



GMS Flash Alert



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Czech Republic - Extension of Social Security Agreement with the U.S.

On May 1, 2016, a protocol to the Social Security Totalization Agreement between the Czech Republic (C.R.) and the United States (U.S.) became effective that extended the Agreement to cover Czech national health insurance.¹ This eliminates the potential for double tax for workers from the U.S. assigned to work in the C.R., who might previously have been subject to both U.S. and C.R. health insurance taxes. (For prior coverage, see [GMS Flash Alert 2015-008](#), 22 January 2015.)

WHY THIS MATTERS

Due to the different scope of the social security schemes in the C.R. and the U.S., before May 1, 2016, the Social Security Totalization Agreement between the two countries did not cover the Czech health insurance scheme, whereas the U.S. health insurance (Medicare) tax was covered. As a result, assignees from the U.S. to the C.R. were liable for health insurance contributions in both U.S. and the C.R. even though they had a Certificate of Coverage issued by the U.S. Social Security Administration that made them exempt from C.R. social security tax. This change eliminates this potential for double tax.

What It Means for Employers and Employees

If a U.S. assignee to the C.R. remains subject to the U.S. social security tax ("FICA") during his assignment in the C.R., and provides a Certificate of Coverage from the U.S. Social Security Administration to Czech authorities, the assignee and his employer are not obliged to pay either social security or, beginning May 1, 2016, health insurance contributions in the Czech Republic. It's important to note that this means that such U.S. assignees will not be covered by the Czech public health insurance and thus should arrange for commercial health insurance for the purpose of obtaining a visa for their stay in the Czech Republic. Under such circumstances U.S. assignees are obliged to return their previously-issued Czech health insurance cards.

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Certificates of Coverage issued for assignments starting before May 1, 2016, remain valid and their coverage is automatically extended to Czech national health insurance. Thus, it is not necessary to apply for a new Certificate of Coverage as of May 1, 2016, in connection with this change.

KPMG NOTE

Depending on the structure of their assignment, other mobile employees and their employers, as well as entrepreneurs working in the territory of the other party to the agreement, should contact their tax advisers to assess whether the extension of the treaty means any new responsibilities for them as regards health insurance payments.

FOOTNOTE:

1 For the text (in English and Czech), see: <https://www.state.gov/documents/organization/258267.pdf> .

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