BAKER TILLY
CZECH REPUBLIC

# TAX ALERT
CZECH REPUBLIC

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## Significant changes in income tax and VAT law |

**Increase of reduced VAT rate to 14%**
**“Major” reform of taxes and levies from 2013**
**Agreements on exchange of information in tax matters**

### | 1. Reduced VAT rate of 14%

The amendment to the VAT Act, which increases the reduced rate of VAT from the current 10% to 14% has gone through the final approval procedure in the Chamber of Deputies. From the beginning of next year, the VAT will be very likely increased to 14% in the case of food, medicines, books and public transport. Moreover, from 2013, all goods and services should be subject to a uniform VAT rate of 17.5%.

### | 2. “Major” tax law reform

Parliament has started to work on a large-scale amendment of several tax acts, which should introduce important changes in the field of income taxes. The most significant changes are summarized in the following points:

- abolition of the so-called “super-gross” salary concept and increase in the rate of personal income tax to 19%
- establishment of a uniform base for calculation of taxes as well as social and health insurance contributions
- introduction of a so-called Single Payment Point for the collection of taxes and other levies
- abolition of the tax exemption for food served in canteens, lunch tickets, temporary accommodation and free train tickets on the employees’ side
- introduction of a new tax relief for employees amounting to CZK 3,000 per year
- application of basic tax payer relief only for individuals with annual income amounting up to 48 times the average wage (CZK 1,187,520 in 2011)
- obligation to file tax returns also for persons, which have solely income from employment, however, the annual total amount of this income was above 48 times the average wage (CZK 1,187,520 in 2011)

### | 3. New agreements on exchange of information in tax matters

Agreements on exchange of information in tax matters, which are negotiated and concluded by the Czech Republic with governments of so-called tax havens, are determined to enable the Czech Tax Authorities to obtain information relevant for the purposes of tax administration and for preparations of the tax crimes investigation. On their basis it is possible to verify whether the income or assets of Czech tax residents (individuals as well as legal entities) in these countries has been properly taxed.

Agreements with the Isle of Man, a self-governing dependent territory of the British Crown, as well as with Bermuda were signed in August. Similar agreements have been concluded with the island of Jersey and the British Virgin Islands. Another of the agreements on information exchange in tax matters should be related to the island of Guernsey.