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GMS Flash Alert

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Czech Republic - Changes in Super-Gross Salary Calculation

Beginning 1 January 2019, the calculation of tax base known as the "super-gross salary" for employees who are subject to the obligatory social security contributions in other European Union (EU) member states, European Economic Area (EEA) states, or Switzerland will be changed, according to a recent amendment of the Czech Income Tax Act, effective 1 January 2019.[1]

WHY THIS MATTERS

The new amendment would have a significant effect on employers whose employees are subject to social security schemes in EU member countries, EEA countries, or Switzerland, because of the different applicable social security rates. This is particularly relevant to employees seconded to or from EU member countries, EEA countries or Switzerland.

Calculating the super-gross salary will be more administratively demanding for employers starting 1 January 2019, as they will be obliged to distinguish between certain categories of employees -- insured in EU or EEA or Switzerland versus other employees – in order to calculate the tax base correctly. The employers should re-determine the actual foreign employer's portion of social security contributions paid and update the payroll software they use accordingly.

Additional Details

Through 2018, the tax base for all employees is defined as gross salary increased by 34% (or 9% if the annual cap for social insurance contributions is reached), which represents either Czech actual or hypothetical employer's portion of social and health insurance contributions.

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The calculation of the super-gross salary of the employees who are subject to an obligatory foreign social security scheme in other EU member states, EEA states, or Switzerland will be changed beginning 1 January 2019. Instead of increasing employees' gross income by 34% (or 9% if the annual cap for social insurance contributions is reached), their gross salary will be increased by the actual foreign obligatory social security contributions paid by the employer in the other EU member countries, EEA states, or Switzerland.

KPMG NOTE

The 15% flat rate applies to the super-gross salary. This change may have both positive and negative impacts on the tax burden of these employees, which may have knock-on effects on employers' costs and policies.

There will be no change to employees who are subject to obligatory social security schemes in the Czech Republic or outside of the EU, EEA, or Switzerland.

FOOTNOTE:

1 See: (In Czech): http://public.psp.cz/en/sqw/historie.sqw?o=8&T=80.

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Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in the Czech Republic:

Iva Krakorova
Tax Manager
Tel. + 421 222 123 837
ikrakorova@kpmg.cz

Maria Marhefkova
Tax consultant
Tel. + 421 222 123 498
mmarhefkova@kpmg.cz

The information contained in this newsletter was submitted by the KPMG International member firm in the Czech Republic.

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