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Taxation of Employment Income in the Czech Republic

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Objects of PIT

- Income from dependent activity (employment), incl. emoluments of office-holders (function benefits);
- Income from independent (i.e. business other gainful) activity;
- Capital (property) income;
- Rental (lease) income;
- Other income.

Taxpayer

- Tax residents – natural persons with a residential address in the Czech Republic or individuals who usually stay in the Czech Republic (it means for at least 183 days in the relevant calendar year, either continuously or intermittently); these persons are liable to tax on income arising from sources in both the Czech Republic and abroad;
- Tax non-residents – natural persons not mentioned above as tax residents, student from abroad or patients staying in the Czech Republic for the purpose of medical treatment; they are liable to tax on incomes arising only from sources in the Czech Republic

Objects of taxation in case of employment incomes

- incomes from the recent or former labour relationship
- service relationship
- membership relationship
- similar relationship if the taxpayer – employee – must respect the payor's – employer's – commands in the course of execution of work for the payor

- incomes for work done by members of co-operatives, associates of limited liability companies and limited partners of limited partnerships
- incomes for work of company liquidators
- remunerations of members of statutory bodies of legal entities
- function benefits: function salaries of members of the government, deputies and senators of the Parliament of the Czech Republic and salaries of chiefs of central authorities of the state administration and remunerations for execution of function in authorities of municipalities, in other authorities of territorial self-governance, state authorities, civic and professional associations, chambers and other authorities and institutions
- 1 % (but not less than 1 000 CZK) of the input price of a motor vehicle in each month, if the employee can use it not only for business but for himself, too

Svarcsystem

- incomes from dependent activities (as defined by Income Taxes Act) include must be explained in a broader sense than in labour law
- a different and higher taxation of employees than entrepreneurs ---- lot of taxpayers are trying to become entrepreneurs, even if they must respect someone else's commands in the course of execution of work
- this practice is called **Svarcsystem**
- Svarcsystem in the taxation of professional team sport **athletes** in Czechia

Tax base

- **Super gross wage** as a partial tax base from dependent activity (employment) is unique in the whole word
- Super gross wage is a gross wage increased by 34 % of the gross wage as sums of social security insurance premium, contribution to the state employment policy and general health insurance premium that must be paid by the employer
- if we accept the social security premiums (or at least social security insurance premium) as taxes, we can talk about tax on tax, i.e. double taxation
- No real / lump sum expenses (travelling costs, working clothes, etc.).

Svarcsystem example

A) Employed mason

Gross wage	300.000
+ Soc. sec. prem. (34 % of gross wage)	102.000
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Tax base	402.000

B) Self-employed mason

Income	300.000
- Lump sum expenses (80 % of income)	-240.000
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Tax base	80.000

PAYG

- the pay as you go system (the withholding tax) is applied for income if the total amount does not exceed 10.000 CZK in the calendar month (no need to pay social security premiums), and an employee did not sign the tax declaration, i.e. he does not apply for the tax reductions and tax allowance for children
- usually it is used by the taxpayers in their second job
- at the end of the year, there is no need to include this income in the tax return

Tax rate

- the basic rate: 15 %
- since 2013 so called special solidary surcharge 7%
 - average salary multiplied by 48

Example

A) Employed mason

Gross wage	300.000
+ Soc. sec. prem. (34 % of gross wage)	102.000
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Tax base	402.000
Tax <i>brutto</i> I (15 % of the tax base)	60.300

B) Self-employed mason

Income	300.000
- Lump sum expenses (80 % of income)	-240.000
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Tax base	80.000
Tax <i>brutto</i> I (15 % of the tax base)	12.000

Correction Components

- **incomes** generally **not liable to** personal income **tax**
(example reimbursement of travel expenses on business trips or the value of personal protective equipment, working clothes, etc.)

■ tax exemptions

- sums spent by the employer in order to improve his employees' professional skills or for reskilling
- value of food and soft beverages given by the employer to the employees
- non-monetary performance given by the employer to the employees from a fund of cultural and social needs or from the social fund
- privileges granted by the employer running public personal transportation to his employees and members of their families in the form of free or cheaper tickets
- The employer's contribution to pension insurance and life insurance up to the sum of 50.000 CZK

- **tax allowances** to get modified (reduced) tax base
 - the value of gifts (2 – 15 % of the tax base)
 - pension insurance (maximum 24.000 CZK)
 - private life insurance premiums (maximum 24.000 CZK)
 - interest paid in the taxable period on a mortgage/loan
 - contributions paid by a member of a trade union organization up to 1,5 % (max 3.000 CZK)
 - remunerations for exams verifying the result of continuing education (max. 10.000 CZK)

- **tax reductions**
 - 24.840 CZK for each taxpayer
 - 24.840 CZK for a spouse with limited income
 - 2.520 CZK / 5.040 CZK for disable persons
 - 16.140 CZK for the ZTP/P card holder
 - 4.020 CZK for the student
 - costs paid to the kindergarten (max. minimum wage)

- **tax preferences for children**
 - 15.204 CZK / 19.404 CZK / 24.204 CZK
 - if the tax after this reduction would be in minus, the tax preference is divided into two parts:
 1. tax reduction up to zero tax
 2. tax bonus (for economically active taxpayer up to 60.300 CZK), i.e. s/he “receives taxes from state”!

Example (tax preference with old number, in case of self employed mason it is now possible to deduct tax preference)

A) Employed mason

Gross wage	300.000
+ Soc. sec. prem. (34 % of gross wage)	102.000
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Tax base	402.000
- Tax allowances	-0
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Modified tax base (rounded down)	402.000
Tax <i>brutto</i> I (15 % of the tax base)	60.300
- Tax reductions	-24.840
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Tax <i>brutto</i> II ≥ 0	35.460
- Tax preferences for one child	-13.404
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Tax <i>netto</i>	22.056

B) Self-employed mason

Income	300.000
- Lump sum expenses (80 % of income)	-240.000
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Tax base	80.000
- Tax allowances	-0
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Modified tax base (rounded down)	80.000
Tax <i>brutto</i> I (15 % of the tax base)	12.000
- Tax reductions	-24.840
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Tax <i>brutto</i> II ≥ 0	0
- Tax preferences for one child	-0
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Tax <i>netto</i>	0

Advance tax payments

- employer as a payor submits the sum of deducted tax each calendar month
- calculation depends on whether the taxpayer signed so called statement
- in this statement there are information for the employer about tax reductions and tax preferences
- the employee can sign the statement only for one employer and if he does not do that, he has no right for tax reductions and tax preferences for children

Tax administration

- only if the taxpayer has incomes from one employer or consecutively from more employers and he has signed the tax statement(s), he does not have to submit his tax return declaration --- the employer prepares co called annual account of tax advances except the tax return; possible over payments are transferred back to the taxpayer by the payor in his March wage
- Financial Office determined by the residential address of the taxpayer
- **tax return** before 1.4. / 1.7.
- self-application!!!
- tax payment : within the same period
- **revenue** is distributed between municipal budget, region budget and state budget

Conclusions (de lege ferenda?)

- 3 partial tax bases:
 - income from dependent activity (employment)
 - income from independent (i.e. business other gainful) activity incl. rental income
 - other incomes incl. capital income
- percentual progressive tax rate
- limit the number of correction components
- the nonsense called super gross wage must be abolished as soon as possible



Thank you for your attention

