

## Taxation – Lecture 4

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# **DIRECT TAX SYSTEM: PERSONAL INCOME TAX (EVIDENCE FROM THE CZECH REPUBLIC)**

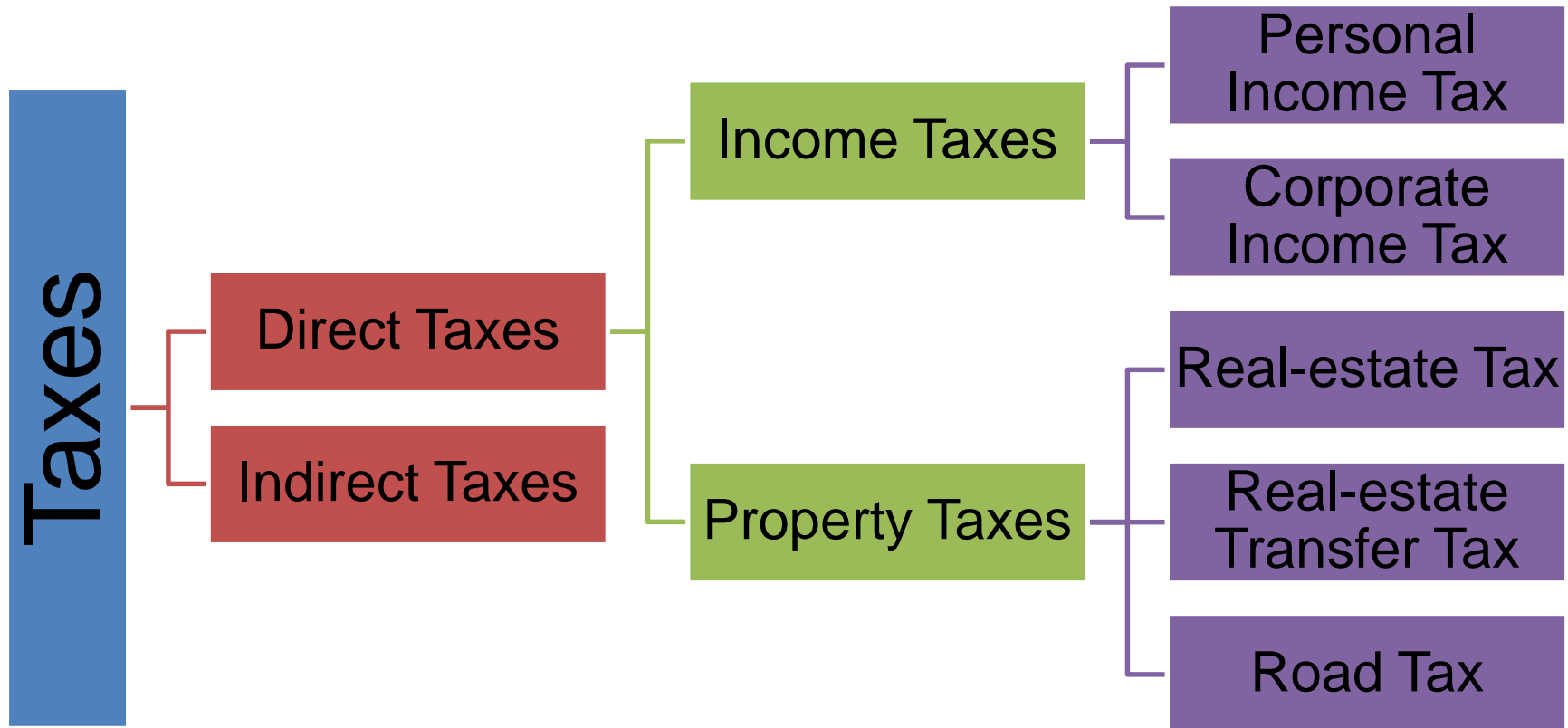
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# Direct tax system in the Czech Republic

