GMS Flash Alert

Czech Republic – Abolition of Super-Gross Salary?

The Czech government has decided to proceed with the long-promised abolition of the super-gross salary, while at the same time introducing a progressive personal income tax. The Chamber of Deputies is currently discussing an amendment to the income tax law, which has already passed its first reading[1].

WHY THIS MATTERS

Introducing a separate tax base should prevent different taxation of certain income flowing to individuals from abroad and from the Czech Republic.

The proposed changes would have a positive effect on nearly all employees, as their monthly gross salary up to CZK 140,000 would be taxed at 15 percent rather than at the present 20 percent. Employment income above this limit will be effectively subject to the same tax burden as now.

On the other hand, tax would increase for individuals who have income other than from employment or self-employment activity (for instance rental income or income from the sale of movable or immovable assets, etc.) and whose total income exceeds 48 times the average salary; other income above this limit would be taxed at 23 percent, rather than at the current 15 percent rate.

Background

The super-gross salary was introduced in the Czech Republic in 2008 as a part of the reform of public finance. Under this concept, the employment income tax base is determined as the employee's gross salary increased by the social security and health insurance contributions paid by the employer. An employee's income tax base is thus artificially increased, which results in effective taxation at 20.1 percent, despite the personal income tax rate being 15 percent. The super-

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gross salary concept has been criticised as overly complicated and non-transparent, and its abolition has periodically been proposed.

Further Details on the New Proposal

The proposal also would abolish the 7-percent solidarity surcharge which is applied to an individual's gross employment income plus his or her tax base (income minus expenses) from self-employment activities that exceeds 48 times the average salary in aggregate for the taxable period (i.e., CZK 1,672,080 per year, limit applicable for 2020 calendar year). The amendment to the income tax law would bring the tax base down to the employee's gross income (gross salary). Furthermore, two tax rates would be introduced: a first tax rate of 15 percent would be applied to income up to 48 times the average salary; a second tax rate of 23 percent would be applied to income above this limit (approximately CZK 140 per month).

Unlike the current legal regulation, under which the solidarity tax surcharge only applies to employment income and self-employment income, the two rates should apply to all types of an individual's taxable income (e.g., to rental income, income from the sale of movable or immovable assets, etc.).

The proposal also reintroduces a separate tax base for selected capital gains received by individuals from abroad (such as foreign dividend or interest income). This separate tax base would be subject to a single 15-percent tax rate.

KPMG NOTE

The amending proposal is to be a part of the currently-debated amendment to the Income Tax Act which is to enter into effect on 1 January 2021. At the last session of the government, the governmental coalition agreed on the proposal. The abolition of the super-gross salary in general is also supported by the other political parties. However, the question remains whether it will take place in the form described above, given that it would have a significantly adverse effect on the state budget.

[CZK 1 = =EUR 0.037 | CZK 1 = USD 0.043 | CZK 1 = RUB 3.315 | CZK 1 = GBP 0.337]

FOOTNOTE:

1 See in Czech: https://www.psp.cz/sqw/text/tiskt.sqw?o=8&ct=910&ct1=1 . For a prior story on the super gross salary, see GMS *Flash Alert* 2020-337, 31 July 2020.

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