



GMS Flash Alert



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Czech Republic - What's New in Tax for Employees?

Ushered in along with the new year are changes in employee taxation in the Czech Republic, this includes social security and health insurance. The changes may impact assignees outbound from the Czech Republic as well as assignees inbound to the Czech Republic.

In this *GMS Flash Alert* we provide an overview of key changes.

WHY THIS MATTERS

It is common for tax regulations to change every year, e.g., tax rates and brackets are adjusted, and new regulations change the social security wage base, among other things.

For 2023, the maximum assessment base for social security contributions has increased and the monthly limit from which wages are taxed at 23 percent has been raised. Many employers may therefore be keen on the possibility of applying a discount on insurance premiums for selected "vulnerable" employees in part-time employment.

Also, after almost 20 years, the income threshold for the obligation to file a personal income tax return has been significantly increased.

The impact of the tax measures highlighted in this newsletter will depend on each taxpayer's particular set of facts and circumstances. However, in many instances, we expect that an employee's Czech tax burden will decline as a result of these changes, which should help employees to some extent with the recent rise in the cost-of-living.

Given the impact of these changes to the operation of payroll/shadow payroll, the changes should be communicated to relevant stakeholders as soon as possible, to help ensure that payroll processes and software can be updated in a timely fashion.

Details

Increase in Maximum Annual Assessment Base – Social Security

The maximum annual assessment base for social security contributions has increased to CZK 1,935,552 (it was CZK 1,867,728). This change will also affect personal income tax: employees' income exceeding this amount will be taxed at a 23 percent rate (for monthly wages, the threshold for the application of the 23 percent rate is CZK 161,296). On income under this limit, the 15 percent tax rate will continue to apply.

Increase in Minimum Wage and Impact on Health Insurance Assessment Base; Tax Bonus and Credit Tied to Children

From January 2023, the minimum wage has been increased from CZK 16,200 to CZK 17,300, and the minimum guaranteed hourly wage has risen to CZK 103.80.

Consequently, the minimum monthly assessment base for health insurance for employees has also been increased.

This also results in an increase in the tax credit for placing a child into pre-school facilities and the income threshold for the entitlement to the payment of a tax bonus for a child.

Obligation to File Personal Income Tax Returns, Ability to Earn Outside Income

The income threshold at which an individual is obliged to file an income tax return will increase from the current CZK 15,000 to CZK 50,000 per year. The new threshold will first apply to tax returns to be filed in 2024.

At the same time, employees will be able to earn more taxable income from sources other than employment for the 2023 taxable period without having to file a Czech personal income tax return. This limit has increased from CZK 6,000 to CZK 20,000 per year.

Employees will also be able to ask their employer to carry out a year-end settlement of tax on wages for them if they meet further statutory requirements.

KPMG INSIGHTS

This change will have the impact of removing many lower-income people from the tax net.

And it means more personal disposable income in people's pockets that will be outside the scope of the income declaration a taxpayer makes in his/her personal income tax return.

Income Threshold for Sickness Insurance

An employee's income qualifying for sickness insurance has increased to CZK 4,000 per month from January 2023. For agreements to perform work, income up to this threshold will thus not be subject to social and health insurance contributions. At the same time, provided that other conditions set out in the Income Tax Act¹ are met, income up to this limit will be subject to withholding tax (for agreements to complete a job, the limit for the application of withholding tax of CZK 10,000 remains unchanged).

Discount on Insurance Premiums for Selected Employees in Part-Time Employment

From 1 February 2023, employers will be able to benefit from a 5 percent discount on social security contributions for selected employees working part-time (e.g., those under 21, over 55, and other groups as specified²). Instead of the standard 24.8 percent of the assessment base, employers will pay only 19.8 percent.³ More details about this change can be found in the August 2022 "[Tax and Legal Update](#)" published by KPMG in the Czech Republic.

KPMG INSIGHTS – IN CONCLUSION

There are many changes afoot in 2023 in the areas of tax and social security that could impact individuals subject to tax in the Czech Republic, including mobile employees travelling to the Czech Republic to live and work and for those travelling overseas to live and work outside the Czech Republic.

What we have described may be a lot to take in and sort through to determine who amongst an organisation's assignee population is impacted and how best to keep them "whole" and in compliance. The same compliance concerns apply to employers who may have to re-figure budgets and assignment costs and tax equalisations, adjust payroll, etc. If questions and/or issues (potential or actual) arise, feel free to reach out to a qualified tax professional or a member of the GMS/People Services team with KPMG in the Czech Republic (see the Contact Us below).

FOOTNOTES:

1 Income Tax Act No. 586/1992 Coll.: [586/1992 Sb. Zákon o daních z příjmů \(zakonyprolidi.cz\)](#).

2 For instance "other groups of people" include parents caring for children younger than 10 years of age; persons caring for a "close person" under 10 years of age who is dependent on the help of another person, or caring for a close person who is dependent on the help of another person:

- people with disabilities;
- persons undergoing "requalification."

The discount shall also apply to employees under the age of 21 regardless of the extent of their agreed working hours.

3 Social security insurance Act No.589/1992 Coll. – Sec 7a – Discount on Insurance premium: [589/1992 Sb. Zákon o pojistném na sociální zabezpečení a příspěvku na státní politiku zaměstnanosti \(zakonyprolidi.cz\)](#).

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RELATED RESOURCES:

[Slevy na pojistném - Česká správa sociálního zabezpečení \(cssz.cz\)](#) – Discount on Insurance premium (Czech social security authority website – in Czech).

[Minimální mzda \(mpsv.cz\)](#) – Increase of minimum wage.

CZK 1 = EUR 0.042
CZK 1 = USD 0.046
CZK 1 = GBP 0.037
CZK 1 = CHF 0.042

Source: [www.xe.com](#)

Contact us

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