- **The system of direct taxes in the Czech Republic is very similar to other developed European countries.**
- Relevant legislation for direct taxes:
  - ❑ **Income tax** – act. No 586/1992 Coll.
  - ❑ **Real-estate tax** – act. No 338/1992 Coll.
  - ❑ **Real-estate transfer tax** – act. No 340/2013 Coll.
  - ❑ **Road tax** – act. No 16/1993 Coll.
- The act. No 586/1992 Coll., as amended, **Income tax, is divided into:**
  - ❑ **Personal income tax**
  - ❑ **Corporate income tax**
  - ❑ **Common regulation**

# Direct tax system in the Czech Republic



# Personal income tax (PIT)

- The **taxpayer of the personal income tax is a person** (resident or nonresident of the Czech Republic).
- The **object of the tax** is:
  - ❑ Income from **dependent activity** (employment)
  - ❑ Income from **self-employment**
  - ❑ Income from **capital assets**
  - ❑ Income from **rent**
  - ❑ **Other** income
- Each of these incomes, is described individually and **for each of them it is necessary to calculate so called partial tax base**, and then **sum up them to get the tax base**.
- Some incomes can be tax-exempt (only several of them will be mentioned):
  - ❑ **income from the sale of a family house** or a flat including the land related there, if the seller had his **residential address**

# Personal income tax (PIT)

- there **for at least 2 years** immediately before the sale,
- ❑ income from the **sale of real-estate**, flats or **non-residential premises** (spaces), if the seller owned that property **for at least 5 years**,
- ❑ **compensations** received **for damages**,
- ❑ **social welfare benefits**, **state social support grants**,
- ❑ state or school **stipendium for students**,
- ❑ **rewards paid to donors** of blood and other human biological materials,
- ❑ incomes from **volunteering**,
- ❑ **alimony payments**, etc.

# PIT – dependent activity (employ-t)

- Income from dependent activity is every income arising from:
  - ❑ **employment**,
  - ❑ **official or membership relationship** (the taxpayer in these relationships must follow employer's instructions),
  - ❑ **rewards paid** to members of the authorities of legal entities,
  - ❑ **other incomes** similar to these.
- The income is even **1%** (but not less than 1 000 CZK) **of the input price of a motor vehicle in each month** if the employee **can use it not only for business but for himself too**.
- There are several **incomes that are not liable to the personal income tax from dependent activity** such as:
  - ❑ **reimbursement of traveling expenses**,
  - ❑ **the value of food provided by the employer** for employees who are on a business journey,
  - ❑ **working clothes**,

# PIT – dependent activity (employ-t)

- **items for the purposes of hygiene and work safety, etc.**
- There are also some **tax-exempt incomes from dependent activity**:
  - an amount for **additional education needed for work**,
  - the value of food and non-alcoholic beverages (**food vouchers**),
  - employer's contribution to the state-contributory supplementary pension insurance, etc.
- Every month the employer calculate and withhold advance tax of our wage (salary). The **withhold advance is 15% of sum of the wage (salary) and social security and health insurance which the employer has to pay for the employee (gross wage)**.
- If the employee works on base of signed **Agreement on work performance** and his **wage is lower than 10 000 CZK/month**, the **employer can withhold the „withholding tax“**. The withholding tax is also 15%, but in this case **it is calculated only from the wage** (because in this case the **employer do not pay social security and health insurance for the employee**).



# PIT – dependent activity (employ-t)

- If the taxpayer has **incomes only from dependent activity from one employer, he has no obligation to fill the tax return.** He can ask his employer to fill the annual tax return. **It must be submit before 31st March.**
- The employer calculates the tax liability for his employee (using tax allowances/credits) and **decreases his liability by advance taxes or withholding taxes paid during the tax period.**
- **The tax rate of personal income tax is 15%.**
- **The taxpayer can reduce the tax base by tax allowances/credits:**
  - ❑ 24 840 CZK/year **for each taxpayer** (basic tax allowance),
  - ❑ 24 840 CZK/year **for a spouse** living with the taxpayer in one household (if the spouses´ own income do not exceed **68 000 CZK in the taxable period**),
  - ❑ 2 520 CZK/year for the beneficiary of a **partial disability pension** (1st or 2nd stage of disability),

