



## News No. 7/2012

### Government proposals regarding tax changes for upcoming tax periods

Typically, at the end of the year the Czech Republic is anxious about the upcoming changes to tax regulations due to take effect at the beginning of the next calendar year. The turn of 2012 into 2013 is no exception to this rule. On 8<sup>th</sup> November 2012, the Chamber of Deputies passed the government bill regarding the changes to tax, insurance and other acts (the so-called “stabilization package”) which will be going through more of the legislative process over the next few weeks. While it is not yet certain whether the amendments will be approved to come into effect from 1<sup>st</sup> January 2013, as the Government wants, let us offer you a summary of the most important changes to be introduced by this stabilisation package.

#### Income tax and related regulations

The rate of tax on income from employment and business activities exceeding the ceiling on social security contributions (i.e. 48 times the national average wage, approx. CZK 1.242.432) should amount to 22%, while the basic tax rate of 15% should continue to be calculated based on the so-called “super-gross wage”, and the “solidarity increase” in tax of an additional 7% should only apply to gross wages.

The solidarity tax should also be applied by employers to monthly advance tax payments, if the employee’s income for the respective month amounts to four times the national average wage (approx. CZK 103,000). Taxpayers who are obliged to pay the 7% solidarity tax will now be obliged to file an income tax return. The solidarity tax increase should only apply for a limited period of time, i.e. for the tax periods of 2013, 2014 and 2015.

The government also proposes cancelling the cap for health insurance premiums for 2013 – 2015. This change should apply to employees, employers and entrepreneurs. The social security contribution cap will remain; in 2013 it should amount to CZK 1,242,432.



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Rates of lump-sum expense deductions for income from entrepreneurial activities and rent will remain unchanged, but new caps are likely to be introduced. The maximum combined lump-sum expense deduction should amount to CZK 800,000 for income from entrepreneurial activities (activities limited to lawyers and tax advisors) and CZK 600,000 for income from rent. Certain persons using lump-sum expense deductions will not be able to claim selected tax reliefs (for a spouse without their own income, tax credits for children).

Working pensioners will not be entitled to the basic tax relief per taxpayer (CZK 24,840 per year) in the tax period 2013 – 2015.

Non-resident withholding tax on income will increase from 15% to 35%. This rate shall apply to income generated in the territory of CR (dividends, profit sharing, interest, licence fees, bonuses to members of statutory bodies etc.) which is paid to residents in countries outside the European Economic Area with whom the Czech Republic has not signed a double taxation treaty.

## **Value added tax**

Both value added tax rates are likely to be raised by 1 percentage point in 2013 – 2015, i.e. the basic value added tax rate from 20% to 21%, and the reduced value added tax rate from 14% to 15%. Subsequently, a unified rate, that is a 17.5% value added tax rate, should take effect as of 1<sup>st</sup> January 2016. Those who pay value added tax will henceforth be obliged to inform the tax administrator about all bank accounts used by the taxpayer in connection with their business activity. The taxpayer will have the right to decide which of their accounts will be disclosed.

The amendment is due to introduce the concept of a so-called “unreliable taxpayer”. The tax administrator will have the right to decide that the taxpayer is unreliable if they seriously violate their obligations towards the tax administrator. The amendment further introduces a liability for those supplied by unreliable taxpayers for any unpaid value added tax.



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The register of taxpayers will henceforth disclose accounts designated for such disclosure by the taxpayer, or inform that no such account has been designated. Should the tax administrator issue a decision regarding the taxpayer's unreliability, it shall also be disclosed in the register.

Starting from the next calendar year, the basic tax period shall be a calendar month. Taxpayers will be able to change this to quarterly by filing an application with the respective tax administrator. However, new taxpayers will not be able to change their tax period in the first 2 years.

## Other tax regulations

Starting from 2013, the real property transfer tax rate is due to be permanently increased by 1 percentage point, from 3% to 4%. In order to use the 3% tax rate which is valid until the end of 2012, taxpayers will have to file petitions to record title in the Land Register prior to 1<sup>st</sup> January 2013.

The concept of so-called "green oil" is to be phased out; i.e. the right to claim the refund of excise tax on mineral oils used in basic agricultural production will no longer exist.

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