GMS Flash Alert

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Czech Republic - Cancellation of Plans to Reform Taxation of Individuals

The Ministry of Finance of the Czech Republic has announced that previously-planned changes to the taxation of individuals **will not be** introduced and have been removed from the proposed amendment of the Income Tax Act. The proposed changes were reported in GMS *Flash Alert* 2018-050, which were to become effective as of 1 January 2019.[1] Highlights of the changes we discussed in that 15 March 2018 newsletter were:

- abolition of the 15-percent flat rate and the 7-percent solidarity tax.
- elimination of the currently valid calculation of personal income tax on super-gross salary.
- introduction of a progressive tax rate of 19 percent for income of up to CZK 1.5million and 24 percent (may be 23 percent) for income above this amount.

According to the Ministry of Finance, these changes may be implemented in the future – in an entirely new Income Tax Act (expected to be effective from 2020).

WHY THIS MATTERS

Removal of the proposed changes should not have a significant impact on the taxation of employees and self-employed individuals as the effective tax burden remains similar to what it has been and is expected to be. The retraction of the proposed changes, in fact, may be positive for individuals with capital gain and rental income.

Global mobility program managers who may have been basing decisions on assignments to or from the Czech Republic in light of the previously-planned changes, will need to revise their plans given recent developments.

Further Details

The currently valid flat 15-percent income tax rate applicable on a super-gross salary (super-gross salary is defined as gross salary increased by 34 percent which represents either actual or hypothetical employer's portion of social security contributions) therefore will be effective also in 2019.

Moreover, the planned change concerning the 7-percent solidarity tax will now not take place – this tax applies to the sum of employment income and self-employment income exceeding the annual cap for social security contributions (CZK 1,438,992 in 2018).

The flat 15-percent income tax rate applicable on other type of income, e.g., capital gain or rental income, shall remain in force also in 2019.

FOOTNOTE:

1 To see (in Czech) *Návrh zákona, kterým se mění některé zákony v oblasti daní od roku 2019*, click here.

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CZK 1 = EUR 0.04
CZK 1 = GBP 0.034
CZK 1 = USD 0.045

Check out our latest GMS video: "Global Mobility and FICA: Calculating U.S. Social Security Benefits for Assignees"

Frequently, international assignees have questions about how taking an assignment may affect their social security contributions and entitlement to future benefits.

In the new video, "Global Mobility and FICA: Calculating U.S. Social Security Benefits for Assignees" (app. 6-1/2 minutes), from KPMG LLP's Global Mobility Services practice, Bob Rothery and John Seery of KPMG's Washington National Tax practice, discuss in general terms how social security benefits are calculated, with some numerical examples to illustrate the impact of assignments of various lengths, at various points in a person's career.

Contact us

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