# PIT – dependent activity (employ-t)

- ❑ 5 040 CZK/year for the beneficiary of a **full disability pension** (3rd stage of disability),
- ❑ 16 140 CZK/year for the **SPH/H card holder**,
- ❑ 4 020 CZK/year **for the student up to 26 years** (28 years for students in doctoral study programmes),
- ❑ To send child to the **kindergarten** – 9 200 CZK (in 2015)
- ❑ The value of **gifts donated for charitable purpose** (the total value of gifts in the taxable period must exceed 2% of the tax base or 1 000 CZK and the total maximum allowable deduction shall be 15% of the tax base); as **gift for medical purpose** is considered donation of blood or organs (one donation of blood is assessed for 2 000 CZK, one donation of organ for 20 000 CZK),
- ❑ The amount equal to **the interest paid** in the taxable period **on a loan provided** from a housing saving or on a mortgage loan,

# PIT – dependent activity (employ-t)

- **Contributions to the state-contributory supplementary pension insurance scheme** paid by the taxpayer reduced by 12 000 CZK to the maximum amount of 12 000 CZK,
  - **Private life insurance premiums** paid within the taxable period to a maximum amount of 12 000 CZK in one taxable period
  - 13 404 CZK/year for every **dependent child** living with the taxpayer in one household.
- This last amount can be used as a **tax reduction** (up to zero tax duty) or called **tax bonus** (minus tax duty, at minimum 100 CZK to maximum 60 300 CZK in one taxable period).

## Example 1

Ondrej works as senior engineer for Siemens, a.s. (here and after “Siemens”). He lives in Rousinov, but he works in Brno five days per week. Ondrej has not signed the declaration for personal tax credits with Siemens. He earns CZK34,000 per month. He is married to Olga and they have 3-year-old daughter. Olga is housewife and in 2017 she had occasional annual income in amount of CZK56,000.

The following information is applicable to the calculation of Ondrej’s 2017 payroll tax:

- (1) Siemens paid private carrier for Ondrej’s 125 round trips from Rousinov where he has permanent residence to Brno in 2017. The contract price paid by the company was CZK27,000.
- (2) Siemens provided Ondrej with a business car (Skoda Octavia) for business and private use. Skoda was acquired by the Company in 2012 for CZK270, 000. Its accounting residual value in 2017 is CZK120,000 and its tax residual value is CZK150,000
- (3) Siemens contributed CZK19,000 to employee’s private health insurance during the year. Ondrej contributes another CZK15,000.
- (4) Siemens contributed CZK1,000 each month starting from September for placement of Ondrej’s 3-year daughter in public kindergarten.
- (5) During the year, Ondrej was sent on a business trip to Tokyo. The whole business trip had duration 15 working days. Siemens provided Ondrej with meal voucher in amount of CZK1,625 per each day of the business trip. Additionally to this Siemens also provided cash for daily needs in amount of CZK650 per each day of the business trip. Ondrej participated neither on meal vouchers nor on cash for daily needs. *Note: the ER between USD and CZK on the date of meal voucher and cash issue slip was  $1/USD = 27 CZK$ .*
- (6) Siemens paid CZK300 for Ondrej’s participation in the Christmas party organized by Siemens.
- (7) Siemens paid CZK500 for Ondrej’s weekend stay in the Forest Camp as Team building activity organized by Siemens.
- (8) Siemens paid to Ondrej CZK12,000 as bonus for bringing his friend as new colleague to Finance department.

**Task 1: Calculate the amount of social security and health care insurance contributions payable by Ondrej and by Siemens for 2017.**

**Task 2: Calculate the payroll tax payable by Ondrej in 2017.**

## Example 2

Michal works as constructor for Kovosvit, a.s. (here and after “Kovosvit”). He lives in Brno, but works five days per week in Tabor where Kovosvit is located. Michal has signed the declaration for personal tax credits with Zetor. He earns CZK29,000 per month. He is married to Marketa, who works in Smeral Brno, a.s.. They do not have children yet.

