

*In this first issue of our HR Newsletter in 2010 we focus on the legislation changes as of 1 January; we are introducing a new section related to laws under discussion and will also cover some of your frequently asked questions. Finally we will provide useful hints regarding the annual income tax settlement of your employees.*

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## News

### Measure from the CSSA - cancelled!

With effect from 28 December 2009, the Czech Social Security Administration (CSSA), considering that the number of influenza and similar cases did not reach the level of epidemic in the 51<sup>st</sup> week of 2009, cancelled the emergency measure for CSSA of the Moravian-Silesian, Zlín and Karlovy Vary regions which was to enable people to file temporary inability to work retroactively.

### Travelling allowances in 2010

The limits of travelling allowances for the year 2010 are given by the Decree No. 459/2009 Coll., based around a basic rate of meal allowances abroad, and No. 462/2009 Coll., that amends for the purposes of reimbursement of travelling expenses the basic rate for the use of road motor vehicles, meal allowances and the average fuel price.

### Postal data message

The Data Mailbox (Datová schránka) is an electronic storage site determined for the delivery of documents by state authorities and for making submissions to them. From 1 January 2010 Česká pošta (the Czech post office) has introduced a new service named Postal data message, which enables communication between other users of data mailboxes. Sending a Postal data message is a paid service. Until 30 June 2010 the Postal data message can only contain an invoice or similar application for payment. From 1 July 2010 the content of the Postal data message for the purpose of private sector communication will not be limited.

## From legislation

### Disability classification

From 1 January 2010, the terms “partial disability” and “full disability” with respect to pensions are cancelled. Decree of the Ministry of Labour and Social Affairs No. 359/2009 Coll. introduces the terms “disability pension – disability of the first, second and third level”. In the case of disability of the first level the ability to perform work has to drop by 35 - 49%; in the case of disability of the second level by 50 - 69%; in the case of disability of the third level (the heaviest form of disability) by 70% minimum. Status of current disability pension beneficiaries will be re-examined, and the allowance may be withheld if their disability drops by less than 34%.

### Tax-exempt pension

We would like to remind you that the total annual amount of regularly paid pension exempt from the income tax applicable for 2009 increased from CZK 198,000 (i.e. CZK 16,500/month) up to CZK 288,000 (i.e. CZK 24,000/month).

### News from Parliament

- The Chamber of Deputies is currently dealing with:
- ❖ Two proposals for the Labour Code amendment regarding cancellation of the guard (unpaid) period in case of sickness or quarantine; only one of them proposes also compensatory solution in the form of a social security rates reduction
  - ❖ Proposal for the cancellation of the maximum social and health security base
  - ❖ Two proposals for cancellation of the reduction of the maternity allowances
  - ❖ Proposal for cancellation of the reduction of the care allowance

This newsletter is intended to keep clients and friends of Contract Administration generally informed of current employment related issues in Czech Republic. It is not intended to give advice. Readers are recommended to take formal advice before contemplating any decision or action related to any item of information appearing in this newsletter.

## From legislation

### Increasing of pension for the period of gainful activity

From 1 January 2010 citizens who have met the conditions for old-age pension entitlement by gaining the needed basic period of insurance, have the possibility to influence positively the amount of his/her pension allowance through performing a gainful activity after the entitlement for the old-age pension arose.

As a consequence, employers have a new duty to complete in respect of employed old-age pensioners (please note: premature pensioners are not included) an earnings certificate for pension insurance purposes (in Czech "ELDP").

There are three possibilities how to achieve an increase of the amount of pension allowance:

- 1) Citizens who have met the conditions for the old-age pension allowance, but have not applied for the payout, are entitled to an increase of the pension assessment base of 1,5% for each 90 days of the gainful activity
- 2) Citizens who have met the conditions for the old-age pension allowance and have applied for the payout in the amount of one half of the entitlement are entitled to an increase of the pension assessment base of 1,5% for each 180 days of the gainful activity
- 3) Citizens who have met the conditions for the old-age pension allowance and have applied for the payout in the full amount, are entitled to an increase of the pension assessment base of 0,4% for each 360 days of the gainful activity (always once in a two-year period; or on the termination of gainful activity if earlier)

According to computation of the professionals, the option 1) neither 2) pay off. Faster increase of the assessment base in this case compensates income lost due to lower pension allowance payout approximately in 14 years.

## Your inquiries...

**"One of our employees fell ill in 2008 and based on the decision issued by CSSA on continuation of sickness allowance payout after the expiry of supporting period, we paid out the sickness allowances through the whole year 2009. The entitlement however exists in 2010 as well, how we should proceed further?"**

The duty described above has arisen for you as a "large" organisation, based on the old Act on the sickness insurance (effective until the end of 2008) and existed through the year 2009 based on the temporary provision of the new Act. From 1 January 2010 you however hand over the agenda and the allowance payout to the relevant branch of the CSSA.

