

# Tax & Fiscal Alert

January, 2014

## Obligations and changes in personal taxation in 2014

*We would like to introduce you an overview of main obligations and changes in Czech personal taxation and social security and health insurance in 2014.*

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### Solidarity tax

As of 1 January 2013 the individuals are obliged to pay solidarity tax of 7% if their annual income exceeded the amount of CZK 1,242,432 (i.e. CZK 103,536 per month).

We would like to point out that the individuals who paid the solidarity tax during the year 2013 (even if only in one month) are obliged to file Czech personal income tax return for the year 2013. Their annual tax obligations cannot be settled through the annual tax reconciliation performed by an employer as before.

The general deadline for filing the Czech personal income tax return is on 1 April 2014. If the personal income tax return is prepared by a certified tax advisor based on a power of attorney granted to him/her, the filing deadline is extended until 1 July 2014 (including due date of a possible tax underpayment).

At the same time, the limit for consideration of obligation to pay the solidarity tax in 2014 has increased; the new limit amounts to CZK 1,245,216 (CZK 103,768 per month).

We would be pleased to offer you our assistance with the preparation of personal income tax returns of your employees in respect to the solidarity tax.

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### Withholding tax

From 1 January 2014 limits for use of withholding tax in case of royalties and agreements on work performance have been changed. For royalties the limit was increased from CZK 7,000 to CZK 10,000. In case of agreements on work performance the withholding tax base has changed from CZK 5,000 to CZK 10,000; hereby limits for application of the withholding tax and limits set in social security and health insurance regulations are synchronized.

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### Limitation of application of tax base deductions and tax relieves in case of tax non-residents

As of new year the application of tax base deductions and tax relieves has been limited for Czech tax non-residents. The Czech tax non-residents can generally apply for basic taxpayer relief without any limitation. Tax base deductions (e.g. mortgage interests) and other relieves (e.g. children deduction) can be applied for only if at least 90% of tax non-resident's annual income was sourced in the Czech Republic.

From 2014 this approach was tightened up and Czech tax legislation regulates that the tax base deductions and other tax relieves can be applied for only by Czech tax non-residents who are tax residents of the EU Member State, Norway or Iceland. The condition of minimal amount of income sourced in the Czech Republic was kept; newly fulfillment of this condition must be documented by confirmation of the foreign tax administrator issued on a form of the Czech Ministry of Finance.

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## *Change of minimal and maximal assessment base*

Maximal assessment base for purposes of social insurance was increased to the amount of CZK 1,245,216. Maximal assessment base for purposes of health insurance does not apply in 2014.

Further, minimal assessment base for both social security and health insurance and accordingly minimal advance payments for self-employed persons increased. The minimal advance payment for the purposes of social security amounts to CZK 1,894; in case of health insurance the minimal advance payment is newly CZK 1,752. The new advance payment for the purposes of social security should be firstly applied for the month in which 2013 social security overview was filed; the amount of the advance payment for the purposes of health insurance is valid as of January 2014.

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## *Changes in sickness insurance*

The period for which an employer is obliged to pay salary compensation for temporary work incapacity to a sick employee has decreased as of January 2014. Until 2013 the employer had been paying the salary compensation for the first 21 calendar days; newly the salary compensation will be paid for the first 14 calendar days. First three days of temporary work incapacity remains without any salary compensation as before.

Definition of employment was changed in sickness insurance act. There were discussions if this change means change in interpretation of the payer of social security in case of foreign employees assigned to the Czech Republic. At the end of 2013, representatives of Chamber of tax advisors, Social security authorities and Ministry of Labour and Social Affairs agreed that the change of definition does not mean any interpretation change and the payer of social security insurance remains unchanged.

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