The following information is applicable to the calculation of Michal’s 2017 payroll tax:

- (1) Kovosvit rented a room in the local dormitory for Michal in Tabor for CZK3,500 per month.
- (2) Kovosvit provided Michal with a business car Skoda Fabia for business and private use. Skoda was acquired by the Company in 2012 for CZK270,000. Its accounting residual value in 2017 is CZK120,000 and its tax residual value is CZK75,000.
- (3) Kovosvit paid 30% of Michal’s 1-hour massage session with physiotherapist each month. Total price of 1-hour session was CZK350.
- (4) During the year Michal was sent on a business trip to Graz and Linz. The whole business trip had duration 5 working days. Kovosvit provided Michal with meal voucher in amount of CZK1500 per each day of the business trip. Additionally to this Kovosvit also provided cash for daily needs in amount of CZK700 per each day of the business trip. Michal participated neither on meal vouchers nor on cash for daily needs. *Note: the ER between EURO and CZK on the date of meal voucher and cash issue slip was 1 euro = 27 CZK.*
- (5) Kovosvit paid CZK6,500 for Michal’s participation in 2-day training at courses provided by Trade Chamber of Russian Federation about changes in GOST 2017.
- (6) Kovosvit gave to Michal two theater tickets in value of CZK300 each as Christmas gift.
- (7) Kovosvit paid Michal CZK5,000 as bonus for bringing his friend as new colleague in Sales department.

**Task 1: Calculate the amount of social security and health care insurance contributions payable by Michal and by Kovosvit for 2017.**

**Task 2: Calculate the payroll tax payable by Michal in 2017.**

# PIT – private entrepreneur (self-employ-t)

- **Incomes from self-employment belongs to the personal income tax.**
- **Income from dependent activity** is every income arising from employment. It means „**I work for somebody else**“. On the other hand, **income from self-employment** is income from self-employment business – „**I work for myself**“.
- Incomes from self-employment are incomes from:
  - ❑ **agriculture production**, forestry and fish farming,
  - ❑ self-employment based on **business licence**,
  - ❑ **other entrepreneurship** except a) and b),
  - ❑ **shares of partners in profits** of general commercial partnership and general partners´ shares in profits of a limited partnership,
  - ❑ **the use or provision of industrial or other intellectual property** and from copyright,
  - ❑ pursuit of an **independent profession**,
  - ❑ activity carried out by a **bankruptcy trustee**,

# PIT – private entrepreneur (self-employ-t)

- income of an **expert, an interpreter, an arbitrator,**
- **Partial tax base** for the income from self-employment is created by the above mentioned incomes **reduced by the expenses incurred to generate, assure and maintain the incomes.**
- If the taxpayer does **not have enough expenses**, he may use **lump sum expenses**:
  - **80 % of income from agricultural production**, forestry and fish farming and from self-employment craftsmanship business,
  - **60 % of income from self-employment business** (other than craftsmanship),
  - **40 % of income from other entrepreneurship** except those above (at maximum of 800 000 CZK).
- **If the taxpayer**:
  - **has incomes only from self-employment** according to a), b) or c),

# PIT – private entrepreneur (self-employ-t)

- ❑ and **has no employees nor cooperating fellow workers,**
- ❑ and **his income from self-employment from previous 3 consecutively taxable periods does not exceed 5 milion CZK,**
- ❑ and **he is not a partner in any company,**

**then tax administrator can determine his tax liability as a lump amount.**

- Income from self-employment can be split between other cooperating people living in the same household with the taxpayer (spouse, children).
- The portion for cooperating spouse must be no more than 50% of total income from self-employment (max. 540 000 CZK per year or 45 000 CZK for a month of cooperation).
- The portion for other cooperating person must be no more than 30% of total income from self-employment (max. 180 000 CZK per year or 15 000 CZK for a month of cooperation).



