

TAX NEWS

LERIKA, Sokolovská 81/55, 186 00, Praha 8, www.lerika.eu

Dear clients and business partners,

All the best in 2019! We wish you a lot of health and happiness and also success in your personal lives as well as your careers.

Our New Year's issue of Tax News is dedicated to selected tax law changes adopted as part of 2019 Tax Package. We also aim to keep you posted about the new tax developments resulting from the last session of the Parliament before the Christmas break. As every year, we provide a summary of all the relevant changes to various parameters tied to the increases in the minimum and average wages and also focus on per diems applicable as of 2019. Self-employed individuals will surely appreciate the increase in the limit of lump sum expense deductions. We also cover how much they will pay in terms of social security and health insurance advances.

We trust that the information will be interesting to you. In case of any questions, do not hesitate to contact us at any time.

Lots of success in 2019 and a pleasant read!

Ivana Ottová

TAX PACKAGE 2019

As we already informed you in the last issue of the Newsletter in September 2018, the Ministry of Finance has prepared a comprehensive law package which amends various tax laws as of 2019. The Parliament approved the governmental Tax Package in the 3rd reading, on the last day before Christmas break, on Friday 21 December 2019, accepting some of the proposed changes, which has proven beneficial to many self-employed individuals, as the proposed changes include **re-introduction of the lump-sum expense deduction caps** applicable in 2017 and prior years. The 2019 Tax Package is now heading to the Senate and needs to be signed off by the President.

INCOME TAX

Significant changes, which include the abolition of taxation through supergross salary and the effort to tax income using progressive tax rates for individuals (19% and 24% respectively) have not been accepted. Therefore, the proposed Tax Package mainly includes those changes resulting from various EU Directives (local implementation of the Anti-Tax Avoidance Directive – ATAD) preventing aggressive tax planning, which we had already covered in our September Newsletter.

The adopted measures include mainly **limitation on deductibility of interest** from loans, taxation of assets being transferred abroad without a corresponding change in ownership (i.e. **exit tax**), introduction of the so-called **CFC rules** governing taxation of income a foreign controlled (dormant) company and removal of **hybrid mismatches** of various tax systems. These measures have been mostly adopted as proposed.

In the following pages of the Tax News, we showcase an additional sample of what was being discussed as part of the 2019 Tax Package adoption and in which wording it is heading to the Senate.

Contents

- 2019 Tax Package
- Lump sum deductions for self-employed individuals, social security and health insurance
- Changes in various payment amounts in 2019
- Sickness insurance pay-out default period
- Per diems in 2019
- Electronic Records of Sales – what to expect in 2019?

Tax | Accounting | Payroll

If you wish to unsubscribe from Tax News, please contact Ms Soňa Šebková at sona.sebkova@lerika.eu or via telephone at +420 277 277 082.

In case of any questions, please do not hesitate to contact the relevant professional at LERIKA firm.



R&D COST DEDUCTION

Budget Committee has submitted an amendment stipulating that the tax administrator be notified about the intention to apply an R&D cost deduction on a tax return. Although a failure to notify the tax administrator about the intended deduction will not trigger any penalties, the taxpayer will not be able to claim the deduction as a result. The amendment has been accepted by the Parliament together with additional stricter measures governing the extent of documentation to be kept in connection with the deduction.

LUMP SUM EXPENSE DEDUCTIONS

Although the initial efforts of the opposition to increase lump sum expense deductions failed, during 24th session of the Parliament on 4 December 2018, the Members of Parliament of the Civic Democratic Party (ODS) submitted once again an amendment to increase the limits for the application of lump sum expense deductions to CZK 2 million. The opposition MPs insist that the purpose of this initiative is to remove obstacles preventing self-employed individuals from effectively carrying on their business. The Ministry of Finance subsequently decided to support the initiative so self-employed individuals received a nice Christmas surprise from the Parliament in the form of an approved increase in lump sum expense deductions. The lump sum percentages (in the range of 40%-80%) remain unchanged.

