

# Tax Flash

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## Janota's package approved

The Chamber of Deputies approved on Friday, 25 September 2009, changes in the Government bill amending certain laws in connection with the preparation of the state budget for 2010 (referred to as the Janota's package). The approved bill will now be forwarded to the Senate. Below, we present an overview of the most important changes in the taxes and the social security and health insurance.

### Doubling the real estate tax rates:

The Chamber approved an increase in the basic rates of the real estate tax. The increase affects:

- land (except agricultural land, land of economic forests and ponds with intensive industrial fish farming) and buildings
- flats and non-residential premises with the exception of buildings and non-residential premises used for other business activities.

### This increase applies from 1 January 2010 and is permanent.

For 2010, municipalities are given the opportunity to determine by decree the coefficients for calculating the real estate tax. This decree must be issued by 30 November 2009 (formerly the deadline for the decree was 1 August 2009).

Given this significant increase in the real estate tax, taxpayers should pay attention to the classification of properties for the purposes of calculating the tax, particularly with regard to the proper distinction between constructions and land (e.g. "plane constructions").

### Change on the lump sum expenses again

*Change of lump sum expenses to income from business activity and other independent gainful activity*

As of 2010, the lump sum expenses to income from the business activity and other independent gainful activity (self-employed persons) is being changed again. This is also applicable for the lump sum expenses that have recently been increased for the 2009 taxable period.

Rate of lump sum expenses	
80 %	income from agricultural production, forestry and fish farming income from the craft trades
60 %	Income from trades, except for craft trades
40 %	Income from other business activities

## Changes in the social and health insurance contributions

Increase of the maximum base of assessment for the social security and health insurance contributions from the multiple of 48 to the multiple of 72 of the average salary was approved for 2010. This results to the increase of maximum base of the assessment from CZK 1,138,032 to CZK 1,707,048. The maximum base of assessment applicable for 2009 is at the current level of multiple of 48 times the average salary, i.e., CZK 1,138,032.

The period when the deductions on the social security contributions can be applied has been shortened. According to the existing wording of the law, employers may apply deductions on social security contributions by December 2010. However, according to the new wording of the law, the last deduction on the social security contributions can be applied for December 2009.

The decrease of the sickness insurance contributions rate paid by employers (from 2.3% to 1.4%) has been postponed from 2010 to 2011.

Employers will also be entitled to deduct half of wage compensation paid to employees in case of their temporary work incapacity from the sum of social contributions in 2010.

The changes in the social and health insurance contributions, particularly the increase of the maximum base of assessment and cancellation of the deductions on social security, are not good news for the employers, as the changes will result in a substantial increase in personnel costs.

## Increase in rates of Value Added Tax ("VAT")

On the basis of the new law effective from 1 January 2010, the basic rate of VAT will increase from 19% to 20%. The reduced rate of VAT will increase from 9% to 10%. Current VAT rates will be applied on all transactions which tax point have arisen by the end of 2009 including, e.g., the entitlements to VAT deduction, credit notes, debit notes and corrective tax documents.

## Higher Excise Tax

From 1 January 2010 the Excise Tax will increase on fuels by CZK 1 per 1 liter, and in the case of mixtures of mineral oils with rapeseed oil by CZK 0.80 per 1 liter of fuel. The rate on leaded petrol remains unchanged.

Increasing rates of Excise Tax will also affect alcohol, where the increase is CZK 20 per liter of pure alcohol, i.e., CZK 4 for ½ liter bottle of 40% spirits. The increase in Excise Tax on beer is CZK 0.50 for a pint of beer 10°. The increase of Excise Tax on expensive cigarette is by CZK 0.80 per pack, in the case of cheaper cigarettes CZK 1.80 per pack. The increase in the rate of Excise Tax on cigarillos is CZK 0.60 per unit and on cigars by CZK 4.85 per unit. On smoking and other tobacco the Excise Tax will increase by CZK 60 per 1 kg of tobacco.

Because of the Excise Tax increase, persons which have the obligation to secure the Excise Tax will have to increase the respective guarantee. Details of increasing the guarantee are described in detail in the transitional provisions of the bill.

The increasing rates of Excise Tax on cigarettes also imply the need of the producers and importers to take measures insuring advantage of current lower amount of Excise Tax on cigarettes.

## Bills not approved

Some of the originally proposed tax changes were excluded from the final version of the law approved by the Chamber. **These include:**

- the introduction of 23% tax rate for individuals with their tax base excising amount of CZK 2 287 200
- the increase of the real estate transfer tax rate from 3% to 5%.

**In case you are interested in more information regarding this issue, please contact:**

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