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**Czech Republic – Bilateral
Social Security
Developments with India,
United States**

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flash Alert

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In this *Flash Alert* we describe two recent bilateral social security agreement developments that will affect cross-border employees and their companies doing business in the relevant countries: the Czech Republic and India, and the Czech Republic and the United States of America (USA).

Why This Matters

Bilateral social security agreements between the Czech Republic and other countries – like many similar agreements between two countries – generally help to ensure that workers will not pay double social security taxes if they are on international assignment working in the one country or the other. The agreement with India provides for the determination of a single country's social security legislation that is to be applicable to individuals working in the other country, thus helping to avoid double affiliation/contributions or the absence of coverage. This can help to mitigate the costs of international assignments between the Czech Republic and India.

The complementary agreement with the USA clarifies a discrepancy in the original bilateral agreement concerning payment of health insurance and Medicare contributions and the accumulation of participation periods, which has an impact on benefits eligibility and payment amounts. Furthermore, insurance periods completed in one country will be taken into account to determine the eligibility and the calculation of the pension in the other country. This also applies in the agreement between India and the Czech Republic.

Like with India in respect of a spectrum of social security taxes, the complementary agreement with the USA provides for coordination of benefit payments in respect of health insurance by the USA and the Czech Republic for individuals who have paid health insurance contributions and Medicare in each country during their careers.

Social Security Agreement with India Enters into Effect¹

A social security agreement between the Czech Republic and India together with the appropriate administrative agreement, regulating individual phases for the implementation of the agreement, became effective on 1 September 2014. The agreement only affects pension insurance and social security premiums; health insurance continues to be governed by local regulations applicable in each country.

The agreement determines the general rule according to which social security premiums are to be paid, that is, only in the state in which the work is performed. However, the contract also includes a special rule allowing employees seconded for work to the other contracting state for a period not exceeding five years to remain insured within the insurance scheme of their home state.

This must, however, be substantiated with a confirmation – generally obtained from the home state social security authority – acknowledging the jurisdiction of that particular state.

The agreement prevents the double payment of social security premiums by an employee and enables the accumulation of insurance periods (also known by the term "totalization") in both states for the purpose of the individual acquiring entitlement to his or her rightful pension.

Complementary Agreement on Social Security between the Czech Republic and the United States of America (USA)²

A complementary agreement amending the existing social security agreement between the Czech Republic and the USA (in effect since 1 January 2009) was recently submitted to the Czech parliament.

This complementary agreement aims to remove the duplication of health insurance payments made by U.S. citizens working at branches or subsidiaries of U.S. companies in the Czech Republic. These employees seconded to the Czech Republic must pay health insurance contributions despite the fact that they may continue to contribute to the U.S. social security system (which also includes Medicare).³ The existing social security agreement only covers social security and not health insurance on the Czech part since the Czech Republic has, in contrast to the USA, a separate health insurance scheme. Consequently, the principle of exempting U.S. citizens seconded to the Czech Republic from health insurance in the state in which work is performed (i.e., the Czech Republic) cannot be applied.

On the other hand, persons seconded from the Czech Republic to the USA are not obliged to pay social and health insurance (Medicare) contributions if they continue to contribute to the Czech insurance scheme.

Next Steps

The complementary agreement must be approved, on the Czech side, by parliament and ratified by the Czech president. The KPMG International member firm in the Czech Republic will endeavour to keep readers informed as to the date on which this agreement becomes effective and any further related developments.

Footnotes:

1 For the Czech-India agreement, *Smlouva mezi Českou republikou a Indickou republikou o sociálním zabezpečení*, see: <http://www.mpsv.cz/cs/11461> .

2 Please see (in Czech): <http://www.mpsv.cz/cs/16287> .

3 From the Czech stand-point, the health insurance and social security systems are completely separate systems. An individual may be subject to the Czech social security scheme, but may not be covered by the health insurance scheme. This is reflected also in the existing Czech-USA totalization agreement, which, on the Czech side, covers only social security and not health insurance. Because of this, U.S. employees working in the Czech Republic are subject to the Czech health system under the terms of domestic Czech legislation. Based on their participation in the Czech health insurance system, they qualify for public health care in the Czech Republic.

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The information contained in this newsletter was submitted by the KPMG International member firm in the Czech Republic. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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