

# News Flash

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**What impacts does the Czech tax package 2021 have on taxation of natural persons in practice?**

## What impacts does the Czech tax package 2021 have on taxation of natural persons in practice?

Tax package 2021 was published on 31 December 2020 in the Act no. 609/2020 Coll. What impacts does it have on taxation of natural persons in practice?

### Abolition of the super-gross wage and introduction of the second tax rate

The abolition of the super-gross wage reduces the base which is used to calculate the income tax of employees. The income tax is now calculated as a product of the tax rate and the gross wage, the tax base is no longer increased by employer's contributions to social security and health insurance (known as super-gross wage). This leads to a reduction in the effective taxation of the employees.

The abolition of the super-gross wage also results in the elimination of solidarity tax increase and introduces a second personal income tax rate. The **rate of 15%** will be applied to the tax base up to 48 times the average wage (2021: CZK 1,701,168 per year / CZK 141,764 per month) and the **rate of 23%** will be applied to income exceeding this limit.

Furthermore, in 2021, the **basic tax relief** per taxpayer increases from CZK 24,840 to **CZK 27,840**.

At first, it may seem that the abolition of the super-gross wage and the increased taxpayer's relief give rise to a significant reduction in the taxpayer's tax burden. However, it is important to emphasize that the **second tax rate also applies to the entire tax base** i.e. to rental income, sale of securities, sale of real estate, etc. The eliminated solidarity tax increase was applied only to income from employment and business activities. As a result, for employees with other types of income, the tax burden may significantly increase.

**Example 1:** An employee who signed a taxpayer's declaration for 2021 receives a gross salary of CZK 150,000.

	2020	2021
Gross salary	<b>CZK 150,000</b>	<b>CZK 150,000</b>
Health insurance - employer (9%)	CZK 13,500	CZK 13,500
Social security - employer (24,8%)	CZK 37,200	CZK 37,200
Tax base	<b>CZK 200,700</b>	<b>CZK 150,000</b>
Income tax (basic tax rate 15%)	CZK 30,105	CZK 21,265
Income tax (second tax rate 23%)	CZK 0	CZK 1,894
Solidarity tax increase (7%)	CZK 746	CZK 0
Tax advance	<b>CZK 30,851</b>	<b>CZK 23,159</b>
Health insurance – employee (4,5%)	CZK 6,750	CZK 6,750
Social security – employee (6,5%)	CZK 9,750	CZK 9,750
Taxpayer's relief	CZK 2,070	CZK 2,320
Tax advance after taxpayer's relief	CZK 28,781	CZK 20,839
Net salary	<b>CZK 104,719</b>	<b>CZK 112,661</b>

**Example 2:** The employee also rents out a real estate, from which he receives income in the amount of CZK 20,000 per month, and claims expenses using the fixed rate of 30%: In addition, he sold a property in the amount of CZK 5 mil., which he acquired for CZK 2 mil. but does not meet the conditions for exemption.

	2020	2021
Partial tax base Section 6	CZK 2,376,676	CZK 1,800,000
Partial tax base Section 9	CZK 168,000	CZK 168,000
Partial tax base Section 10	CZK 3,000,000	CZK 3,000 000
Tax base	<b>CZK 5,544,676</b>	<b>CZK 4,968,000</b>
Income tax (basic tax rate 15%)	CZK 831,690	CZK 255,176
Income tax (second tax rate 23%)	CZK 0	CZK 751,372
Solidarity tax increase (7%)	CZK 8,955	CZK 0
Total tax liability	<b>CZK 840,645</b>	<b>CZK 1,006,548</b>

### Meal allowance (monetary)

Employers can now provide employees meal allowance in cash. It is a **substitute to the provision of meals** in non-monetary forms, especially to meal vouchers widely used in practice. The aim for the introduction of this option is to reduce related costs of the employers (especially to save on commissions). It also favourable for employees who do not have to check whether or not the establishments accept meal vouchers and monitor the validity of meal vouchers.

The employer's financial contribution is tax-exempt up to 70% of the maximum value of meal allowance for a business trip lasting 5-12 hours, which amounts to **CZK 75.60 for 2021**. This amount corresponds to 55% of the employer's contribution to meal vouchers. Employees can be provided with a meal allowance or a meal voucher, not both benefits at the same time.

It is necessary to point out the different tax regimes in case of provision of meal allowance or meal vouchers that exceeds the limit stipulated by law.

In the case of meal allowance, the value of the entire contribution is tax deductible for the employer. The restriction is only for exemption on the part of the employee. Amounts exceeding the limit are subject to income tax and premiums to social and health insurance. If the employer contributes a higher amount to the employees i.e. CZK 100 / day, the amount of CZK 75.60 is exempt from income tax and insurance premiums. However, the amount of CZK 24.40 is subject to income tax and insurance premiums (paid by employees and employers).