SOLIDARITY TAX INCREASE

The proposal of the opposition to abolish the so-called „supergross“ salary and solidarity tax increase was not accepted. In this regard, no changes are upcoming in 2019.

INCREASE IN DEFAULT TAX CREDIT

Default tax credit (per taxpayer) of CZK 24,840 has remained unchanged since 2008, when the average wages in the Czech Republic amounted to CZK 20,957. As of 1 January 2019, average wages have increased to CZK 32,699. Due to such an increase in average wages, the members of parliament have submitted a proposal to increase the annual default tax credit to CZK 30,000. Unfortunately, this proposal has not been accepted and the default tax credit thus remains unchanged.

WAGES TAXATION

Income tax act has only seen negligible changes for 2019 with respect to taxation of wages. Employers will be interested to know that the limits for the so-called small-scale employment, which are subject to withholding tax, have changed. The tax package increases this limit to CZK 3,000, which is also the new threshold triggering an obligation of employees to participate in sickness insurance. Proper attention should be paid to the month as of which this new limit shall apply, which will most likely be February 2019.

It is worth bringing to your attention a tax law amendment separate from the 2019 Tax Package, which was already published in the Collection of Laws before Christmas and which applies, as of 1 January 2019, to employees whose compensation is subject to health and social security contributions in another EU/EEA member state or Switzerland. For such employees, the „supergross“ salary is determined as a sum of employment income and amounts contributed by employers towards the mandatory foreign insurance. The previous practice of increasing employment income with a deemed 34% contribution (corresponding to deemed contributions that would have been payable by employers if the employee belonged to the Czech social security and health insurance system) has been discontinued. However, proper attention should be paid to foreign employees from third countries (i.e. countries outside EU/EEA or Switzerland), whose taxable income continues to be calculated in the same manner as „supergross“ salary i.e. their employment income plus deemed 34% contributions.



VAT

Upcoming changes in the VAT law are far-reaching and we will deal with them in more detail in one of the Tax News in the following months of 2019. Although the changes have not been brought into force as of 1 January 2019 via the Tax Package, we bring you a brief summary of the main features of the upcoming VAT law amendment:

- **Rules for vouchers:** Do you know when to apply VAT in case of vouchers and / or coupons? The VAT law amendment should provide a clear answer and we will cover it in one of the following issues of Tax News.
- **Corrections of taxable income in case of irrecoverable bad debt:** The VAT law amendment provides for new cases when it will be possible to claim VAT from bad debt. Newly, it will be possible to correct taxable income in case of inadequately long insolvency or asset seizure proceedings, as well as in case of reorganisations pursuant to the insolvency law.
- **Financial lease:** Leasing companies should pay attention to this upcoming change. The VAT law amendment updates the definition of the financial lease, which is considered to represent supply of goods with an obligation to levy VAT before the take-over of the leased asset by the lessee. Newly, financial lease shall also include agreements granting an option to the lessee to buy the asset, if the option appears to be the only economically viable choice. The new rules will apply to agreements concluded after the approval of the amendment and to leased assets handed over after the law's effectiveness.
- **Services connected with lease:** The amendment introduces a special regime for recharges of services which are subcontracted to third parties and are recharged together with lease. The date of taxable supply for such services is specifically defined as the date when the actual amount for services received in connection with the lease that is meant to be recharged is ascertained. However, this does not cover supplies such as provision of heat, cold, power, gas, water, waste removal, telecommunication services etc.
- **Input VAT correction in case of significant repairs of property:** Correction of input VAT deduction when changing the scope of use of property is nobody's favorite thing to do. The VAT law amendment does not simplify things and puts in place a new provision according to which the input VAT correction will also have to be made in case of significant repairs of property.