### Example 3

Hana works as IT specialist for Monster, a.s. (here and after “Monster”). She lives in Brno, but she works in Prague two days per week. Hana has signed the declaration for personal tax credits with Monster. She earns CZK93,000 per month. She is not married and she does not have children. In her free time Hana provides web development services as private entrepreneur.

The following information is applicable to the calculation of Hana’s 2017 payroll tax from employment in Monster:

- (1) Monster rented a flat for Hana in Prague for CZK12,500 per month.
- (2) Monster paid 30% of Hana’s 1-hour massage session with physiotherapist each month. Total price of 1-hour session was CZK350.
- (3) During the year Hana was sent on three business trips: to Prague, Olomouc and to Ostrava. Each trip had duration 1 working day. Monster provided Hana with meal voucher in amount of CZK140 per each business trip. Hana contributed CZK57 to each meal voucher.
- (4) Monster paid CZK6,500 for Hana’s participation in 2-day training at private courses about changes in accounting and tax legislation 2017.
- (5) Monster paid to Hana CZK5,000 as bonus for bringing his friend as new colleague in Sales department.

The following information is applicable to the calculation of Hana’s 2016 payroll tax from self-employment as web developer:

- I. Incomes earned by Hana during 2017:
  - i. Hana delivered website management services: 2 one-time actions for CZK20,000 per action and annual website maintenance for CZK3,000 per month to 3 permanent clients
  - ii. Hana delivered 3 website relocations for CZK18,000 each
  - iii. Hana delivered social network management services: 4 one-time actions for CZK25,000 per action and annual maintenance for CZK3,500 per month to 1 permanent client
  - iv. Hana developed 2 custom apps for CZK30,000 per app
  - v. Hana delivered 4 website disaster recoveries for CZK15,000 per recovery

(cont.)

II. Hana's documentary costs incurred while providing web development services during 2017:

- i. a drive into town by Hana's private car to meet some of her clients: total 9,450 km, to clients 2,100 km;  $0.21 * 31$  CZK/l
- ii. a trip to the shop for milk and bread during Hana's work day: CZK110 per day
- iii. cost of utilities when Hana used her home as her office: CZK3,100 per month, in June-July (2 months) he has been hiking in New Zealand => 10 months for work
- iv. cost of Internet when Hana used her home as her office: CZK800 per month, in June-July (2 months) he has been hiking in New Zealand => 10 months for work
- v. cost of mobile when Hana used her personal mobile for calls with her clients: CZK550 per month, in June-July (2 months) he has been hiking in New Zealand => 10 months for work
- vi. cost of ticket to public transport when Hana travelled by public transport to meet some of her clients: CZK4,600 per year, 10 months he was working the city
- vii. an eye test to track Hana's eyesight: CZK5,200 per year

*Note: From September to October (inclusive) Hana had been hiking in New Zealand. During this period Hana had unpaid leave at work*

**Task 1: Calculate the amount of social security and health care insurance contributions payable by Hana as employee of Monster and as web developer for 2017.**

**Task 2: Calculate total tax basis of Hana for 2017.**

# PIT – income from capital assets

- **Income from capital assets**, if it is not the income from employment and income from self-employment, **is**:
  - ❑ **profit shares from ownership interest in equity of joint stock companies**, limited liability companies and limited partnerships, profit shares of membership of a cooperative and interest and other income from securities holdings
  - ❑ **profit shares of a company**,
  - ❑ **profit sharing of the silent partner** participating in a business,
  - ❑ **interest, winnings and other income from deposits on deposit books**, the interest from cash in the account,
  - ❑ **income from the one-time deposit**,
  - ❑ **supplementary pension insurance and pension insurance benefit**,
  - ❑ **private life insurance benefit**,
  - ❑ **interest and other income from loans, default interest**,

# PIT – income from capital assets

- ❑ **interest and other income from holding bills of exchange,**
  - ❑ **payments from the trust fund earnings after taxes.**
- Above mentioned incomes a)-f), h) and i) generated from sources in the Czech Republic, have separate tax base for the taxation by special tax rate (15%).
- **If a taxpayer has income only from capital assets generated from sources in the Czech Republic, he can not use items deductible from the tax base.**
- Above mentioned incomes a)-f) coming from sources abroad, have partial tax base of personal income tax. Income under e)-f) may be reported reduced by the relevant expenses.

