Global Watch

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Czech Republic

New package of tax measures announced in the Czech Republic

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In Brief

The Czech government announced a new package of measures for the years 2013-2015 aimed at keeping the state budget deficit below 3% of the gross domestic product.

The package focuses on the increase of individual income tax and health insurance contributions for both the employee and employer.

The measures will lead to significant cost increases, though from a low base, for employing assignees in the Czech Republic.

New measures

The main proposed changes to Czech personal taxation are:

• Introduction of a temporary "solidarity surcharge", an additional tax charge, amounting to 7% of the tax base over the limit for the payment of social security contributions, i.e. for income above approximately CZK 100,000 a month (approx. EUR 4,000).

• An increase of the flat personal income tax rate from 15% to 20%. Interest and dividend income will continue to be taxed at 15% and the "supergross" salary scheme will be cancelled from 2014.

• Cancellation of the cap for payment of Czech health insurance contributions.

Amendments proposed for 2013

• Introduction of a 7% "solidarity surcharge" for employment income and self-employment tax base higher than EUR 4,000 per month. The measure is intended to be temporary, lasting for 3 years.

• Cancellation of cap on Czech health insurance contributions for both employees and employers (previously approx. EUR 72,000 per year). The measure is intended to be temporary, lasting for 3 years.

• Withholding tax on income derived by foreign tax residents from the Czech Republic will rise from 15% to 35%. This rate will apply to income from sources in the territory of the Czech Republic, e.g. the profits and royalties that are gained by residents of countries with which the Czech Republic has not yet concluded a Double Tax Treaty Agreement.

• There are also proposals affecting self-employed persons and working pensioners that will lose some of their existing tax allowances.

Status: These amendments have been approved by the Government, but not yet discussed in the Parliament.

Amendments proposed for 2014

• Increase of personal income tax rate from 15% to 20%. Interest and dividend income will continue to be taxed at 15%.

• Cancellation of the "supergross" salary scheme and return to the gross salary payroll calculation (currently the income tax applies to a tax basis that includes Czech social security and health insurance paid by the employer). This means that the increased rate of 20% will apply to a lower taxable basis; however the overall effect is an increase of the tax charge and reduction of net income for the individual.

Status: These amendments have been discussed by the Government, but not approved yet; no legislative wording is available for the public at this stage.

Amendments proposed for 2015

• Increase of personal income tax rate from 15% to 19% (this will presumably change if the previous amendment is enforced).

• Cancellation of the "supergross" salary scheme and return to the gross salary payroll calculation (if not already implemented by the previous amendment).

• Increase of health insurance for employees by 2 percentage points to 6.5%.

• Cancellation of basic tax allowance for persons with income over EUR 4,000 per month.

• Introduction of a 32.4% "levy from the sum of salaries" which will replace the social security and health insurance contributions paid by the employer. The current combined rate is 34% but is applied to a lower taxable basis. The overall effect of the measure is an increase of employment costs for employers as the employer's cap will be calculated differently.

• Introduction of tax exemption from personal income tax for dividend and liquidation proceeds received from companies located in the Czech Republic, EU, Switzerland, Norway and Island. Tax exemption will apply only to dividends paid out of profits generated after the entry into force of this amendment.

• Extension of the holding period to avoid income tax on the sale of securities, from 6 months to 3 years.

Status: Already signed and announced amendments; effective from 2015. Government wants to bring forward effectiveness to 2014.

The Bottom Line

The changes in the Czech rates will mean an increase in the headline highest rate of income tax from 15% to 27% meaning that for an annual gross package of USD 300,000, the net employment income will effectively fall from USD 245,000 (in 2012) to USD 200,000 (in 2014).

In addition, the employer's cost on the same USD 300,000 annual gross salary will rise by 23% in 2014 as compared with year 2012. This will add additional costs of USD 74,000 on the same package.

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