



Tax novelties

■ Financial benefits for employees (Contributions to the pension and life insurance)

Starting 1 January 2007, employers can expect new returns on so-called financial benefits earned by remunerating and motivating their employees for a longer period of time. The new regulation of the basis of the assessment calculation for the purposes of the General Medical Insurance Act and the Social Security and State Policy of Employment Withholdings Act will also concern the pension and life insurance from which the social and health insurance will be returned, but only in cases of contributions higher than CZK 12,000 a year.

■ Amendment of the Income Tax Act

Effective from 1 January 2007

The Income Tax Act was amended several times this year. Concerning the major news we can mention, for example, the joint taxation of married couples, and the unification of the financial market supervision. Other changes of this act took place in connection with the adoption of the Sickness Insurance Act and the Reserves Act. And last but not least, the Income Tax Act was amended because of the new Labour Code which should become effective on 1 January 2007 and which was the subject of our attention in the last News.

The new legal regulation of the Income Tax Act is thus closely linked to the news in the Labour Code. Since 1 January 2007, the „working means“ provided to employees (work shoes, providing beverages) will be excluded from the object of the tax. As next year the new Labour Code will make it possible to negotiate the amount and how compensation is provided for using the employee's own tools, equipment and articles necessary for their service, the new Income Tax Act will contain a provision by which it excludes from the object of the employees income tax by a lump sum compensation for using one's own tools (extended for lump sums agreed in employment or other contracts).

There will also be stricter conditions for not providing non-alcoholic beverages to employees. The value of providing non-alcoholic beverages to employees will be exempted only if they are reimbursed from the social fund, the after-tax profit or the expenses. For tax recognition, the amendment also deals with the question of a self-catering facility, or contributions to employees for catering and allowance, respectively. There will be a new provision stating that if the contribution to employees for catering should be recognized as an expense, the employee must be present at least 3 hours at his shift.

■ Amendment of the VAT Act

Since 15 July 2006, the reduced rate, i.e. 5% VAT rate, will apply to food including beverages (except for alcoholic), living animals, seeds, plants and additives, feed and water.

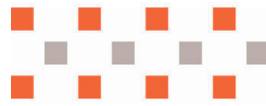
■ News from tax offices

Until 1 August 2006, tax offices were entitled to review the accounting only in a traditional paper form, or in an electronic form. But now they have the possibility to check directly the tax software installed and used by the given tax subject. This is thanks to the amendment of the Act on Administration of Taxes and Fees.

Let us also draw your attention to the current pilot project of the Czech Tax Administration which allows natural and legal persons to check on-line the state of their personal tax accounts, including the information on the account balance.

So far this portal is working on a trial basis. All suggestions and comments are welcome so that at the end of September, when an official introduction of the tax portal is planned, it is fully functional. However, to access this website it is necessary to have a qualified certificate from a relevant provider of certification services. Their list is published on the website of the Ministry of Informatics of the Czech Republic.

Another expansion of electronic communication (e.g. delivery of shipments from offices to tax subjects) will take place in 2007.



■ **New tax concept**

A group of tax experts, authorised by the Ministry of Finance of the Czech Republic, prepared an expert proposal on the optimum system of income and property taxation. This brand-new concept involves natural person income tax, corporate income tax, inheritance tax, gift tax and property tax.

The objective of this new concept is a material bill that would simplify the current situation and would reduce the administration expenses of the tax administrator, would be in compliance with the regulations of the European Communities and would support the economic policies of the Czech Republic.

In this respect, The Ministry of Finance of the Czech Republic appeals to the professional and general public to express their opinion on this new concept by 15 November 2006 (diskusereforma@mfc.cz). Information on the concept is available on the website of the Ministry of Finance of the Czech Republic www.mfcr.cz (taxes and duties).

Legal news

■ **Amendment of the Trades Licensing Act**

Effective from 1 August 2006

On 1 August 2006, the amendment of the Trades Licensing Act No. 455/1991 Coll., which was published in the Statute Book under number 214/2006, becomes effective. Its main objective is to simplify acquisition of trade licenses and to specify the interpretation of the present legal regulation.