# PIT – income from capital assets

- **Example:** Determine which of these incomes shall be taxable under Income from capital assets:
  - Mary bought Czech government bonds and she wants to hold them until the end of maturity.
  - John bought CEZ shares in January and sold them 3 weeks later with income of 5 000 CZK.
  - MONEY, joint stock company, that deals with securities trading:
    - bought NWT shares in January and sold them in February with income of 50 000 CZK.
    - bought Unipetrol shares 2 years ago, gains dividends and continue in their possession.

# PIT – income from capital assets

- **Solution:**

- Mary bought Czech government bonds and she wants to hold them until the end of maturity. – Income from capital assets
- John bought CEZ shares in January and sold them 3 weeks later with income of 5 000 CZK. – Other income
- MONEY, joint stock company, that deals with securities trading:
  - bought NWT shares in January and sold them in February with income of 50 000 CZK. – Corporate income
  - bought Unipetrol shares 2 years ago, gains dividends and continue in their possession. – Corporate income

# PIT – income from rent

- **Income from rent**, if it is not the income from employment, from self-employment and from capital assets, **is**:
  - income from the **rent of immovable property** or apartments,
  - income from the **rent of movable property, except for occasional rent.**
- The above described incomes derived from the marital property is taxed only at one of them.
- **The above mentioned incomes of a non-resident are separate tax base for the taxation of a special tax rate (15%).**
- **Partial tax base are incomes mentioned above reduced by expenses incurred to obtain, secure and maintain them.**
- If the taxpayer **does not apply proven expenses** incurred to generate, ensuring and maintaining **income, can claim expenses in the amount of 30% of the rental income, but only up to the amount of 600 000 CZK.**

# PIT – income from rent

- **Example:** Tom rents a flat to Jerry for a whole year. Tom's rental income is 10 000 CZK per month. Tom's expenses associated with the maintenance of the flat is 20 000 CZK per year. What will be the annual income tax?



# PIT – income from rent

- **Example:** Tom rents a flat to Jerry for a whole year. Tom's rental income is 10 000 CZK per month. Tom's expenses associated with the maintenance of the flat is 20 000 CZK per year. What will be the annual income tax?

- **Solution:**

Income from rent =  $12 \times 10\,000 = 120\,000$  CZK

Proven expenses = 20 000 CZK

Expenses by percentage (30% of income) =

$120\,000 \times 0,30 = 36\,000$  CZK

Tax base =  $120\,000 - 36\,000 = 84\,000$  CZK

Tax rate = 15 %

Final tax =  $84\,000 * 0,15 = 12\,600$  CZK

# PIT – other income

- **Other income**, if it is not the income from employment, from self-employment, from capital assets and from rent, **is especially**:
  - ❑ **income from occasional activities or occasional rent of movables**,
  - ❑ **income from agriculture** and forestry and water management, which are not operated by an entrepreneur,
  - ❑ **winnings from lotteries**, betting and other similar games and prizes of advertising competitions and raffle,
  - ❑ **income from the transfer of participation in limited liability companies**, limited partners to a limited partnership or a cooperative share transfer,
  - ❑ **income from an inherited rights** to industrial and intellectual property, including copyrights, etc.
- There are some **tax-exempt incomes**:
  - ❑ **income from occasional activities or occasional rent of movables** if the sum up of these incomes do not exceed the

# PIT – other income

amount of 30 000 CZK in a taxable period,

- **income from beekeeping** if there are no more than 60 hives and the income do not exceed the amount of 500 CZK per hive in a taxable period,
- **income from sales of securities and from shares** pertaining to a participation certificate when canceling mutual fund, if their sum does not exceed the amount of 100 000 CZK in a taxable period.
- **Gratuitous income (gifts) can be tax-exempt, if it is obtained from:**
  - **relative in a straight line** (children, parents, grandparents, grandchildren) **and the secondary line** (siblings, uncle, aunt, nephew or niece, spouse, spouse of my child, child of my spouse, parents of my spouse or spouse of my parent),
  - **the person with whom the taxpayer has lived for at least 1 year** before obtaining gratuitous income in joint household,

