



# AUDITOR

Audit ■ Tax ■ Accounting

## Information for clients No. 5 November 2012

*In the first week in November, the Chamber of Deputies of the Czech Republic approved the so-called stabilization package, which amends tax laws, the Health Insurance Premiums Act and certain other Acts. Whether or not these amendments will take effect from January 1, 2013 is not entirely certain at this point, as they must now undergo the approval process in the Senate, where the opposition has the majority, and following this, the president must sign the package. In light of the fact that half of November has already passed, not much time remains to complete the legislative process by the end of the year. Once again, we will celebrate the holidays without being sure of the taxes that will burden us next year.*

### VAT

Uncertainty remains regarding VAT rates. The stabilization package counts on preserving both VAT rates from January 1, 2013 to December 31, 2015, with the stipulation that these will increase by one percent, that is, a reduced rate of 15% and a base rate of 21%.

If the stabilization package does not go into effect from January 1, 2013, as of this date the previously approved amendment to the law will take effect, which unifies both VAT rates to 17,5%.

### Income Taxes

#### ■ Ceiling for Lump Sum Deductions of Individuals

In the area of income tax for private individuals, the maximum allowed deduction when using a flat rate

for expenses will be restricted. In the case of a flat rate of 40% of income, the maximum deduction for annual expenses is set at 800,000 CZK, which concerns professions, such as attorneys or tax advisors. For the flat rate of 30% of income, that is, for rental income, the maximum annual deduction is 600,000 CZK. No restriction will be applied to the incomes of farmers and tradesmen; flat rates in the amount of 80% respectively 60% have no ceiling on maximum annual expenses set.

#### ■ Solidarity Tax Increase

Further, the law newly introduces the term “solidarity tax increase”. In essence, this concerns the increase in the tax rate by seven percent, that is from 15% to 22%, for annual income from trades and employment exceeding 48 times the average wage, that is, exceeding the amount of 1,242,342 CZK. This means that income from employment (§ 6) at the gross income level and net income from trades (§ 7) are totaled together.





Solidarity tax increase will apply to incomes achieved in the period from 2013 to 2015. The increase will be applied even to monthly advance payments subject to withholding by employer, if the monthly income from employment exceeds four times the average wage, that is, the amount of 103,000 CZK.

Newly, the obligation to file a tax return for the calendar year will apply even to cases where the taxable income for solidarity tax increase is reached only from employment.

For completeness, we add that the super-gross wage for income from employment remains in effect according to the existing Act until December 31, 2015.

### ■ Withholding Tax

The amendment concerns withholding tax for non-residents from countries outside of the EU and from countries with which the Czech Republic does not have an agreement on prevention of double taxation.

Effective from January 1, 2013, the withholding tax rate applied for non-residents will increase to 35%. This amendment is supposed to ensure taxation of incomes flowing to certain so-called tax havens.

The 15% withholding tax rate continues to apply to the incomes of tax residents of the Czech Republic, with the exception of dividends, which will be exempt from tax, in accordance with the Act on the Establishment of a Single Collection Point, in the current version effective from January 1, 2015.

### Other Taxes

The tax rate on the transfer of real estate properties changes from three to four percent.

Those who want to take advantage of the existing three percent rate, must submit the application for registration in the cadastre by December 31, 2012.

### Health Insurance

In the field of health insurance, the ceilings for contributions to health insurance are abolished for the period from 2013 to 2015. The abolishment of ceilings applies to employees and employers as well as for entrepreneurs. ■

**Ing. Marta Prachařová**  
Head of the Tax Department  
T: +420 224 800 458  
marta.pracharova@auditor.eu



**AUDITOR**  
Audit ■ Tax ■ Accounting

*For more than 20 years  
on the Czech market.*

### Contact details

Mag. Georg Stöger

**International tax structures**

Marie Haasová

**Czech accounting issues**

Ing. Irena Pospíšilová

**Audit, IFRS**

Ing. Marta Prachařová

**Czech tax issues**

Iva Tolde

**Personell & Payroll  
administration**

**Prague Office**

Haštalská 6, 110 00 Praha 1

T: +420 224 800 411

**Brno Office**

Dominikánské nám. 4/5

602 00 Brno

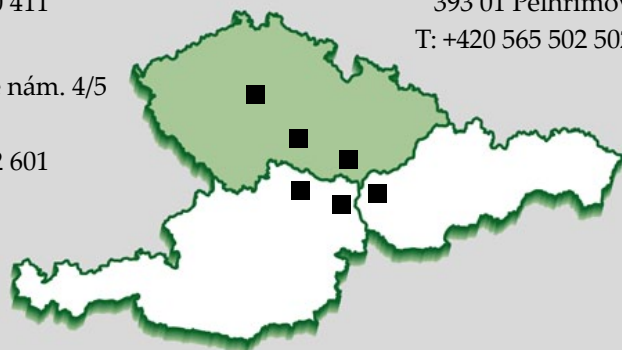
T: +420 542 422 601

**Pelhřimov Office**

Masarykovo nám. 30

393 01 Pelhřimov

T: +420 565 502 502



More information at [www.auditor.eu](http://www.auditor.eu).