KPMG

# GMS Flash Alert


2024-031 | February 1, 2024

# Czech Republic - Changes in Employee Income Taxation in 2024

This *GMS Flash Alert* describes some of the significant changes by virtue of the recently approved amendment in respect of the income tax law[1], social security legislation[2], and the Labour Code[3] in the Czech Republic, that affect the way employees' incomes are taxed from 1 January 2024.

## WHY THIS MATTERS

The recent amendments to the income tax law[1] and related employment legislation in the Czech Republic have profound implications for the tax treatment of employees' income.

The lowering of the income threshold for the progressive tax rate affects higher-income individuals, potentially leading to increased tax liabilities.  Changes in the taxation of leisure-related benefits-in-kind and the unified treatment of meal allowances may impact compensation structures and employee decisions.  Discontinuation of certain tax credits and deductions alters the landscape of incentives and could impact the decisions taxpayers make in several areas (e.g., union membership, child-care, and education).

Major changes have been introduced to the taxation of various employees' share/option plans.

Beyond tax rates, these changes may prompt a re-evaluation of compensation structures, benefits, and tax planning strategies for individuals – including international assignees subject to Czech tax law – and businesses in the Czech Republic.

## More Details

Many of these changes were first discussed in *GMS Flash Alert* 2023-227, 30 November 2023.

### Tax Rate

The income threshold for applying the **23-percent tax rate** has been reduced to 36 times the average wage on an annual basis (CZK 1,582,812) and three times the average wage on a monthly basis (CZK 131,901). A 15-percent rate will continue to apply to income below this threshold.

### Tax Exemption of Leisure-Related Benefits

Non-financial benefits provided to employees for their leisure activities (e.g., culture, sports, medical devices, books) are now exempt only up to half of the average annual wage, which **is CZK 21,983.50** for 2024. Non-financial benefits above this limit are subject to tax and insurance contributions.

This limit does not apply to the non-financial income of employees and their family members from participation in an occasional sporting or cultural event organised by the employer if, given the nature of the event, it is customary for the employer to organise such events, and that its form and scope are appropriate.

The General Financial Directorate has issued its "Methodological Guidance on the Taxation of Benefits and Other Types of Performance Provided by Employers to Employees from 1 January 2024".[4] This is an extensive and complex document for taxpayers that in practice may raise further questions.

### Meal Allowances for Employees

For employees, the tax treatment of meal allowances provided both in financial and non-financial forms has been unified: both forms are equally exempt from tax in aggregate up to 70 percent of the upper limit of the meal allowance that can be granted to employees for domestic business trips lasting between five and 12 hours. For 2024, an allowance of **CZK 116.20** is thus exempt from tax. The exemption is conditional on the employee having worked at least three hours per shift, or at least three hours per calendar day for employees without set shifts (e.g., members of corporate bodies), and, simultaneously, no entitlement to a meal allowance having arisen to the employee as part of the travel allowance during his/her business trip. However, the employee shall be entitled to an additional tax-exempt allowance (in the same amount) if his/her shift including breaks (in accordance with the Labour Code) exceeds 11 hours in total (11 hours per calendar day for employees without set shifts).

According to the interpretation of the law, minor refreshments provided to employees for consumption at the workplace shall not be included in the limit for tax-exempt allowances.

### Tax Credits and Items Deductible from the Tax Base

Individuals will no longer be able to claim in their 2024 Czech personal income tax returns or year-end settlements:

- membership fees paid to trade unions and fees paid for exams verifying the results of further education as items deductible from the tax base;

- a tax credit for placing a child into pre-school facilities;

- a tax credit for being a student (which can also no longer be claimed within the monthly payroll).

The tax credit for a dependent spouse will only be available from 2024 if the spouse has an income of up to **CZK 68,000** per year and is also caring for a child under the age of three living in a jointly-managed household.

### Vehicles Provided for Employee's Business and Private Use

An employee's taxable income is reduced where the employee is provided with an emission-free company vehicle for business and private purposes. The monthly taxable income is therefore determined as follows:

- 1% of the input cost of a vehicle;
- 0.5% of the input cost of a low-emission vehicle;
- 0.25% of the input cost of a zero-emission vehicle.

### Lump-Sum Compensation for Remote Work

The tax-exempt lump-sum compensation of expenses related to remote work (home office) which employers can provide in accordance with the Labour Code will be reduced from CZK 4.60 to **CZK 4.50** per hour from January 2024.