# PIT – other income

- **acquired on occasion provided their value does not reach 15 000 CZK.**

**Partial tax base is income minus expenses provably incurred to achieve it. If the expenses are greater than income, than partial tax base is equal to 0.**

# PIT – other income

- **Example:** Determine which of these incomes shall be taxable under other income and which of these could be tax-exempt:
  - ❑ Tomas Berdych (Czech resident) won Davis Cup and received 200 000 000 CZK.
  - ❑ Harry won 20 000 CZK in a lottery.
  - ❑ John is a beekeeper. He has 20 hives and his income is 15 000 CZK in a taxable period.
  - ❑ Margot inherited a car from her grandfather in cost of 240 000 CZK.
  - ❑ Bonnie clean up her old neighbor´s house 4 times per year and she receives 10 000 CZK.

# PIT – other income

- **Solution:** Determine which of these incomes shall be taxable under other income and which of these could be tax-exempt:
  - Tomas Berdych (Czech resident) won Davis Cup and received CZK 200 000 000. – **Income from self-employment**
  - Harry won CZK 20 000 in a lottery. – **Other income**
  - John is a beekeeper. He has 20 hives and his income is CZK 15 000 in a taxable period. – **Other income (it cannot be tax-exempt, because his income is 750 CZK per a hive)**
  - Margot inherited a car from her grandfather in cost of CZK 240 000. – **Tax-exempt other income**
  - Bonnie clean up her old neighbor´s house 4 times per year and she receives CZK 10 000. – **Tax-exempt other income**

#### Example 4

Galina works at the position of Team leader in Nordics sales department of Konix, a.s. (here and after "Konix"). She lives in Koprevnice, but she works in Brno five days per week. Galina has signed the declaration for personal tax credits with Konix. She earns CZK53,000 per month. She is married to Pavel and they have 3-year old son. Pavel uses child allowance.

The following information is applicable to the calculation of Galina's 2017 payroll tax:

- (1) Konix rented a flat for Galina in Brno for CZK12,500 per month.
- (2) Konix contributed CZK3,000 each month starting from September for placement of Galina's 2-year son in private kindergarten.
- (3) During the year Galina was sent on a business trip to Graz and Linz. The whole business trip had duration 5 working days. Konix provided Galina with meal voucher in amount of CZK1500 per each day of the business trip. Additionally to this Konix also provided cash for daily needs in amount of CZK700 per each day of the business trip. Galina participated neither on meal vouchers nor on cash for daily needs. *Note: the ER between EURO and CZK on the date of meal voucher and cash issue slip was 1 euro = 27 CZK.*
- (4) Konix paid CZK3,500 for Galina's participation in 3-months Nordic language courses at private language school.
- (5) Konix gave to Galina two theater tickets in value of CZK300 each as Christmas gift.

In her free time, Galina teaches business Russian and provides business writing services for 3d parties. In 2017 Galina provided the following services:

- a) Under contract of employment with Srender, a.s., Galina provided 52 hours of business Russian language courses for CZK40,000.
- b) Under performance agreement with Alva, a.s. Galina provided 5 hours for CZK450 each to help with web content of Ava's web pages available in Russian.

**Task 1: Calculate the amount of social security and health care insurance contributions payable by Galina as employee of Konix and under contract of employment with Sreder and performance agreement with Alva for 2017.**

**Task 2: Calculate total tax basis of Galina for 2017.**

### Example 5

Olga works at the position of Customer care specialist for Dingo, a.s. (here and after “Dingo”). She lives permanently in Rousinov, but works in Brno five days per week. Olga has signed the declaration for personal tax credits with Dingo, a.s. She earns CZK27,000 per month. She is not married and she has no children. Olga pays mortgage: in 2017 he paid CZK195,000, CZK121,000 out of which were used for reduction of her mortgage liability.

