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KEY PROPOSED TAX CHANGES FOR 2013 – INCOME TAX
NEWS FLASH DECEMBER 2012

Conscious of the need control the public borrowing requirement the Czech parliament, in common with other EU states, is looking to increase tax revenues as well as to cut public spending. By far the largest source of increased tax revenue relates to the proposed changes in the rate of VAT which is anticipated to bring in CZK 16 billion .in a full year. Other direct tax changes for 2013 will not have a significant impact on tax revenues but in large measure bring home to individuals changes that will affect the money in their pockets To this end the lower chamber of Parliament approved next year's finance bill and the Czech Parliament will therefore vote on the bill returned by the Senate shortly before 18th or 19 December 2012. .

Solidarity contribution (a tax for higher earners)

An additional tax rate will be introduced for employees and self-employed persons with annual income (tax base of the self-employed persons) over the social security payments cap, i.e. over CZK 1 242 432. The contribution amounts to 7% on income above the threshold referred to above. The income of employees (tax base of entrepreneurs) exceeding roughly CZK 103 thousand a month will therefore be subject to 22% tax rate instead of the current 15%.In the cases of the self employed this new additional tax will apply (this interacts with changes to the limits that the self employed may deduct under flat rate expenses – see below) where gross incomes exceed: 2 042 000 for 40% flat fee expenses and 3 106 000 for 60% flat fee expenses.

Limitation on use of flat fee expenses

Certain self-employed persons are entitled to claim flat rate expenses against their income. These rates of flat fee expenses remaining unchanged. However the maximum amount of the flat fee expenses in the bands of 30% (rental income) and 40 % (artists, doctors, architects, notaries, lawyers, court experts, etc.) will be limited to CZK 600 thousand where the 30% flat rate applies and CZK 800 where the 40% flat rate applies. It means that the full deduction can be only utilized by entrepreneurs with the annual income not exceeding CZK 2 million. This limitation is not a temporary but permanent one. There is no change to the limits for those self-employed who enjoy the flat rate of 60%.

Abolishing of the personal allowance for pensioners

Pensioners with taxable income will not be allowed to use the basic personal allowance for the next three years.

Increasing of the withholding tax for the foreign tax residents

Withholding tax applicable on income of non-EU tax residents from the territory of the Czech Republic will go up to 35 %. This rate will apply for example to dividends, interest and royalties paid to countries with which the Czech Republic has not yet concluded a double tax treaty.

Abolishing of the cap on public health insurance premiums

The cap on the payment of insurance premiums for public health insurance, which is in the current year CZK 1 809 864, is going to be abolished for next three years.

Increasing of real estate transfer tax

The rate of the real estate transfer tax will be increased from 3% to 4%. The higher rate will apply to real property transfers filed in the land registry on or after1 January 2013.

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