The explanatory report to the law amendment provides the following explanation: „*In practice, this input VAT correction will cover, for example, situations when a taxpayer performs repairs on a property which was used for business activities, in cases when the input VAT was first claimed and the property was subsequently sold as a VAT exempt supply without input VAT deduction.*“

Repairs performed within 10 years before the transfer of the property will be subject to the new correction mechanism.

- **Change of tax rates:** 2019 Tax Package stipulates that provision of heat and cold be henceforth subject to 10% tax rate.

Worth noting are also changes that had already been enacted in the past, but which take effect as of 1 January 2019:

ASSOCIATION (CORPORATION) WITHOUT LEGAL STATUS

The end of 2018 brings to a close the transitional provision for application of VAT rules to associations (corporations) without legal status. Many VAT payers took advantage of the transitional provisions which were in effect until the end of 2018, and proceeded in accordance with the (already expired) regulation providing for a designated participant to handle all VAT matters on behalf of the entire association. The designated participant handled all tax obligations under their own name (they filed VAT returns and Control Statements, issued tax documents, acted as a recipient of supplies etc.).

As of 1 January 2019, each participant acts in their own capacity. This means that every participant is a separate tax subject for VAT purposes i.e. a VAT payer or an identified person who handles their own individual VAT obligations vis-à-vis the applicable tax authorities. Newly, each participant has to bill their respective customer based on their agreed share in the association, or, in case the participants continue to act towards a customer through one designated participant only, there has to be a subsequent settlement among the individual participants, which is subject to VAT.

DATE OF TAXABLE SUPPLY

On 5 December 2018, the President signed a minor amendment, which deals with the date of taxable supply. The amendment enters into effect as of 1 January 2019 and deals with a controversial regulation that provides for an obligation to levy VAT in case of supplies which are initiated in one year and are not finished until 31 December of the following year (Article 21, Section 8). Based on the existing regulation, the VAT payer has to levy VAT from such supplies until 31 December at the latest, although no settlement or billing has yet been made.

The amendment introduces a modification of the existing rules such that the obligation shall not apply to e.g. court-appointed attorneys or other persons whose compensation is provided by the state. However, in all other cases, the obligation to levy VAT holds.

As the amendment has already been signed by the President, its publication in the Collection of Laws (which determines its effect) is a pure formality.

10% VAT RATE FOR MASS TRANSPORT

On 27 December 2018, the President signed a law which amends the VAT rate applicable to mass transport (via trains, buses, ferries or cable cars) to the reduced 10% rate. We expect the law to be published until the release of this Newsletter.

nikoleta.koprdovalerika.eu

Self-employed individuals – major upcoming changes

SOCIAL SECURITY ADVANCES

As of 1 January 2019, changes in connection with payment of pension and sickness insurance advances have been introduced.

Newly, the advances are to be paid within the entire calendar month to which the advance relates. This means that e.g. a February advance needs to be paid during the month of February (and not until 20 March, as was the case until the end of 2018). The payment has to be received by the social security administration until the end of the given month.

To avoid unnecessary complications as a result of the change, payments made at the turn of the year will be subject to transitional provisions.

Based on transitional provisions, taxpayers do not have to pay two advances at the same time. The December 2018 advance does not have to be paid at all, and the settlement of any potential underpayment can be made as part of the filing of the annual Income Statement for 2018. The underpayment resulting from the Income Statement is payable within 8 days after filing the Income Statement. However, if the self-employed individual decides to pay the December 2018 advance voluntarily, they could have done so in the period between 21–31 December 2018 i.e. after the deadline for the payment of the November advance. Later payments cannot be made. This transitional provision does not apply to voluntary sickness insurance payments.

2019 LUMP-SUM EXPENSE DEDUCTIONS

A Christmas surprise has been arranged by the Parliament, which approved, during its session of 21 December 2019 in the third reading, the 2019 Tax Package, which included **re-introduction of the lump-sum expense deduction caps** applicable in 2017 and prior years.

As of 2019, self-employed individuals can thus benefit from percentage lump-sum expense deductions of up to CZK 2 million, as opposed to the current cap of CZK 1 million. The lump-sum deduction cap is thus doubled.

