Czech Republic: Reintroduction of progressive individual income tax rates and abolition of the flat income tax rate from 1 January 2021

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In brief

As of 1 January 2021, the Czech Republic is abandoning the concept of the super-gross salary as a unique way of determining the tax base. At the same time, this change is associated with the abolition of the flat tax rate, the abolition of the solidarity surcharge and the reintroduction of progressive taxation with a marginal rate of 23% for income over CZK 1.7m annually.

Furthermore, a special tax base with a rate of 15% is introduced for selected types of non-Czech investment income (e.g. dividends and interest from abroad).

The current full tax exemption for capital gains (after a three-year holding period for shares) has been retained in its original wording.

Social security and health insurance charges reflect no changes either.

In detail

Super-gross salary

Since 2008, the Czech Republic has used the concept of the so-called super-gross salary in determining the personal income tax base from employment income.

The tax base was determined as the sum of gross income plus the employer's compulsory social security and health insurance contributions. In practice, this meant that the tax base of employees participating in the Czech social security system was gross income increased by 33.8% (24.8% social insurance and 9% health insurance).

This concept was abolished as of 1 January 2021.

The tax base is now determined based on gross income only.

Progressive taxation

The solidarity surcharge of 7% for high income earners was abolished. It will be replaced by a return to progressive taxation with the introduction of a marginal rate of 23%.

- Gross income up to CZK1,701,168 (the threshold for 2021 approximately equals to USD77,000) will be subject to a 15% rate; and
- Gross income exceeding CZK1,701,168 will be subject to a rate of 23%

As the progressive tax rate will be applicable to all types of income, some passive income like capital gains or rental income (combined with employment income) may incur a higher tax burden.

However, for most individuals with employment income only, this change will lead to effective lower employment taxation.

Separate tax base

Another change effective as of 1 January 2021 is the introduction of a separate tax base for capital income from abroad.

Individuals will be able to include dividends and interest income from abroad in this separate tax base; and they will be subject to a 15% tax rate. However, tax allowances or tax-deductible items will not be applicable to reduce this tax base.

As progressive marginal rates of 23% apply to all types of income, the inclusion of selected foreign capital income in a separate tax base can ensure that they will remain subject only to a 15% tax rate.

The takeaway

The way of determining the Czech employment tax base is changing and will now be based only on gross income.

Taxation of employment income will be greatly simplified, especially for foreign employees who participate in the foreign social security system.

The basic tax rate remains at 15% and a marginal rate of 23% is introduced for income over CZK1,7m annually. This will lead to an effective tax reduction on employment income but may increase taxation on non-employment income.

For global assignees, the new tax rates will have to be considered when calculating gross-up costs.

Let’s talk

For a deeper discussion of how this impacts your business, please contact your Global Mobility Services engagement team or one of the following professionals:

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