Tax News February 2019

Dear clients and business partners,

The tax package, containing changes that were planned to become effective from beginning of this year, has not been approved yet. The draft has been changed during the approval process. The positive changes include an increase of expense allowances for self-employed persons and dropping of the intention to include activities of executive directors (jednatel) among supplies that are subject to VAT. We have to wait some time before the tax package becomes effective, still there are some interesting tax news we would like to mention.

KempHoogstad Team

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Expense allowances for self-employed persons higher again from 2019?

If the tax package is approved and its wording is kept the way it is now, then self-employed persons and persons with income from renting real estate with income above CZK 1,000,000 can look forward to claiming higher expense allowances. The amendment to the Income Tax Act should increase expense allowances to the original maximum amounts used up to 2017, and thanks to the amendment, it should become effective from the 2019 tax period.

- Maximum of CZK 1,600,000 for expenses claimed in the amount of 80% of income (Income from agricultural production, forestry and water management, and craft trades)
- Maximum of CZK 1,200,000 for expenses claimed in the amount of 60% of income (Income from craft trades)
- Maximum of CZK 800,000 for expenses claimed in the amount of 40% of income (Income from other self-employed activities, e.g. doctors, lawyers, liberal professions, interpreters)
- Maximum of CZK 600,000 for expenses claimed in the amount of 30% of income (Income from renting real estate)

The proposed change will positively influence persons with income above CZK 1,000,000. For example, a self-employed person who claims 60% of expense allowances and has an annual income of CZK 2,000,000 can claim in 2018 only expenses amounting to CZK 600,000. In 2019, it should be a maximum of double this amount, i.e. CZK 1,200,000, which is a tax savings of CZK 90,000.

Basically, the above mentioned amounts were valid until 2017, but if self-employed persons used them, then they could not claim tax relief for a spouse and tax advantages for children under certain conditions.

For the 2018 tax period, i.e. for tax returns submitted for last year, expense allowances are reduced to half, but the tax relief and advantages can be claimed in full.

When the amendment is approved, the increased expense allowances should be valid together with the possibility of claiming tax relief in the 2019 tax period.

Foreign mandatory insurance paid by employer and super-gross salary

If you have employees who are not subject to mandatory social security and health insurance in the Czech Republic but are subject to foreign insurance in a member state of the European Union or the European Economic Area or Switzerland, then determination of their super-gross salaries for the purposes of calculating tax from dependent activities changes from this January.

Such employees' super-gross salary will now include the amount of insurance which the employer actually pays as a mandatory contribution into foreign insurance instead of the originally included fictitious Czech insurance amounting to 34%. This means there will be a certain administrative burden because the amount must be determined in the respective country and demonstrated. The impact on the amount of taxation of employees can vary depending on whether and in what amount the respective foreign social security system requires contributions from employers. Employees who are subject to an insurance system in a country outside the EU will still have their super-gross salary increased by a fictitious Czech insurance.

Brexit and its tax context still a big question

The United Kingdom's withdrawal from the European Union will of course have an impact on many tax areas, either business entities or citizens. The impact on the Czech tax area can be assessed only when it is clear if there is a deal on Brexit and a certain transient period or if there is a hard Brexit. Apart from changes in the regime of mutual trading regarding customs and value added tax, entrepreneurs in particular will have to consider the impact on income tax, such as the potential duty to apply withdrawal tax or guarantee of taxes when providing various payments to British subjects. In such cases, the double taxation treaty concluded with the UK will be relevant. Citizens from both countries having income in the other country or having activities in its area can lose certain tax advantages after Brexit, and they would need to solve questions regarding their social security and payments of insurance.

The government prepared a bill that should adjust some of the impact from a hard Brexit during a transient period until the end of 2020, and the bill is now waiting to be debated in the Senate. From the above-mentioned areas, the bill deals only with some questions regarding income tax, but it does not give many unambiguous answers. The adjustments in the bill do not cover the issue of jurisdiction of employees with respect to social security, with the exemption of the issue of entitlement to unemployment allowance.

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