2019 Tax Package is now heading to the Senate and has to be signed by the President.

ivana.ottovalerika.eu

Self-employed individual starting their business can pay their first advance as of the day when they sign up for social insurance, until the end of the following calendar month. This means that if a self-employed individual starts their own business in January 2019, they have to pay the advance by the end of February 2019 at the latest (i.e. same deadline as for the February 2019 advance payment deadline).

PRACTICAL IMPACT

The above change practically means that monthly advances paid by self-employed individuals will only be counted 11 times during a given year (unless the self-employed individual used the option to voluntarily pay the 12th advance during December 2018, which makes little sense in our view though). The 12th advance, paid generally during the course of January 2019, will only be counted against the social security due from the Income Statement submitted for the 2019 year i.e. in 2020 at the earliest.

CHANGE IN ADVANCES AFTER FILING THE INCOME STATEMENT

Whereas earlier, it used to be common practice that the new amount of advances resulting from the filed annual Income Statement already applied in the month when the Income Statement was filed, the new rule stipulates that new advances only apply to the month following the month in which the Income Statement was filed. Readers will notice that the combination of this change together with the above described shift in advance payments has no practical impact in terms of the point in time when the advance amount changes.

EXAMPLE

A self-employed individual who is not filing their tax return via a tax adviser, who files their 2018 Income Statement in April 2019, updates to the new advance amount resulting from the 2018 Income Statement as of May 2019. The new advance is payable between 1-31 May 2019. The self-employed individual makes a change to the standing bank order as of the month following the filing of the Income Statement i.e. same as in the past.

One small change in terms of payment of advances concerns the new rule that if a lower advance results from the annual Income Statement, the new lower advance can already be paid for the month, in which the Income Statement was filed.

CHANGE IN MINIMUM ADVANCES – SOCIAL SECURITY

Same as every year, minimum social security advances due after the filing of the Income Statement have been updated as follows:

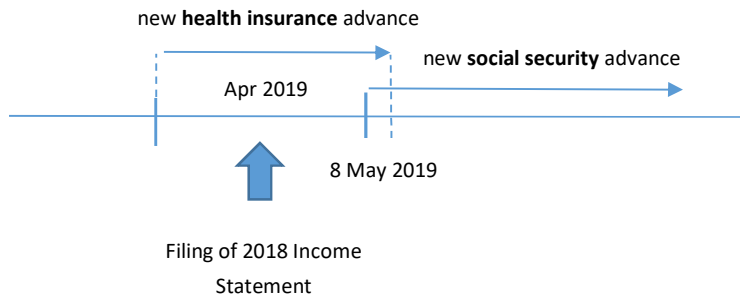
- for primary activity: CZK 2,388
- for secondary activity: CZK 955

HEALTH INSURANCE ADVANCES

Unlike social security, health insurance payments have not seen significant changes. The health insurance advance for the given month is payable as of the first day of the month, to which it applies, until 8th day of the following month i.e. same practice as until now.

Advances so determined are first payable for the month in which the Income Statement is filed, and for the last time in the calendar month preceding the month, in which the next Income Statement was due in the following year.

We illustrate these principles with the below picture:



CHANGE IN MINIMUM HEALTH INSURANCE ADVANCE AMOUNTS

As of 1 January 2019, new minimum health insurance advance amounts are set at CZK 2,208. Same as in the past, this change is applicable to health insurance advances paid starting January 2019.

For individuals without taxable income (OBZP in Czech), the minimum insurance payments increase to CZK 1,803.



DEADLINE FOR THE FILING OF 2018 INCOME STATEMENTS

The latest date for the filing of the 2018 Income Statement is 2 May 2019. If the self-employed individual uses a tax advisor to file their tax return, the deadline is extended to 1 August 2019.

ivana.ottova@lerika.eu
nikoleta.koprdoва@lerika.eu

CHANGES IN VARIOUS PAYMENT AMOUNTS IN 2019

MINIMUM WAGES

As of 1 January 2019, **minimum wages** have increased from CZK 12,200 to **CZK 13,350**. Minimum wages are set by the government via a directive.