**"At year ends we hear talk of a so-called 'obligatory proportion'. What does this term mean?"**

The Act on Employment defines an obligation for employers with more than 25 employees on average (based on a special methodology of computation) to employ employees with health disability in an obligatory proportion of 4% of the total number of employees in the Company's workforce.

A person with a health disability is a person:

- Fully or partially disabled (based on the decision of social security administration body) – *terminology of 2009*
- Disadvantaged with regard to health (based on the decision of the labour office)

The duty may be fulfilled by an employer also by:

- Purchasing of services and goods from employers determined by the law
- Transfer to the relevant state organ (CZK 57,240 per person for 2009)

In this respect an employer has a notification duty towards the labour office until 15 February. Within this deadline an employer also has to make the transfer to the state organ, where applicable.

## Issues which may affect you!

### The annual settlement of the income tax advances

In connection with 2009 year end employers have to deal with the agenda related to annual settlement of income tax advances (annual tax reconciliation, "ATR") of their employees. We have therefore prepared a summary of the most important principles you should not omit:

- ❖ Your employees **may** apply to you for ATR, but they are not obliged to.
- ❖ Application has to be done through signature of the tax payer declaration by **15 February 2010**
- ❖ The ATR cannot be prepared for an employee who has **obligation to submit income tax return** for 2009, which exists in the following cases:
  - ♦ The employee has made other income subject to tax higher than CZK 6,000 except income from a dependent activity, or is claiming a tax loss
  - ♦ The employee had in the course of the year two or more employers with the obligation to deduct monthly tax advances at the same time
  - ♦ The employee had in the course of the year two or more employers gradually but has not signed the tax declaration even for a part of period of employment
  - ♦ The employee was paid after 31 January 2009 additional net salary payment related to salary computed by employer in respect of 2008 that has not been paid out until the end of January 2009
  - ♦ The employee had income from employment performed during the year partially in the Czech Republic and partially abroad
  - ♦ The employee had income from dependent activity from representation office abroad
- ❖ Within the ATR, the following **tax exemptions** (decrease the amount of tax) may be enforced:
  - ♦ Exemption for each taxpayer (CZK 24,840)
  - ♦ Exemption for own partial disability (CZK 2,520)
  - ♦ Exemption for own full disability (CZK 5,040)

- ♦ Exemption for holders of a severely disable person's card (CZK 16,140)
- ♦ Exemption for students (CZK 4,020)
- ♦ Exemption for a spouse (CZK 24,840)
- ❖ Within the ATR, the following **non taxable part of the tax base** (decrease the tax base) may be applied:
  - ♦ Value of gifts donated to determined purposes (at least 2% of the tax base or CZK 1,000 minimum; 10% of the tax base maximum)
  - ♦ Interest paid on a loan provided to finance housing needs (CZK 300,000 per year in total for all loans taken out by tax payers living in one household)
  - ♦ Contributions payment on pension additional insurance (sum of the contributions paid reduced by CZK 6,000; CZK 12,000 maximum)
  - ♦ Paid premium on private life insurance (CZK 12,000 maximum)
  - ♦ Paid membership fee from a trade union member (up to the amount of 1,5 % of taxable income, up to CZK 3,000 maximum)
  - ♦ Settlement for exams verifying the results of the further education (maximum of CZK 10,000 in total, resp. CZK 13,000 for disabled taxpayers or CZK 15,000 for the severely disabled)
- ❖ Within the ATR, a **tax benefit** for maintained children (decreases the amount of tax) may be applied (CZK 10,680 per child)

### Tax allowances in 2010

An Employee may apply for tax allowances also in 2010 only if he/she signs the taxpayer declaration by 15 February 2010.

The following changes occur in area of tax allowances for 2010:

- ❖ **The tax benefit** for each maintained child increases from annual amount of CZK 10,680 to **CZK 11,604**, i.e. from CZK 890 to **CZK 967** monthly
- ❖ The terminology related to disability has been changed: the term 'partial disability' is replaced by terms 'disability **of the first or second level**', term 'full disability' by term 'disability **of the third level**'.

*If you have any questions to the payroll or HR agenda, please feel free to ask. We will be pleased to contact you. The most burning questions (without identifying you) and answers will be published in coming HR Newsletters.*

*Please contact us on [aslabochova@ca-staff.eu](mailto:aslabochova@ca-staff.eu).*

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