



Czech Republic

Introduction

Personal income tax is imposed on the income of individuals. Those who have a permanent residence in the territory of the Czech Republic or who usually reside in the Czech Republic are liable to pay tax on their worldwide income unless a double taxation treaty stipulates otherwise. The aggregate income is taxed at a flat rate of 15 percent. Employment income is taxed based on the “super gross” salary, discussed below.

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Key messages

Extended business travelers are likely to be taxed on employment income relating to their Czech workdays. Nonresidents are liable to pay tax on income generated from sources in the Czech Republic.

Income tax

Liability for income tax

A person's liability to Czech income tax is determined by the individual's tax residence status. A person can be a resident, nonresident, or split resident for part of the year for Czech tax purposes.

An individual will be considered Czech resident for tax purposes if:

- The individual's permanent residence (permanent abode) is in the Czech Republic
- The individual usually resides in the Czech Republic.

Individuals who usually reside in the Czech Republic are understood to be persons who stay in the Czech Republic for at least 183 days in a given calendar year, either continuously or intermittently.

The general rule is that a person who is a tax resident of the Czech Republic is liable to declare and pay tax in the Czech Republic on the individual's worldwide income, that is, employment income, income from self-employment, rental income, investment income and capital gains, and other taxable income from whatever source.

Individuals who are Czech nonresidents for tax purposes are subject to tax only on income from Czech sources.

Tax trigger points

The taxpayer must file an annual income tax return for all resident years. The taxpayer must also file an annual income tax return for the year in which the assignee leaves the Czech Republic, provided that in the year concerned, the taxpayer performed activities in the Czech Republic and is not protected by a double tax treaty. The tax return is to be filed within the statutory deadline(s) for filing.

In the years following the year of expatriation, the assignee does not generally have any filing requirements provided that the assignee is treated as tax nonresident and has no Czech source income.

If, however, the assignee receives Czech-sourced income related to the individual's prior work in the Czech Republic, the assignee may be liable to declare and pay tax in the Czech Republic on a proportionate part of the income.

Types of taxable income

For extended business travelers, the types of income that are generally taxed are employment income, Czech-sourced income, and gains from taxable Czech assets (such as real estate).

Tax rates

The aggregate income is taxed at a flat rate of 15 percent. In the case of employment income, the rate is applied to a "super gross" salary. A "super gross" salary is calculated as gross salary increased by 34 percent of the employer part of the Czech obligatory social security and health insurance contributions (even in the case when the individual remains insured abroad). As a consequence of this calculation,

the effective tax rate is 20.1 percent until the cap for social security contributions is reached (see the section "Cap for social security" that follows).

Social security

Liability for social security

Treaty countries

Extended business travelers employed by an employer located in an EEA member state or Switzerland can remain, in most cases, subject to their home country social security scheme. This exemption is based on the EEA/Swiss rules with respect to posting and/or simultaneous employment.

Other extended business travelers, in some cases, may stay in their home countries' social security systems and obtain an exemption from paying Czech social security based on the provisions of social security totalization treaties signed between their home countries and the Czech Republic.

If no continued home country social security coverage and no subsequent exemption from social security contributions are available, an extended business traveler will be subject to Czech social security.

Nontreaty countries

An employee who works in the Czech Republic for an employer with a registered office outside the Czech Republic is exempt from the social security scheme, provided that the employer's registered office is in a country that has not concluded a totalization agreement on social security with the Czech Republic and provided that the employee is not considered an economic employee of a Czech entity.

On the other hand, if the individual is considered an economic employee of a Czech entity, the employee is exempt from Czech social security for the first 270 days of work in the Czech Republic provided that the employee is subject to an obligatory pension insurance scheme in the country of their employer. Otherwise, the employee is subject to Czech social insurance from the first day of the employee's work in the Czech Republic.

Social security rate

The employer's social security rate is 34 percent, consisting of 25 percent for the social insurance scheme and 9 percent for the health insurance scheme.

The employee's social security rate is 11 percent, consisting of 6.5 percent for the social insurance scheme and 4.5 percent for the health insurance scheme.

Cap for social security

For social security payments, both the employee's and employer's portions, the maximum assessment base is set (1, 781,280 for 2011 Czech Republic Koruny (CZK)). Once the cap is reached, no more health and social insurance contributions are due from either the employee or employer during this year.

Compliance obligations

Employee compliance obligations

Tax returns must be submitted by April 1 of the following year, or July 1 if the return is prepared and submitted by a certified tax adviser. In the latter case, a power of attorney on behalf of the tax adviser must be lodged with the tax authority by April 1 in order to obtain the automatic extension of the deadline to July 1.

Employer reporting and withholding requirements

Withholdings from employment income are covered under the Pay-As-You-Go system. The income of an individual paid by a Czech entity based on a local contract with a Czech entity or working in the Czech Republic under the economic employer structure is subject to monthly wage tax withholdings. The withholdings are made by the employer or economic employer through payroll deductions.

In other cases, there are no withholding requirements, and the tax is reflected fully through the personal income tax return.

Other

Work permit/visa requirements

Visa requirements for short visits have been gradually removed. Most foreign nationals are no longer required to obtain a visa for the first 90 days, but travelers from certain countries must still apply for a visa to enter the Czech Republic.

EU nationals

EU nationals are no longer required to obtain both a work permit and a residence visa to work in the Czech Republic, regardless of whether they are employed by a local or foreign company.

Non-EU nationals

If non-EU nationals intend to work in the Czech Republic, they generally must obtain a work permit and a residence visa, regardless of whether they are employed by a local or foreign company.

Double taxation treaties

In addition to Czech domestic arrangements that provide relief from international double taxation, the Czech Republic has also entered into double taxation treaties with more than 70 countries to prevent double taxation and allow cooperation between the Czech Republic and overseas tax authorities in enforcing their respective tax laws.

Permanent establishment implications

There is the potential that a permanent establishment could be created as a result of longer-term activities of extended business travelers, but this would be dependent on the type of services performed, the length of stay in the Czech Republic, the structure under which the extended business travelers work in the Czech Republic, and the level of authority the employees have.

Indirect taxes

There are two types of indirect taxes: value-added tax (VAT), charged on most supplies of goods and services, and excise duties, charged on supplies of specific goods such as fuels, beer, wine, spirits, and tobacco.

Transfer pricing

A transfer pricing implication could arise to the extent that the employee is being paid by an entity in one jurisdiction but performing services for the benefit of the entity in another jurisdiction, in other words, a cross-border benefit is being provided. This would also be dependent on the nature and complexity of the services performed.

If the companies are regarded as related through equity/capital or as otherwise related persons, there may be a transfer pricing issue as market prices should be used.

Local data privacy requirements

The Czech Republic has data privacy laws.

Exchange control

There are no extraordinary exchange controls placed on individuals that restrict the transfer of money into or out of the Czech Republic.

Nondeductible costs for assignees

Generally, some benefits provided by the employer are regarded as nondeductible on the employer side, such as school fees or medical care provided in kind.

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