Minimum wages are relevant for determination of the following:

- Maximum amount of tax credit for placing a child in a kindergarten (i.e. **kindergarten credit**). Whereas the tax credit for 2018 amounts to CZK 12,200, it will amount to CZK 13,350 for 2019.
- Annual child-related **tax credit**. The entitlement to this tax credit arises if annual taxable income pursuant to Article 6 or 7 of Income Taxes Act reaches at least 6 times the minimum wages – i.e. CZK 73,200 for 2018 and CZK 80,100 for 2019 respectively.
- Conditions for claiming the **monthly tax bonus**. Income from employer in the given month must amount to at least one half of the minimum wages i.e. CZK 6,100 in 2018 and CZK 6,675 as of 1 January 2019.
- Cap for taxation of **regularly paid pension**, which is exempt up to 36 times the minimum wages a year goes up from CZK 439,200 in 2018 to CZK 480,600 in 2019.

AVERAGE WAGES

Average wages have increased and amount to CZK 32,699 as of 1 January 2019. The value represents the expected (or estimated) average wages for 2018 determined from various statistical data for the full year 2017 and first six months of 2018.

Various parameters which use average wages as a base line are determined every year through a governmental decree and apply until 30 September of the following year. In 2018, this concerned:

- General assessment base for 2017, which amounted to CZK 30,156;
- Calculation coefficient of 1.0843.

Average wages applicable as of 1 January 2019 is a product of the following two parameters:

Average wages = CZK 30,156 * 1.0843 = CZK 32,699

Average wages and general assessment base respectively have impact on various tax-related areas, and affect e.g. the following:

- Threshold for solidarity tax increase;
- Cap for social security assessment base;
- Minimum advances for health insurance for self-employed individuals;
- Minimum monthly income triggering employees' participation in sickness insurance;
- Reduction rates for sickness payments;
- Basic amounts of old age, disability, widow and orphan pensions;
- Amount of pension payable as of 1 January 2019.

It is worth noting that together with the increase of average wages, the threshold for employee participation in sickness (and therefore pension as well) insurance pursuant to Article 6 Section 2 of the Sickness Insurance Act goes up from the current CZK 2,500 to CZK 3,000, which has been the first such increase since 2012.

OVERVIEW OF IMPORTANT PAYMENT PARAMETERS FOR 2019

Parameters for 2019	
General assessment base	CZK 30,156
Calculation coefficient for pension security	1.0843
Average wages	CZK 32,699
Minimum wages	CZK 13,350
Threshold triggering solidarity tax increase for personal income tax advances	CZK 130,796
Social security assessment cap (48 times average wages)	CZK 1,569,552
Annual threshold for solidarity tax increase (48 times average wages)	CZK 1,569,552
Minimum social security advances for self-employed individual – primary activity (determined as ¼ of average wages)	CZK 2,388
Minimum health insurance advances for self-employed individuals (determined as ½ of average wages)	CZK 2,208
Minimum monthly health insurance for individuals without taxable income (OBZP in Czech) (determined from minimum wages)	CZK 1,803
Net income after expenses for self-employed individuals with secondary business activity triggering their participation in pension insurance	CZK 78,478
Minimum social security advances for self-employed individuals – secondary activity	CZK 955
Reduction rates for sickness insurance	CKZ 1,090 / CZK 1,635 / CZK 3,270
Kindergarten tax credit. This tax credit is the same as minimum wages	CZK 13,350
Minimum monthly income of an employee triggering participation in sickness (therefore pension as well) insurance (1/10 of average wages rounded down to the nearest CZK 500)	CZK 3,000 (prior CZK 2,500)

nikoleta.koprdoва@lerika.eu

DEFAULT PERIOD

In accordance with the amendment of the Labor Code enacted by the Parliament, the so-called default period of the first 3 days of sickness during which employees are not entitled to wages compensation, is repealed. Together with this change, employer's sickness insurance payments are reduced by 0.2%. Total payments per employee are thus reduced from the current 34% (25% social security and 9% health insurance) to 33.8%.

