of labour. The higher the income, the more significant the impact will be.”*

**Tomáš Hunal**, Senior Manager, Tax and Legal Services

If you are interested to discuss the impact of these changes on your company and employees, please do not hesitate to get in touch with Tomas Hunal, David Borkovec or your usual PwC contact.

<b>Model 1: Monthly gross income 105 000 CZK</b>	<b>2012</b>	<b>2013</b>	<b>Difference</b>
Gross annual income	1 260 000	1 260 000	0
Tax liability	226 410	228 990	<b>2 580</b>
Social security and health insurance - employee	135 127	137 458	<b>2 331</b>
Social security and health insurance - employer	415 044	424 008	<b>8 964</b>
<b>Net annual income</b>	<b>898 463</b>	<b>893 552</b>	<b>- 4 911</b>
<b>Employer's costs</b>	<b>1 675 044</b>	<b>1 684 008</b>	<b>8 964</b>

<b>Model 2: Monthly gross income 155 000 CZK</b>	<b>2012</b>	<b>2013</b>	<b>Difference</b>
Gross annual income	1 860 000	1 860 000	0
Tax liability	323 835	369 090	<b>45 255</b>
Social security and health insurance - employee	159 871	164 458	<b>4 587</b>
Social security and health insurance - employer	464 532	478 008	<b>13 476</b>
<b>Net annual income</b>	<b>1 376 294</b>	<b>1 326 452</b>	<b>- 49 842</b>
<b>Employer's costs</b>	<b>2 324 532</b>	<b>2 338 008</b>	<b>13 476</b>

<b>Model 3: Monthly gross income 200 000 CZK</b>	<b>2012</b>	<b>2013</b>	<b>Difference</b>
Gross annual income	2 400 000	2 400 000	0
Tax liability	404 835	495 180	<b>90 345</b>
Social security and health insurance - employee	159 871	188 758	<b>28 887</b>
Social security and health insurance - employer	464 532	526 608	<b>62 076</b>
<b>Net annual income</b>	<b>1 835 294</b>	<b>1 716 062</b>	<b>- 119 232</b>
<b>Employer's costs</b>	<b>2 864 532</b>	<b>2 926 608</b>	<b>62 076</b>