As part of its employment benefit program Dingo paid private carrier for 250 round trips for Olga from Rousinov to Brno in 2017. The contract price paid by the company was CZK50,000.

In her free time, Olga provides Chinese translation and related services. In 2017 he had the following two performance agreements:

- a) For Cargo JTD, s.r.o Olga provided 5 hours of translation services for CZK450 each month during the year to help with web content available in Chinese.
- b) For Jupiter, s.r.o. Olga provided 78 hours of documentary translation for CZK1100 per hour.

The following information is applicable to the calculation of Olga's 2017 payroll tax from self-employment as private translator:

- I. Incomes earned by Olga during 2017:
  - i. Olga delivered 560 pages of technical translation (translation of technical documentation) for CZK230 per page
  - ii. Olga provided 36 hours of interpreting for CZK550 per hour
  - iii. Olga delivered 2,150 pages of proofreading for CZK150 per page
  - iv. Olga provided 30 hours of individual classes on translation and interpreting for CZK310 per hour

(cont.)



II. Olga's documentary costs incurred while providing web development services during 2017:

- i. a drive into town by Olga's private car to meet some of her clients:  $1,200 \text{ km} * 0.2 \text{ l} * 31 \text{ CZK/l}$
- ii. a trip to the shop for milk and bread during Olga's work day: CZK100 per day
- iii. cost of utilities when Olga used her home as her office: CZK9,800 per month
- iv. cost of Internet when Olga used her home as her office: CZK500 per month
- v. cost of mobile when Olga used her personal mobile for calls with her clients: CZK600 per month
- vi. cost of ticket to public transport when Olga travelled by public transport to meet some of her clients: CZK4,600 per year
- vii. an eye test to track Olga's eyesight: CZK2,500 per year
- viii. postal charges paid by Olga to send documents to her clients by post: CZK2,700 per year
- ix. office supplies bought by Olga to provide translation services: CZK10,030 per year

**Task 1: Calculate the amount of social security and health care insurance contributions payable by Olga as employee of Dingo and as self-employed translator for 2017.**

**Task 2: Calculate total tax basis of Olga for 2017.**

# Social security and health care contributions (SHC)

- Not only high taxes but especially **high social security and health contributions are the worst problem that Czech entrepreneurs have.**
- Czech or foreign employers or Czech branch offices of foreign employers, **all foreigners who work for a Czech employer or are on the payroll of a branch office of a foreign company participate in the Czech Republic social security system.**
- **Most Czech legal entities must also make a contribution to an insurance fund for work-related accidents and illness.**
- **The assessment base of social security for employee is sum up of his income** (income that is subjected of the personal income tax). **The assessment base of health insurance is his partial tax base for the income from dependent activity.**
- **The assessment base of social security and health insurance for employer is sum up of assessment bases of his employees.**

# Social security and health care contributions (SHC)

- **The assessment base of social security for the self-employed person is the amount he choose** (at least his partial tax base for the income from self-employment). **The assessment base of health insurance is his partial tax base for the income from self-employment.**

**Table of social security and health insurance rates in the Czech Republic.**

	<b>Employer (%)</b>	<b>Employee (%)</b>	<b>Total (%)</b>	<b>Self-employed persons (%)</b>
Health insurance	9,0	4,5	13,5	13,5
Social security	25,0	6,5	31,5	29,2
Pension	21,5	6,5	28,0	28,0
Sickness	2,3	0	2,3	0
Unemployment	1,2	0	1,2	1,2
Total	34,0	11,0	45,0	42,7

# Social security and health care contributions (SHC)

- **The self-employed person must submit annual return for Social Security Institution and Health Insurance Company before 31st March.** If the taxpayer has a tax adviser (agent) the annual return could be filled by the 30th June.
- In this return he calculates **how much he must pay for his social security and health insurance** for the previous year. Every **self-employed person must pay monthly allowances.** After **subtracting allowances he must either pay up the difference or the institutions will return excess of his payments.**

# Literature

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