KPMG

GMS Flash Alert

2023-227 | November 30, 2023

Czech Republic – Wide-Ranging Personal Income Tax Changes

The president of the Czech Republic, following approval by the Czech Senate[1] of the so-called government consolidation package, signed new legislation into law which affects personal income tax and social security. Most of the provisions are expected to come into effect on 1 January 2024.

WHY THIS MATTERS

The government has been under pressure to address imbalances in its finances. This has led to amending tax legislation and cutting of public expenditures.

The lowering of the threshold for the 23-percent income tax rate bracket and the elimination of certain deductions, exemptions, and other reliefs, as well as the reintroduction of employees' sickness insurance will affect employees and employers in the Czech Republic.

In most instances, it is expected that employees (including international assignees) subject to Czech tax law will experience heavier taxation, which, in the case of assignees "touching" the Czech Republic, could mean an increase in the cost of assignments for employers. This will have repercussions for tax-equalised assignees.

Individual (Personal) Income Tax

Extension of progression: A higher tax rate of 23 percent is applied currently to income that is equal to or more than 48 times the average wage set by the Sickness Insurance Act.[2] The current threshold at which the higher rate applies is CZK 1,935,552. However, for 2024, the threshold will be lower, at CZK 1,582,812 per year (CZK 131,901 per month) as the higher tax rate of 23 percent will apply to income equal to or more than 36 times the average wage.

- **Limit for exemptions of non-monetary benefits (or "in-kind" benefits)**:
    - A limit on the exemption of non-financial (leisure-time) benefits amounting to half of the average wage will be introduced. In 2024, the exemption will be set at benefits provided up to CZK 21,983 per year. The new limit will only apply to benefits provided by the employer *after* the amendment's effective date. The non-monetary benefits provided to the employee or to the employee's family members over the limit, from 2024, will be taxed in the same way as wages and, therefore, also subject to social security and health insurance.
    - The exemption for managers' accommodations will be abolished.
    - The limit for the exemption for monetary meal allowances will also apply to meals provided in non-cash form.
    - The exemption for benefits provided from the cultural and social fund will be abolished.
- **Abolition of certain items deductible from the tax base and tax credits/reliefs**:
    - A tax credit for taxpayers who are students and the tax credit for placing a child into pre-school facilities will be abolished. The tax credit allowed for spouses will be conditional on the spouse caring for a child under three years of age.
    - The reduction of the taxpayer's tax base allowed for payments for exams verifying the results of further education and the reduction of the tax base allowed for payments of membership fees to trade unions will be cancelled.
- **Restrictions/Cap on exemptions for sales of securities and shares**: If the existing 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 will be tax exempt with **effect from 1 January 2025**. Special rules will be stipulated for determining the acquisition costs of securities and shares acquired before 31 December 2024.
- **Limit for exemption of other income:** An annual limit of CZK 50,000 for the exemption of other income will be introduced. The limit will apply only to specified types of income.
- **Decrease in non-cash benefit of employees using business cars for private purposes:** When using zero-emission vehicles for private and business purposes, 0.25 percent (currently 0.5 percent) of the purchase price including VAT will be included in the employee's salary as non-cash income.

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.[3] As of January 2024, the total social security contributions for the employee would thus increase to 7.1 percent (instead of 6.5 percent).

Self-employed Persons

The minimum assessment base for social security contributions of self-employed persons will be increased from the current 25 percent of the average wage to 40 percent of the average wage. At the same time, the percentage of the tax base for the calculation of insurance contributions will also be increased from the current 50 percent to 55 percent of the tax base.

KPMG INSIGHTS

The government faces a long-term deficit in the state budget. This consolidation package was designed to help address this situation. It has been signed by President Pavel and is due to be published in the Collection of Laws (*Sbírka zákonů*) and come into effect as of 1 January 2024.

When these measures are 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.

The consolidation package introduces several important changes to the tax and social security systems. If employers and/or their mobile employees have concerns about how the measures could impact them, they should consult with their qualified tax professional or a member of the Global Mobility Services / People Services team with KPMG in the Czech Republic (see the Contact Us section).

FOOTNOTES:

1 The consolidation package approved by Senate: *Senát, Čtrnácté funkční období 2022-2024. Senátní tisk č. 161. "Návrh zákona, kterým se mění některé zákony v souvislosti s konsolidací veřejných rozpočtů"* at: https://www.senat.cz/xqw/xervlet/pssenat/historie?ke_dni=15.11.2023&O=14&action=detail&value=5171 .

2 For more information on the income tax rates and thresholds, see section 2 of *Taxation of International Executives: the Czech Republic*, a publication of KPMG International.

3 For more information on the social security system, see section 4 of *Taxation of International Executives: the Czech Republic*, a publication of KPMG International.

* * *

CZK 1 = EUR 0.041
CZK 1 = USD 0.0449
CZK 1 = GBP 0.0355
CZK 1 = CHF 0.039

Source: www.xe.com

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:

Lenka Novakova
Tel. + 420 222 123 364
lnovakova@kpmg.cz

Iva Krakorova
Tel. + 420 222 123 837
ikrakorova@kpmg.cz

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

www.kpmg.com

kpmg.com/socialmedia

GMS Flash Alert is a publication of the KPMG LLP Washington National Tax practice.