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Information for clients

Czech Republic

May 30, 2023

Government consolidation package and the Act on the Remission of Tax Debts

In view of the rising national debt, the government of the Czech Republic has presented a consolidation package which is to come into force from 2024. Currently, only the government draft is available, which will go through the approval procedure in the course of the summer. We have summarized important points from a tax law perspective for you below. We will keep you informed of further developments.

On July 1, 2023, the Act on the Extraordinary Remission and Cancellation of Certain Tax Liabilities will come into force.

Increase in tax rates and contributions

- The corporate income tax rate is to be increased from 19% to 21%.
- The income tax rate for individuals is to remain at 15%, but only up to a monthly tax base of approximately CZK 121,000, i.e. annually up to 36 times the average wage. Currently, this applies up to a monthly amount of approximately CZK 161,000, i.e. annually up to 48 times the average wage. Income exceeding 36 times the average wage is to be taxed at 23%.
- There is to be only one reduced VAT rate of 12%, whereas there are currently two reduced rates (10% and 15%). The rate is to be lowered for some items, such as food and medical equipment, and increased for some items, such as pharmaceuticals, water and sewage charges, and public transportation.
- The property tax is to be increased and in the future it will be automatically increased according to the newly introduced inflation clause.
- Excise taxes on alcohol, tobacco and gambling are to be increased.
- Employees are now to pay a health insurance contribution of 0.6%, whereas previously only the employer paid health insurance contributions.
- Self-employed persons are now to pay a higher minimum contribution to pension insurance and from a higher tax base. Previously, 50% of profit was used as the assessment basis for insurance, but now it is to be 55% of profit.

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Changes for dependent work

- The tax exemption of employee benefits such as allowances for cultural and sports activities, holiday allowances, allowances for the purchase of goods and services of a medical nature, and allowances for the use of educational and recreational facilities is to be abolished. Contributions to preschool education, known as kindergarten contributions, as well as surplus meal vouchers are no longer to be tax-exempt.
- A major change is expected in the regulation of marginal employment, the so-called work performance contracts (small brigade). The limit for insurance-exempt income with a single employer is to remain in place. Income from work-performance contracts is now to be treated as a single unit, regardless of whether it comes from more than one employer. A second cumulative limit on the employee's earnings from all agreements with multiple employers is to be introduced, above which social security contributions will be payable from the total income. Employers will therefore be newly required to report all employees working under an agreement to the Social Security Administration within a very short period of 8 days after the employee joins.
- The tax reduction for students is to be abolished, and the tax reduction for spouses without income is to be subject to stricter conditions.

Taxation of securities transactions and other changes

- Income from the transfer of securities and shares exceeding CZK 40 million per year shall always be taxed, i.e. the five-year or three-year test for tax exemption shall not apply, not even for the portion up to the CZK 40 million limit. The tax rate in this case is 23%.
Income up to CZK 100 thousand shall always be tax exempt.

Income between CZK 100 thousand and CZK 40 million should be tax-free if the five-year or three-year period is observed.
- Lottery and gambling winnings exceeding CZK 50,000 are to be taxed.
- Vehicles are to be tax-deductible only up to CZK 2 million in acquisition costs. The same limit also applies to rent in the case of vehicle leasing.

Tax Debt Relief Act

In addition to the consolidation package described above, a **law on extraordinary remission and cancellation of certain tax debts** is to be introduced as of July 1, 2023.

Debts of individuals from late payment interest, fines and other surcharges may be forgiven. This is subject to the debtor **paying the tax owed** (in one sum or in installments) no later than **November 30, 2023**, and **submitting an application for extraordinary remission of penalty surcharges** between the effective date of the law and the end of November 2023. The remission applies only to **debts incurred on or before September 30, 2022**.

The Act also provides for the possibility of **automatic remission of smaller tax arrears** (CZK 30 in the case of real estate tax, CZK 200 in other cases, with a maximum total amount of CZK 1,000 for a tax administrator), which will automatically expire on July 1, 2023, **without the need to apply for remission**. This remission applies to **all tax subjects, including legal entities**.

In addition to tax debts, the action **also affects social security debts, both for individuals and legal entities**, under similar conditions, i.e., insurance **debts incurred by September 30, 2022, must be settled no later than November 30, 2023**. According to current knowledge, the **action does not apply to health insurance premiums**.

If you have any questions, we are happy to help you.

Your AUDITOR Team

ING. MARTA PRACHAŘOVÁ, LL.M.
Head of the Tax Department
T: +420 224 800 458
marta.pracharova@auditor.eu

ING. JANA STŘELICKÁ
Tax advisor
T: +420 542 422 636
jana.strelicka@auditor.eu