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A few days ago, the Chamber of Deputies of the Czech Republic approved an emergency legislative package of government bills aimed at ensuring that the state budget deficit does not exceed the intended CZK 135 billion in 2011. Given the assumption that the laws will also be approved by the Senate of the Czech Republic and the President will not veto them, the laws are very likely to take effect in this wording as of 1st January 2011. Certain changes brought by the new legislation are therefore described below.

a) Income Tax Act

In view of the much feared increase in electricity prices in 2010, the Government has decided to cut back the support of electricity generation using renewable resources. The Government no longer considers the indirect support of electricity generation using environmental resources, in particular solar energy, to be reasonable; therefore it has tightened the tax regime for environmental resources and equipment by putting a stop to the tax exemption for the operation of environmental equipment. In order to make the law and the administration simpler, the Government has decided to repeal the tax exemption for other environmental equipment as well. Tax payers will be able to use the exemption for the last time for the tax period which started in 2010. The change will also apply to tax payers who put the environmental resources and equipment into operation before this amendment comes into effect.

A liability to claim tax depreciation of these assets and to extend the depreciation period thereof will be introduced for tangible assets used, at least partially, to generate electricity using solar energy. For other equipment, the standard depreciation regime remains in force.

Technological components, comprising above all solar panels, transformers and switchboards, are included in Standard Production Classification groups and identified by codes 31.10, 31.20 or 32.10. Depreciation is determined as monthly depreciation, on a straight-line basis, for the period of 240 months (i.e. 20 years) without any possible interruption. Thus, the proposed depreciation period is double compared to the depreciation period for group 3 (10 years). In the case of tangible assets classified in 2nd depreciation group (5 years), the depreciation period will be extended four times. The depreciation period will be determined as 240 months for solar panels as the most important technology item regardless of whether they are classified in the 2nd or 3rd depreciation group. The minimum lease period in the case of acquisition of these assets in the form of financial leasing will be amended accordingly.

The technical improvement of these assets will increase the entry price; the depreciation period will be at least 10 years upon the completion of technical improvement. This will above all eliminate situations when technical improvement would be completed at the end of the depreciation period, and the value of technical improvement could be booked directly in tax-deductible costs.

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This amendment, effective from 1 January 2011, will also apply to tangible assets which will have been registered and used for the operation of solar devices before this date; the depreciation of tangible assets where depreciation has started before the coming into effect of this amendment will change starting in the tax period which will start in 2011. In these cases the total depreciation period (which will be 240 months) will be reduced by the number of calendar months following the month when the respective tangible assets were registered until the end of the tax period which started in 2010.

The Government has also proposed decreasing the amount of tax relief for working pensioners. The law has so far allowed the tax exemption for pension payments up to the amount of a 36-multiple of the minimum wage valid as of 1 January of the given calendar year. It will now apply that if the working pensioner's combined income from dependent activities and individual tax bases from business activities and other independent gainful activities and rent exceeds CZK 840,000 during a calendar year, the received pension will also be subject to tax. While only a part of a pension exceeding the said limit was subject to tax (approx. CZK 290,000) so far, starting from the next year, the entire pension will be subject to tax in the above-described cases.

The Income Tax Act amendment also responds to the new possibility of component depreciation under the Accounting Act, which has been valid since 2010. The component depreciation will not be taken into account when assessing the income tax basis and assets will continue to be depreciated as a whole for tax purposes. If a certain component is replaced, the related expense will be considered to be a tax-deductible cost in the full amount in the respective accounting period.

For the tax period of 2011 exclusively, the amount of the basic personal income tax relief per tax payer will be reduced by CZK 1,200 per year, i.e. from CZK 24,840 to CZK 23,640.

b) Sickness Insurance

As a part of cost-cutting measures to mitigate the consequences of the economic crisis, the daily sickness benefit has been temporarily determined in the amount of 60% of the daily assessment basis for 2010. However, starting from 1 January 2011 this amount will be legitimized permanently.

Under the currently applicable laws, employers provide to their employees wage compensation during the first 14 days of their temporary sick leave. In 2011 to 2013 the employers should provide wage compensation during the first 21 days, which means that the sickness benefit would be only paid starting on 22nd calendar day of the temporary sick leave.

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c) Social Security Insurance Contributions and State Employment Policy Contribution

Social security insurance contribution rate will continue to amount to 25% for employers, i.e. it will not be reduced to 24.1% in accordance with the original plan. In addition, starting from 1 January 2011, the possibility to deduct half of the wage compensation provided for the period of a temporary sick leave will no longer apply in general. Under the currently applicable laws, the social insurance contribution rate should have been reduced to 24.1% starting on 1 January 2011 as mentioned hereinabove, as compensation for the cancellation of this refund, with the exception of the refund in case of disabled employees.

The amount of sickness insurance contribution rate applicable for self-employed persons and foreign employees will remain unchanged at 2.3%; it will not be reduced by 0.9 percentage point to 1.4% as planned. The rate will thus be identical to the one for employees.

In addition, employers with a maximum number of 25 employees will be free to choose a higher rate of social security insurance contributions, in the amount of 26%. Such employers will be allowed to deduct a half of the wage compensation paid for the period until 21st day of a temporary sick leave from the social security insurance contributions. Employers will have the right to choose this special system at their discretion for each calendar year.

In 2011, the maximum assessment basis for social security insurance contribution payments by employees and self-employed persons will remain at the same level as in 2010, i.e. in the amount of a 72-multiple of the average wage. Under the original wording of the act, the maximum assessment basis should have amounted to only a 48-multiple of the average wage starting from 1 January 2011.

d) Labour Code

Subject to an invalidity sanction, agreements to complete a job and agreements to perform work will now have to be concluded in writing. This measure has been taken in order to reduce illegal work.

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