On the contrary, in case of meal vouchers, only 55% of the value of the meal voucher is considered a tax deductible expense for the employer, max. CZK 75.60 (for 2021). There is no restriction on exemption on the part of the employee, i.e. the meal voucher is tax-exempt regardless of its value.

The provision of meal vouchers will not be advantageous for those employers who provide employees with meal vouchers without the employee's participation i.e. partial amount of the meal voucher is withheld from their wages, or meal vouchers with an above-limit nominal value.

**Example 3:** A meal allowance in the amount of CZK 100 or a meal voucher of CZK 100.

	Meal voucher (without employee's contribution)	Meal allowance
Value	CZK 100	CZK 100
Tax deductible cost for the employer	CZK 55	CZK 100
Tax non-deductible cost for the employer	CZK 45	CZK 0
Tax impact of the tax non-deductible cost	CZK 11	CZK 0
Taxable income of the employee	CZK 0	CZK 24.40

Even if employees were provided meal allowance, they do not have to worry that this income would be subject to distraint and deductions on wages. Only wages and income listed in Section 299 of the Code of Civil Procedure are subject to deductions from wages. The meal allowance is not considered a wage, nor is it listed in the Code of Civil Procedure.

### Flat tax for freelancers

Entrepreneurs may now register for the flat tax regime. The entrepreneur may apply by notifying the tax administrators before the **10th day of the relevant tax period (for the year 2021 until 11 January 2021)** or at the beginning of their freelancing activities.

The aim of this amendment is to simplify the administrative burden for both taxpayers and tax administrators through a single monthly payment to the tax administrator in the amount of **CZK 5,469**. This amount consists of an advance on income tax of CZK 100, social security premiums of CZK 2,976 and health insurance premiums of CZK 2,393. This payment is **due on the 20th day of each calendar month**.

The entrepreneurs in this regime will not have to pay income tax advances, file tax returns, social and health insurance overviews, pay social and health insurance advances and reconcile these advances annually. To be eligible for this tax regime, the entrepreneur must meet the following **conditions**:

- **Self-employed person** according to the legislation regulating pension and health insurance.
- **Income only up to CZK 1 mil.** in the previous taxable period.
- **Non-payer of VAT** without VAT registration obligation.
- **Not a partner** of a general partnership or limited partnership (Czech forms of v.o.s. and k.s.).
- **Not a debtor** against whom insolvency proceedings have been initiated.

In addition to income from independent activities up to CZK 1 mil., it is possible for the taxpayer to receive only the following income:

- Income exempt from taxation and income which is not subject to taxation.
- Income taxed by special withholding tax rate i.e. **Agreement to complete a job (Czech: DPP) up to CZK 10,000 / month**, provided that the entrepreneur does not sign the taxpayer's declaration (pink form), or **Agreement to perform a job (Czech: DPČ) up to CZK 3,500 / month**, profit on shares and dividends from sources in the Czech Republic, and
- Income from capital assets, rent and other income if the total amount does **not exceed CZK 15,000**.

Whether a flat tax is advantageous for entrepreneurs depends primarily on the situation of each entrepreneur, whether the entrepreneur applies tax reliefs, tax allowance or whether he applies fixed rate of expenses i.e. as a percentage of income.

**Example 4:** A self-employed person with an income of CZK 800,000 per year who claims expenses as a fixed rate of income (80%) and does not claim any tax benefits (tax relief on spouse, tax allowance on children, etc.).

	80 %	Flat tax
Taxpayer's basic tax relief	CZK 27,840	X
Tax relief on spouse	X	X
Tax allowance on children	X	X
Income tax	CZK 24,000	CZK 1,200
Social security premiums (minimum)	CZK 31,056	CZK 35,712
Health insurance premiums (minimum)	CZK 28,716	CZK 28,716
<b>Total income tax and premiums</b>	<b>CZK 59,772</b>	<b>CZK 65,628</b>

**Example 5:** A self-employed person with an income of CZK 800,000 per year who claims expenses as a fixed rate of income (60%) and does not claim any tax benefits (tax relief on spouse, tax allowance on children, etc.).

	60 %	Flat tax
Taxpayer's basic tax relief	CZK 27,840	X
Tax relief on spouse	X	X
Tax allowance on children	X	X
Income tax	CZK 48,000	CZK 1,200
Social security premiums (minimum)	CZK 31,056	CZK 35,712
Health insurance premiums (minimum)	CZK 28,716	CZK 28,716
<b>Total income tax and premiums</b>	<b>CZK 79,932</b>	<b>CZK 65,628</b>

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## Contact

**Kateřina Hrůzová**

Tax Manager

E-Mail: [katerina.hruzova@accace.com](mailto:katerina.hruzova@accace.com)

Phone: +420 222 753 480

**Lan Anh Mai**

Tax Consultant

E-Mail: [Lan.Mai@accace.com](mailto:Lan.Mai@accace.com)

Phone: +420 222 753 480



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