# GMS Flash Alert


2021-036 | January 22, 2021

# Czech Republic – What's New for Employers and Employees in 2021?

Starting 1 January 2021, a number of important legislative changes have come into effect that have an impact on employees and employers in the Czech Republic. Just before Christmas, the Czech parliament finally passed the long-promised amendment of the Income Tax Act[1] which abolished super-gross salary taxation and the solidarity tax surcharge, and introduced new progressive taxation of individuals (for prior coverage, see GMS *Flash Alert* 2020-408, 24 December 2020). Also of note are changes to the minimum wage and the effects on the tax bonus for households with children and the health insurance premium, mandatory sickness insurance premiums, and the tax treatment of employer payments for employees' meal allowances.

## WHY THIS MATTERS

The most crucial changes undoubtedly are the abolition of the super-gross salary[2] and the solidarity tax surcharge, and the introduction of progressive taxation using two rates, 15 percent and 23 percent – the second rate applicable to income exceeding the set threshold.

The approved changes would have a positive effect on almost all employees as their monthly gross income from employment up to CZK 140,000 would be taxed at 15 percent rather than at the present 20 percent (income from employment above this limit will be effectively subject to the same tax burden as now). On the other hand, tax would increase for individuals who have income other than from employment or independent gainful activity (e.g., rental income, income from the sale of movable or immovable assets) and whose total income exceeds 48 times the average wage. Such types of income above this level will be taxed at 23 percent, rather than 15 percent as was the case up to the end of 2020.

## Key Changes

**Employee's income subject to income tax** – From 1 January 2021 on, only employees' gross income will be subject to income tax. Apart from a 15-percent income tax rate, the amendment introduces another rate of 23 percent that should be applied to income above 48 times the average wage.  When recalculated to annual income, the second rate will apply to income exceeding CZK 1,701,168 in 2021 (i.e., monthly income of more than CZK 141,764 in 2021).  Employers should first apply this procedure when preparing their payrolls for January 2021.

**Taxation of remuneration of member of a corporation's governing body considered to be a Czech tax non-resident** – As a result of the abolition of the super-gross wage, the gross amount of remuneration for exercising the office of member of a corporation's body (*člen orgánu právnických osob*) considered to be a Czech tax nonresident will be taxed via a 15-percent withholding tax applied to the gross remuneration irrespective of its amount.

**Tax return filing for those subject to solidarity tax surcharge** – Employees who were obligated to file income tax returns solely because their annual income from dependent activity was subject to the solidarity tax surcharge will be relieved from this requirement effective with the 2021 taxable period.  These employees will be able to ask their employers to prepare their annual settlements of tax on wages in a standard manner similar to other employees.

**Basic tax relief** – The basic tax relief per taxpayer will increase in 2021 to CZK 2,320 a month (CZK 27,840 a year).

**Base for social insurance purposes** – The maximum assessment base for social insurance purposes will be CZK 1,701,168 in 2021.  As previously, health insurance premiums will be applied to all income generated by an employee without any maximum assessment base.

**Minimum wage increase and effects** – From 1 January 2021, the minimum wage will increase from CZK 14,600 to CZK 15,200[3], which will affect the following amounts:

- The minimum monthly health insurance premium calculated from the minimum assessment base, or the minimum wage, will be CZK 2,052;
- The tax credit for placing a child in pre-school will increase to CZK 15,200 for each maintained child;
- Entitlement to the payment of a tax bonus per child for 2021 will arise after generating income from dependent and business activity up to six times the minimum wage, i.e., CZK 91,200 a year (CZK 7,600 a month). Moreover, the maximum tax bonus amount has been canceled.

**Income threshold for mandatory sickness insurance premiums** – The employee's income threshold for mandatory sickness insurance premiums[4] will increase to CZK 3,500 a month.  Consequently, income up to this limit from an agreement to perform work will not be subject to social and health insurance, but will be subject to withholding tax, as in the case of agreements to complete a job where the limit of CZK 10,000 remains in effect, unless the employee signs a taxpayer declaration, known as "Růžový formulář,"[5] with the employer.

**Employers' contributions to meal allowances for employees** – According to the newly-passed amendment of the Income Tax Act,[6] employers may contribute to their employees' meal allowances also in monetary form: on the employee's part, a monetary contribution will be treated as income exempt from both tax and mandatory premiums up to 70 percent of the meal allowance amount as set by the Labour Code for business trips lasting 5 to 12 hours.  On the employer's part, this will be a tax-deductible expense with no limitation.

**Reporting of certain tax-exempt income** – The limit for reporting tax-exempt income or income that is not subject to tax in the Czech Republic under a double taxation treaty will increase to CZK 300,000 a month per each nonresident. Under the amendment, the taxpayer will only have to report income not subject to tax once a year, always by 31 January of the following year.

## FOOTNOTES:

1 Act No. 609/2020 Coll. https://www.sbirka.cz/POSL4TYD/20-2460.htm (in Czech).

2 The super-gross salary was introduced in the Czech Republic in 2008. Under this concept, the employment income tax base was determined as the employee's gross salary increased by social security and health insurance contributions paid by the employer. An employee's income tax base was thus artificially increased which resulted in higher effective taxation at 20.1 percent, despite the income tax rate being 15 percent.

3 Government regulation No. 487/2020 on increase of minimum wage https://www.zakonyprolidi.cz/cs/2020-487 .

4 Notification of Ministry of Labour and Social Affairs of the Czech Republic No. 436/2020 Coll. https://www.zakonyprolidi.cz/cs/2020-436 .

5 This is a special form, which should be signed with the employer if the employee wants to apply for the monthly deduction of tax credits. It is generally known also as "Pink form (Růžový formulář in Czech). The taxpayer signs such a form, the employer withholds a wage tax prepayment and can deduct the monthly tax credit for the taxpayer or the monthly child allowance. If such form is not signed, the withholding tax will be withheld by the employer without the possibility of deducting tax credits. Then, tax credits can be claimed after the year end through the tax return. See the form at: https://www.financnisprava.cz/assets/tiskopisy/5457_26.pdf?202101191711 (in Czech).

6 Act No. 609/2020 Coll. https://www.sbirka.cz/POSL4TYD/20-2460.htm (in Czech).

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[CZK 1 = =EUR 0.0383 | CZK 1 = USD 0.0466 | CZK 1 = RUB 3.51 | CZK 1 = GBP 0.034]

**Contact us**

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