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GMS Flash Alert

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Czech Republic – Proposals Would Adjust Income Tax Bracket, Limit Deductions, Exemptions

The Czech government at the beginning of May announced several proposed direct and indirect tax changes for individuals and corporations, which are expected to apply beginning 1 January 2024.[1] In this *GMS Flash Alert*, we focus on the measures impacting employees and their employers.

WHY THIS MATTERS

The government faces a long-term deficit in the state budget. This has led to the introduction of tax legislation changes and cutting of public expenses. The lowering of the taxpayers' income tax rate threshold for the 23-percent rate and the elimination of certain deductions, exemptions, as well as the reintroduction of employees' sickness insurance, will affect not just Czech employees and employers, but will increase the costs for the international assignments to the Czech Republic as well.

However, the proposals are at an early stage, and it is unclear what will emerge in the form of approved legislation.

The specific impact of the measures, if enacted, will depend on each taxpayer's particular set of circumstances.

Individual (Personal) Income Tax

- **Extension of progression**: The threshold for applying the 23-percent tax rate would be reduced from four times to three times the average wage (on a monthly basis). At the current average wage level, this means that the annual tax base of up to approximately CZK 1,450,000 will be taxed at a 15-percent tax rate, and the part of the tax base exceeding this value will be taxed at a rate of 23 percent (the current threshold from which the higher rate applies is approximately CZK 1,935,000).

- **Elimination of exemptions for non-monetary benefits (or "in-kind" benefits)**: Elimination of the exemption of non-monetary benefits provided by employers to employees and/or their family members would also mean that these non-monetary benefits would now be taxed in the same way as wages and therefore also subject to social security and health insurance. This regime should also apply to "above-limit" meal vouchers.

- **Elimination of certain deductions and tax credits**:
    - Contributions to trade unions;
    - Payments for examinations verifying the results of further education;
    - Spousal tax deduction will be limited only to a spouse meeting specific criteria
    - Tax deduction for a student;
    - Tax deduction for the placement of a child in a pre-school institution.
- **Restrictions/Cap on exemptions for sales of securities and shares**: If the established time test for the sale of securities (three years) or shares in companies (five years) is met, only income up to CZK 40 million per taxpayer would be tax exempt.
- **Sweepstakes and gambling**: The limit for exempting income from sweepstakes and gambling would be reduced from the current CZK 1 million to CZK 50,000.

Social Security

Employees

The government's recovery package reintroduces sickness insurance paid by the employee at the rate of 0.6 percent of the monthly assessment base (gross wages). Currently, sickness insurance is paid only by the employer. As of January 2024, the total social security contributions for the employee would thus increase to 7.1 percent (instead of 6.5 percent).

At the same time, the government would establish two limits for the participation of employees in the sickness insurance scheme who work on the basis of an agreement on work performance or several agreements on work performance, namely:

- the first limit will be set for all agreements on the performance of work with one employer at 25 percent of the average wage (i.e., currently about CZK 10,080);
- the second limit (higher) will be set for participation in the insurance when several work performance agreements with several employers coincide, at the rate of 40 percent of the average wage.

Once this limit is exceeded, the employer will have to pay social security insurance on behalf of the employee working under a work performance agreement. The same limits should also apply to health insurance contributions, as the obligation to contribute for this employee is linked to participation in the sickness insurance scheme.

Self-employed Persons

It is proposed to gradually increase the minimum assessment base for social insurance contributions for self-employed workers from the current 25 percent of the average wage to 40 percent of the average wage. All self-employed persons will be affected by an increase in the percentage threshold of the tax base for calculating social security contributions from the current 50 percent to 55 percent of the tax base.

KPMG INSIGHTS

Legislative language for the proposals must be published, which would begin the comment process. The proposals likely will be discussed in the chamber of deputies in June. In view of the public debate, it can be expected that the proposals will be amended.

When these measures are on the cusp of being enacted, companies with individuals assigned to/from the Czech Republic will need to take into account the above-mentioned changes in their international assignment budgeting, and they also should consider communicating accordingly with affected individuals, as well as with key stakeholders, so that they can properly plan, budget, and make necessary adjustments.

If employers and / or their mobile employees have concerns about how the proposed measures could impact them, they should consult with their qualified tax professional or a member of the Global Mobility Services team with KPMG in the Czech Republic (see the Contacts section).

FOOTNOTE:

1 For the Ministry of Finance 11 May 2023 press release (in Czech) "Vláda představila Ozdravný balíček za bezmála 150 miliard," see: https://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2023/vlada-predstavila-ozdravny-balicek-za-be-51211/ and ODok Portál - VeKLEP - Návrh zákona o konsolidaci veřejných rozpočtů .

CZK 1 = EUR 0.042
CZK 1 = USD 0.045
CZK 1 = GBP 0.037
CZK 1 = CHF 0.041

Source: www.xe.com

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RELATED RESOURCE:

This article is excerpted from "Radical changes to taxes and insurance contributions on the way: "What will the government's consolidation package bring?" published by the KPMG International member firm in the Czech Republic.

Contact us

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