The Labor Code amendment implementing the abolition of the default period was supposed to come into force as of 1 July 2019. However, the Senate turned down the amendment in its last session before Christmas. The fate of the default period is therefore back in the hands of the Parliament, which would need 101 votes to override the Senate's rejection.

ivana.ottova@lerika.eu

2019 PER DIEMS

DOMESTIC BUSINESS TRAVEL

As of 1 January 2019, a directive of the Ministry of Labor and Social Affairs amending travel compensation for employees paid during the course of domestic business travel was passed. Per diem rates, compensation for the use of vehicle and average cost of fuel all increase going forward.

Travel compensation	
Average cost of fuel	
95 octane petrol	CZK 33.10
98 octane petrol	CZK 37.10
Diesel	CZK 33.60
Rate of compensation of the use of vehicles for 1km of travel	
Motorbikes and tricycles	CZK 1.10
Personal vehicles	CZK 4.10
Per diems for every day of business travel depending on its length	
5 – 12 hours	CZK 82 – 97
12 – 18 hours	CZK 124 – 150
More than 18 hours	CZK 195 – 233

FOREIGN BUSINESS TRAVEL

As of 1 January 2019, various changes relating to per diem rates when travelling abroad outside the Czech Republic have been implemented. Increase in per diem rates applies in case of the following 9 countries:

Country	Per diems - 2018	Per diems- 2019
Argentina	45 USD	50 USD
Cuba	45 EUR	50 EUR
Mauretania	35 EUR	40 EUR
Myanmar (Burma)	45 USD	50 USD
The Netherlands	45 EUR	50 EUR
Poland	35 EUR	40 EUR
Saudi Arabia	40 EUR	45 EUR
Senegal	40 EUR	45 EUR
Syria	40 EUR	45 EUR

Apart from the above, per diem rate has also been updated for the Democratic Republic of Congo such that the rate changes from USD 60 to EUR 50 per day. All other per diem rates and conditions for their pay-out remain unchanged and are the same as in 2018.

nikoleta.koprdoва@lerika.eu

ELECTRONIC RECORDS OF SALES – WHAT TO EXPECT IN 2019?

In our September Newsletter, we have presented the main changes which should be introduced by the amendment of the Act on Electronic Records of Sales (EET in Czech), the coming into force of which was expected as of 1 July 2019. This mainly concerns the effectiveness of the 3rd and 4th phases of the Electronic Records of Sales and the ability for small-scale businesses to record sales via the so-called offline regime. The Parliament went through the first reading of the proposed Act on EET during its last session before Christmas. However, its discussion was quickly interrupted, which has already happened three times since September 2018 when the discussions had started. Therefore, the legislative process of the Act on EET has yet to start.

As the changes of the Act on EET come into force as of the first day of the seventh month following the law publication, it is already certain at this point that the law's effective date is going to be later than the planned 1 July 2019.

nikoleta.koprdoва@lerika.eu



Contact Details:

Corporate tax

Ivana Ottová

+420 277 277 085

ivana.ottova@lerika.eu

Corporate tax

Alena Kučerová

+420 277 277 084

alena.kucerova@lerika.eu

VAT and customs

Eva Vrábelová

+420 277 277 086

eva.vrabelova@lerika.eu

Personal taxation

Petr Hájek

+420 277 277 086

petr.hajek@lerika.eu

Accounting services

Monika Borkovcová

+420 277 277 089

monika.borkovcova@lerika.eu

Although we pay great attention to the publication of our tax news, please be aware that they should serve for informational purposes only. Before taking any specific action on the basis of the tax news, we recommend that the individual steps be properly consulted first.