

GMS Flash Alert

2024-070 | March 25, 2024

Czech Republic – Technical Amendment Currently under Review in Parliament

As part of the second reading of an amendment to the Czech Republic's "Act on Investment Companies (Print 570),"¹ coalition deputies have submitted proposals to amend the "Income Tax Act"² and other laws amended at the end of 2023 by virtue of the consolidation package,³ and to amend rules governing financial market development and old age financial support.⁴

The amendment is needed to clarify some of the inaccuracies contained in the "Income Tax Act" effective from 1 January 2024, the "Social Security Act,"⁵ and the "Health Insurance Act"⁶ effective from 1 July 2024, due to the aforementioned consolidation package and the amendments that occurred in the area of financial market development and old-age financial support. Many of these changes were discussed in the following issues of *GMS Flash Alert*: [2024-031](#) (1 February 2024), [2023-229](#) (1 December 2023), and [2023-227](#) (30 November 2023).

In this *GMS Flash Alert* we discuss "fringe benefits" such as employer-provided events, expenses tied to child-care facilities, meals provided at the workplace, and insurance premium matters.

WHY THIS MATTERS

The amendments concern modifying the tax treatment of certain employer-provided benefits and clarifying and rationalising the income tax and insurance premium rules that apply to employee stock options and additional work activities – and the income arising therefrom – outside of one's normal employment.

While these amendments are not yet law, companies with individuals assigned to/from the Czech Republic should start familiarising themselves with the changes and consider how they could impact the benefits concerned and the tax liability for both the company and the employee. Companies will need to take into account the noted changes with respect to their international assignment budgeting. They also should consider how to most suitably communicate accordingly with affected individuals, as well as with key stakeholders, so that they can properly plan, budget, and make necessary adjustments.

More Details

Events Organised by Employers

The proposal clarifies the scope of tax-exempt cultural and sporting events organised by the employer for employees or family members of employees. It redefines them as “social events” organised by the employer, and includes those with a cultural or sporting element. The proposal confirms the interpretation that these events may include Christmas parties, company anniversary parties, and St. Nicholas Day parties, etc. The proposal also highlights that the employees’ income from these events should be in non-financial form. The conditions that the events must be ordinary and reasonable in scope and form, for a limited number of participants, and that related expenses are not tax deductible for the employer continue to apply.

Determining the Amount of Non-Financial Income Related to Child-Care Facilities

The draft amendment provides for a special method to determine the amount of non-financial income of an employee using child-care facilities (including kindergartens). The employee's income will be either the price commonly charged at the place and time for a pre-school facility established by a public entity (e.g., a state, region, or municipality) or the highest monthly payment for pre-school education according to the Decree on Pre-School Education, i.e., a maximum of **8 percent of the minimum monthly wage** applicable in a given month (**CZK 1,512** for 2024). The measurement method shall be chosen by the employer for each employee’s child separately. It is also necessary to consider the period during which the child uses the pre-school facility in a given month. The employee's non-financial income will then be the difference between the amount determined as described above and any payment made by the employee to the employer. The proposed regulation should apply retroactively from 1 January 2024.

Meals for Former Employees and Meal Allowances for Business Trips

The amendment proposes to expand the range of employees for whom the employer will be able to exempt from tax the non-financial benefits represented by meals provided for direct consumption at the workplace or for direct consumption at a catering facility operated by another entity. This will also apply to employees having worked for the employer immediately before retiring on an old-age pension or a “third-degree invalidity” pension. Thus, these former employees will not be required to have worked at least three hours per shift/calendar day to qualify for the exemption. In aggregate, also, former employees will qualify for the tax-exempt meal allowance **up to an amount equal to 70 percent of the upper limit of the meal allowance** that is provided to employees receiving salaries on a domestic business trip of 5-12 hours (i.e., **CZK 116.20** for 2024). The exemption will be applicable to income provided as early as 1 January 2024.

This change does not affect monetary meal allowances or multi-purpose meal vouchers, which will continue to be subject to the legislation currently in force.

Statutory Insurance Premium Payments for Employee Stock Option Plans

While the taxable moment in respect of income arising to the employee from shares in a business corporation or transferable options has mostly been shifted to the future (postponed) from 1 January 2024 – 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**.

Moves are afoot to synchronise the insurance regulations with the tax regulations.

