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GES NewsFlash

Czech Republic — Legislative Changes Effective as of 1 January 2013



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Legislative changes in 2013

Please see the following information regarding changes in the Czech tax and health insurance legislation effective as of 1 January 2013:

Income tax

“Solidarity tax” was introduced as an effective 7% increase on income from employment, and tax base from business activities exceeding a 48 multiple of the average salary (1,242,432 in 2013). Individuals exceeding the above limit must file a personal income tax return (i.e., they will not be able to ask their employer for the tax settlement). The “solidarity tax” will be applicable only for a temporary period from 2013-2015.

The following changes have been made in the expense lump-sum deductions:

- The expense lump sum of 40% (e.g., applicable for auditors, attorneys at law, tax advisors) is limited to the maximum deduction amount of CZK 800,000.
- The expense lump sum of 30% used for rental income is limited to the maximum deduction amount of CZK 600,000.

Upon the use of expense lump sums, it will not be possible to use the discount for families under certain circumstances.

For a temporary period from 2013-2015, pensioners who, as of 1 January of the taxable period, are receiving an old age pension benefit from the Czech statutory pension insurance system or from a similar foreign statutory pension system may no longer use the personal income tax credit in the amount of CZK 24,840.

The employer’s contribution paid for the state supplementary pension insurance scheme and/or newly established additional pension insurance scheme and/or capital life insurance scheme will benefit employees exempt from taxation of no more than CZK 30,000 per year (previously CZK 24,000).

Another change is the introduction of a 35% rate on income paid to “tax havens” (destinations with which no double taxation treaties or contracts for the exchange of information on tax issues are concluded) if this income is taxed with withholding tax.

Health insurance

A cap on health insurance contributions for both employees and employers has been removed for a temporary period from 2013-2015.

Deloitte's view

Changes in the law in the form of introduction of the "solidarity tax" and limits for lump-sum expense deductions and removing the cap on health insurance contributions were adopted in connection with a so-called stabilization package. Introduction of the "solidarity tax" will affect individuals with higher incomes; specifically individuals whose monthly income from employment or tax base from self-employed income is higher than approximately CZK 100,000. Removing the cap on health insurance contributions will affect individuals whose monthly income from employment is higher than CZK 150,000, and will increase the employment costs of their employers.

Further, the number of persons obliged to file a personal income tax return will be increased with the introduction of the "solidarity tax".

Reorganization of the Tax Administration

Effective 1 January 2013, the system of administrative bodies engaged in exercising tax administration has been changed.

Fourteen new tax authorities with local competence matching the territorial organization of the Czech Republic into regions and their local workplaces have replaced the current 199 tax authorities. All filings (tax returns, requests, etc.) made after 1 January 2013, must be addressed to the local tax administrator. Any filing made by mail and addressed to a tax administrator other than locally and factually competent leads to the passing to the locally- and factually-competent tax administrator but the filing becoming effective only after it has been passed, which may result in penalties for late filing .

Powers of attorney already filed with the tax authorities should not need to be replaced as a result of the reorganization of the tax administration.

The Financial Administration has published new bank account numbers on its website to which all tax payments should be sent as of 1 January 2013. As stated by the General Financial Directorate, the original accounts will remain active for a certain period of time, however, we recommend changing account numbers as soon as possible.

Deloitte's view

Companies and individuals should pay attention to make sure filings are submitted to the correct tax office and that payments are made to the correct bank accounts to avoid late filing penalties or late payment interest charges.

People to contact

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