### Increase in the Maximum Annual Assessment Base

Unlike the reduction of the income threshold for applying the progressive tax rate, the maximum assessment base for social security contributions remains at 48 times the average wage, i.e., **CZK 2,110,416** for 2024. Above this income, no social security contributions are payable by employees and employers.

### Minimum Wage Increase

From January 2024, the minimum wage has increased from CZK 17,300 to **CZK 18,900**. Consequently, the minimum monthly assessment base for the payment of health insurance contributions for employees and the income threshold for the entitlement to a tax bonus for a child have also increased. The minimum guaranteed hourly wage has been increased to CZK 112.50.

### Introduction of Employee Contribution to Sickness Insurance

Employees now contribute 0.6 percent of their assessment base to the sickness insurance scheme, resulting in an increase in their total social security and health insurance contributions from 11 percent to **11.6 percent.**

### Employer and Employee Contributions to Private Insurance Products

Employers and individuals may contribute to two new tax-efficient insurance products – a long-term investment product and long-term care insurance.

If the conditions of the law are met, contributions to the following schemes will be tax-efficient:

- supplementary pension insurance with state contribution, additional pension savings and pension;
- insurance;
- private life insurance;
- long-term investment product;
- long-term care insurance.

On the employee's part, the total of the employer's contributions to all products not exceeding CZK 50,000 per year remains exempt from tax. Contributions paid during the year by individuals for specified products can be claimed in their Czech personal income tax return or year-end tax settlement in the total amount of **CZK 48,000** per year.

## KPMG INSIGHTS

The new rules are intended to raise additional revenues for the state treasury of the Czech Republic. 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).

### Change in Taxable Moment for Employees' Share/Option Plans

The new rules apply to income flowing to employees from the acquisition of an interest/share or a transferable option in a business corporation that is their employer or its parent, subsidiary, or affiliated corporation. (For prior coverage, see *GMS Flash Alert* 2023-229, 1 December 2023.) Starting from 1 January 2024, such income will be taxed at the time when:

- the employee ceases to carry out employment for the employer, its parent, subsidiary, or capital-related person or its legal successor;
- the employer enters into liquidation;
- the employee or employer ceases to be a Czech tax resident;
- the share or option is transferred;
- the option is exercised;
- a share exchange occurs in which the total nominal value of the employee's shares changes; no later than 10 years after the acquisition of the share or option.

Employees are now required to inform their employers of the transfer of a share or an option before the end of the calendar month in which the transfer took place so that employers can make relevant monthly payments.

According to information from the Ministry of Finance, the term 'employer' includes not only legal but also economic employers within the meaning of the *Income Tax Act*. Thus, for foreign employees assigned to work in the Czech Republic for a Czech economic employer, the point of time of taxation of income from employee stock/option plans may occur, e.g., upon the termination of their assignment.

## KPMG INSIGHTS

While the taxable moment has mostly been shifted to the future (postponed), the change has not been reflected in Czech insurance laws, and the payments of social security and health insurance contributions remain regulated in the old way (e.g., when shares are allocated to an employee) which **results in a discrepancy between the time of taxation and the time when the duty to pay the contributions arises**.

The changes in the relevant social security and health insurance laws should be adopted within the next few months.

Employers that have implemented or are considering implementing employee share or stock option plans may wish to re-evaluate their plans in light of the new legislation.  While the new legislation helps some employees by allowing them to defer taxation of their employment income realised from share or stock option plans, there are still many unclear issues, namely for cross-border employees.

## FOOTNOTES:

1  Act of the Czech National Council on Income Taxes No. 586/1992 Coll. at: 586/1992 Sb. Zákon o daních z příjmů (zakonyprolidi.cz)

2  Act on Social Security Premiums No. 589/1992 Coll. at - 589/1992 Sb. Zákon o pojistném na sociální zabezpečení a příspěvku na státní politiku zaměstnanosti (zakonyprolidi.cz)

3  Labour Code No. 262/2006 Coll. at - 262/2006 Sb. Zákoník práce (zakonyprolidi.cz)

4  Methodological guidance of the General Financial Directorate (in Czech) at: Metodicka-informace-k-zamestnaneckym-benefitum-od-1-ledna-20.pdf (financnisprava.cz)

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CZK 1 = EUR 0.040
CZK 1 = USD 0.0437
CZK 1 = GBP 0.034
CZK 1 = CHF 0.0375

*Source*: www.xe.com

**Contact us**

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