The best aspect of this amendment is the possibility for new entrepreneurs to settle the majority of necessary matters at once and in one place - the Trade Licensing Office. This mainly includes tax registration, the application for pension, social and health insurance, the announcement of vacancies to Labour Offices or, on the contrary, their occupation with individuals, and legal entities can register for the tax matters and announce vacancies to Labour Offices. The Trade Licensing Office then performs the task of middleman, communicating between offices and entrepreneurs.

Similarly, the Trade Licensing Office is obliged to inform the above-mentioned institutions on changes in some data (e.g. seat of the company or registered office, statutory body etc.) if they are related to them and if the entrepreneur announced them to the Trade Licensing Office.

We have chose from the most important news the following:

- Persons who already carry out business in the Czech Republic must not have outstanding debts to the general health insurance in addition to the social insurance and taxes.
- It is not necessary to prove the fact that the person does not have any debts as mentioned above by any „documents“. The amendment takes into account the fact that the Trade Licensing Office will investigate the existence of outstanding debts itself. In the course of this activity, the term for the issue of the trade license is suspended.
- There is now no obligation for legal entities to appoint a responsible representative if they carry on free trades; in the case of other trades a statutory body member is appointed to this function, or another person if the statutory body does not meet the conditions required by the act.
- It is necessary to document the new seat of the legal entity only if it is not yet registered, for example, in the Commercial Register or other records. In such a case, the new Extract from the (Commercial) Register with a new address is sufficient. The same applies to the organisational units of foreign persons.
- The government can issue the decree specifying which trades cannot be carried out by persons with no permanent address in the Czech Republic or the European Union and with no relative connections to persons with such address in these states.

Unfinished proceedings concerning the issue of the trade license certificate for the free notified trade of a legal entity will be finished according to the Trades Licensing Act, in wording effective after the effective date of this act. Other proceedings started before the effective date of this act will be finished according to the existing legal regulations.



■ **New Sickness Insurance Act**

Effective from 1 January 2007 as the Sickness Insurance Act No. 187/2006 Coll. supersedes the current Employees Sickness Insurance Act No. 54/1956 Coll.

The new legal regulation related to the adoption of the new Labour Code is comprehensive and defines participants in health insurance, benefits with determination of their conditions of claim and benefits, and their amounts. It also defines the system of bodies providing the health insurance and their competencies.

The new legal regulation also defines the assessment of the health condition for the purpose of the health insurance. The health insurance is still regulated separately in Act No. 589/1992 Coll.

The new legal regulation also changes, among others, the conditions for the use of the sick benefit and introduces a refund of wages. Instead of the sick benefit, the employer will provide during the first two weeks of sick leave a refund of wages from its effective date. The refund of wages will then belong to the employee only for the period during which the employment establishing the participation in the health insurance lasts. The protection period will not be valid for the refund of wages and the employee will receive it only for the working days and in a percentual amount. But on average, it will correspond with the current income from the sick benefit.

Employees must still participate in the health insurance, in contrast to self-employed persons who have the option to participate in the health insurance.

For the first three days of illness the refund of wages will amount to 30% of the reduced daily average earnings (it is 25% today); from the fourth day till the end of the second week of the sick leave 69% for the working days (the same as today). The refund of wages will be a tax allowable expense and no social insurance, contribution to the State Policy of Employment Withholdings or health insurance shall be taken from it. For the companies employing handicapped people a particular solution will be valid. The part of insurance the employer is paying for his employees for the health insurance will be reduced from the present 3.3 to 1.4 percent.

Employers with less than 26 employees will also have the option to choose another system. If they pay higher insurance for employees (3.3% in 2007, thus the current insurance), then half of the paid refund of wages will be reimbursed by the Czech Social Security Administration. The sick benefit will belong to all the insured persons with no exceptions. This also means to self-employed persons from the 15th day of the illness.

Other insured persons

The compulsorily health insured persons include natural persons that are, according to the special act, appointed or elected to the function of the statutory body of a legal person established by the special act, or to the function of the representative of this managing or statutory body, provided that this managing or statutory body is a sole person and the appointment or the election did not establish any working or service relationship to these persons.

Foreign employees employed by foreign employers were included among those with the option to have health insurance if they are active in the Czech Republic in favour of such foreign employers.

This group of health insured persons will no longer include students and pupils, and partners and statutory representatives in limited liability companies and limited partners in limited partnerships if they, besides the labour relationship, perform for it any work for which this company remunerates them.

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