It is proposed that the income will be subject to insurance premiums at the same moment, when it is recognised as taxable income under the Income Tax Act. (More on the tax-related changes can be found in the following issues of *GMS Flash Alert*: [2024-031](#) (1 February 2024) and [2023-229](#) (1 December 2023)). At

the same time, if the employer reduces this income due to a decrease in the market value of the share under the Income Tax Act, the reduced income will be subject to the relevant insurance premiums.

Income Tax and Statutory Insurance Payments for Concurring Agreements to Perform Work (Outside Employment)

The changes resulting from the consolidation package dealing with agreements to perform work outside employment, due to come into force on 1 July 2024, will be further amended. This is due to the existing regulation being administratively burdensome for employers and individuals; employers were uncertain as to whether the income they paid to the employees would be further subject to insurance premiums or not, dependent on whether the employee had another work agreement in place.

It is proposed that a special “notified agreement” scheme be introduced. For employees under the notified agreement scheme, the obligation to participate in sickness and health insurance will only arise in the relevant month when the threshold of **25 percent of the average wage (CZK 10,500 per month in 2024)** is reached. If the income from all agreements to perform work of an employee for an employer who has used the notified agreement scheme does not reach this threshold, the obligation to participate in the insurance scheme shall not arise. At the same time, this special scheme will also be applicable for the purpose of income tax on employment: the taxpayer will be able to apply withholding tax on such income if the amount of such income from the agreement or from all agreements with a registered employer does not reach **CZK 10,500 per month**.

Income from agreements to perform work generated with other employers, i.e., those not under the notified agreement scheme, will be subject to sickness insurance payments if remuneration of at least **CZK 4,000 per month** has been agreed on or if the relevant income in a given month is at least CZK 4,000.

Only the employer who first notifies the Czech Social Security Administration (CSSA) in a manner similar to that for claiming the tax credit by part-timers will be able to apply the preferential notified agreement scheme to the employee in a calendar month. If the employer applies the notified agreement scheme, it will have no further obligation towards health insurance companies, as these will obtain the information directly from the CSSA.

The payment of insurance premiums on income arising under agreements to perform work according to the above scheme should not become effective earlier than 1 January 2025. The current wording of the law, which is valid but not yet effective, will be repealed. Until the end of 2024, the existing approach to taxation and insurance payments should be applied to agreements to perform work. The registration obligation will already apply from 1 July 2024.

KPMG INSIGHTS

There is still some considerable flux in the rules affecting certain employer-provided or employer-reimbursed benefits and the tax and insurance premium policies in respect of share/stock acquisitions and share/stock options under employee plans. We are seeing as well, a tightening up of the rules in situations when an individual is performing other work (and earning income) outside his/her normal employment. Employers should review which employees are receiving or availing of which benefits – as discussed in this newsletter – and those receiving equity compensation and assess the impact of these proposed changes on their respective tax liabilities and compliance obligations.

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 Contacts section).

FOOTNOTES:

- 1 Act on Investment – [*Sněmovní tisk 570/1 \(psp.cz\)*](#) .
- 2 Czech National Council on Income Taxes No. 586/1992 Coll. (in Czech) at: [*586/1992 Sb. Zákon o daních z příjmů \(zakonyprolidi.cz\)*](#) .
- 3 Act No. 349/2023 Coll. - The consolidation package (in Czech) at: [*349/2023 Sb. Zákon, kterým se mění některé zákony v souvislosti s konsolidací veřejných rozpočtů \(zakonyprolidi.cz\)*](#) .
- 4 Act No. 462/2023 Coll. which changes the acts in the area of financial market development and old age financial support (in Czech) at: [*462/2023 Sb. Zákon, kterým se mění některé zákony v souvislosti s rozvojem finančního trhu a s podporou zajištění na stáří. \(zakonyprolidi.cz\)*](#) .
- 5 Act on Social Security Premiums No. 589/1992 Coll. (in Czech) at: [*589/1992 Sb. Zákon o pojistném na sociální zabezpečení a příspěvku na státní politiku zaměstnanosti \(zakonyprolidi.cz\)*](#) .
- 6 Act on Public Health Insurance No. 48/1997 Coll. (in Czech) at: [*48/1997 Sb. Zákon o veřejném zdravotním pojištění \(zakonyprolidi.cz\)*](#) .

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CZK 1 = EUR 0.04
CZK 1 = USD 0.043
CZK 1 = GBP 0.034
CZK 1 = CHF 0.035

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Contact us

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