ALFERY
Audit Tax & Legal Services

NEWS 4/2011

# News No. 4/2011

## REFORM LAWS
## PREPARED BY THE CZECH GOVERNMENT

Since its establishment, the current government of the Czech Republic has been promising a public finance reform to the public, aiming, in particular, to stop the growth of public debt. Mainly in 2011 the government started to submit bills to the Parliament of the Czech Republic that should carry through the reform of public finances. A portion of draft laws was approved by the Chamber of Deputies of the Czech Republic during the past few weeks. It is expected that the Senate will return the bills for consideration, but, since coalition parties still have a majority in the Lower House, the Chamber of Deputies should not fail to outvote the Senate.

Following the words of the Finance Minister Miroslav Kalousek, the tax reform itself should be carried out in two phases. During the first phase, the tax system should be simplified and made more transparent; the respective laws should come into effect on 1st January 2013 at the latest. In the second phase, an entirely new Income Tax Act should be created relating to rectification of private law.

1. Reform laws passed by the Camber of Deputies of the Czech Republic

1.1. Value Added Tax Act

The reduced VAT rate should be increased from 10 percent to 14 percent with effect from the 1st of January 2012. The advised change of items listed in the Schedules No 1 and No 2 to the Value Added Tax Act should not be carried out. However, the reduced rate should be abolished and a flat rate scheme for VAT (17.5 per cent) shall be introduced as of 2013. Also an amendment to the Income Tax Act shall be drafted in connection with the increased VAT rate in order to mitigate the impact of the VAT rise on families with children. Therefore the amendment proposes higher tax relief on a dependent child. The increased tax relief could be claimed as of 1st January 2012.

Václavské nám. 40, 110 00 Praha 1
Tel.: +420 221 111 777
Fax: +420 221 111 788
E-mail: info@alferypartner.com
www.alferypartner.com

1.2. Act on Social Security Contributions

The rate of social security contribution paid by employers shall remain in the amount of 25 per cent, contrary to the planned reduction to 24.1 per cent as of 1st January 2012. There will not be the possibility for employers to deduct half of the wage compensation provided for the period of temporary sick leave or quarantine from social security contributions.

Employers with a maximum number of 25 employees will still be free to choose a higher rate of social security insurance contributions by one percentage point, i.e. 3.3 per cent instead of 2.3 per cent. In such a case, employers may deduct half of the wage compensation provided for temporary sick leave from their social security contributions.

2. Planned reform laws

2.1. Income Tax Act

The Ministry of Finance is preparing an amendment to the Income Tax Act and relating regulations to introduce changes in the area of personal income tax and health and social security insurance contributions. The amendment shall become effective on the 1st of January 2013.

- Abolishing the super-gross salary concept and unifying the personal income tax base and the social security and health insurance bases;
- Increasing the personal income tax from 15 per cent to 19 per cent;
- Increasing the health insurance contribution paid by the employee from 4.5 per cent to 6.5 per cent;
- Introduction of a different maximum annual assessment base for the employee's social security contribution (48-multiple of the average wage) and health insurance contribution (72-multiple of the average wage);
- Abolishing the tax relief on meal vouchers;
- Introduction of lump-sum deductions for employees amounting to CZK 3.000 per annum (tax allowance for taxpayers with income form employment);
- Reduction of the maximum exemption for non-monetary benefits for employees in the form of use of recreation, education and other facilities from the current CZK 20.000 to CZK 10.000;
- Reduction of the total amount of interest paid for housing to be deducted from the tax base – from current CZK 300.000 to CZK 80.000 per annum;
- Introduction of duty for tax payers with income from employment if their annual tax base exceeds 48-multiple of the average monthly wage;

Václavské nám. 40, 110 00 Praha 1
Tel.: +420 221 111 777
Fax: +420 221 111 788
E-mail: info@alferypartner.com
www.alferypartner.com

- Introduction of monthly advance income tax payments;
- Shortening the deadline for signing the application for annual settlement carried out by the employer from the current 15th of February to the 31st of January of the following calendar year;
- Increasing the limit for deduction of gifts for purposes stipulated by law from current 10 per cent to 15 per cent of the tax base;
- Reduction of income tax rate for mutual investment funds and pension funds to 0 per cent of the tax base;
- Introduction of withholding tax for legal entities amounting to 19 per cent on fund dividends, introduction of the possibility to claim tax relief amounting to withholding tax on dividends and share in profits;
- Introduction of the possibility to make adjusting entries regardless of the amount of receivable without having to fulfil any further conditions (e.g. registration of claims in insolvency proceedings), in the amount of 50 per cent for receivables overdue for more than 18 months and 100 per cent for receivables overdue for more than 36 months;
- Abolishing tax incentives for investments;
- Broader support for research and development;
- Introduction of a tax on the aggregate of wages to replace social security and health insurance contributions paid by the employer; according to the bill, the tax rate should amount to 32 per cent;
- Insurance contributions administration shall be governed by the Tax Procedure Code;
- Harmonisation of gift tax and income tax rates.

2.2. Social security amendments

With effect from the 1st of January 2012 managing directors and board members should be treated as normal employees (only) for the purposes of sickness and pension insurance. On the other hand, remunerations paid to members of statutory bodies should be deductible.

2.3. The second and third pillars of tax reform

The Ministry of Finance has prepared extensive amendments to some laws aiming at introducing a single collection point as well as simplifying the administration of levies on wages. The main idea of the amendment is to introduce one form, one payment and one transfer account to which the taxes and insurance contributions shall be paid. The amendment shall take effect on the 1st of January 2013.



Václavské nám. 40, 110 00 Praha 1
Tel.: +420 221 111 777
Fax: +420 221 111 788
E-mail: info@alferypartner.com
www.alferypartner.com

NEWS 4/2011

3. Other changes

3.1. Council Implementing Regulation (EU) No 282/2011 (value added tax)

On the 1st of July 2011 the Regulation (EU) No 282/2011 (hereinafter "Regulation") came into effect, which, among other things, changes the definition of permanent establishment for the purposes of determination of place of performance when a service is rendered. In compliance with the Regulation a permanent establishment for VAT purposes shall be any establishment or branch characterised by a sufficient degree of permanence and a suitable structure in terms of human and technical resources to enable it to receive and use the services supplied to it for its own needs. It is not necessary that the establishment carries out an economical activity.

As a result of this regulation, services provided to establishments or branches might be newly subject to VAT according to Czech law. The obligation can arise for some establishments or branches through the acceptance of service to register for VAT in the Czech Republic. The Regulation has direct effect and is binding for persons liable to tax without being implemented into the Czech VAT Act.

3.2. Amendment to the Real Property Tax Act

Changes introduced by the amendment to the Real Property Tax Act, signed by the president of the republic on 30th June 2011, apply exclusively to entrepreneurs owning so-called paved areas, i.e. land of type "other areas" or "built-up areas and courtyards" the surface of which is set by a construction without any vertical framework. The amendment shall take effect on the 1st of January 2012 and shall, therefore, affect the tax liability for 2012.

3.3. Amendment to the Labour Code

The Chamber of Deputies approved changes to the Labour Code to modify, among other things, the amount of severance payment depending on the duration of the employment relationship as well as extension of the probationary period for managerial employees. Also, the fund for work performance on the basis of an agreement for the performance of work should be increased. The employment relationship with an employee being on temporary sick leave should be allowed to be terminated under specific circumstances.

Václavské nám. 40, 110 00 Praha 1
Tel.: +420 221 111 777
Fax: +420 221 111 788
E-mail: info@alferypartner.com
www.alferypartner.com