

Annual Clearance of Natural Person Income Tax for 2019

An employee of the last employer of the year **may** request annual tax clearance provided that he has a signed taxpayer declaration, he does not file a tax return individually and does not fall into any of the below mentioned categories.

If the employee wants to and can request annual tax clearance, **it is necessary to fill and sign the ping form:**

- **”Request for annual clearance of advances and tax advantage for the tax period 2019” and, in case of additional claiming the tax allowance for the year 2019, the form “Declaration of Taxpayer for 2019” with filling the XD code by the relevant allowance,**
- **or any older form of the taxpayer declaration on pages 3 and 4. If the older form of declaration is not signed on page 4, we shall presume that there is no request for an annual clearance and therefore it shall not be executed.**

In both cases the documents must be signed with the date within 14. 2. 2020.

To claim the tax allowances for the year 2019, it is necessary to fill a new Taxpayer Declaration for the year 2020.

In these cases an employee **cannot** request annual tax clearance (it is not the complete list of all possible situations):

1. In the calendar year, the employee was employed with another employer at the same time or he received income from dependent activities, with the exception of income exempt from tax or income taxed using a 15% withholding tax (see further). Income on the basis of contracts for work and contracts on work activities is also regarded as income from dependent activities.

The income following from one employer in a single month are taxed by the 15%/withholding tax (special tax rate):

- from the agreement to perform a job which does not exceed CZK 10,000,
- the other ones in the total amount of CZK 2,500 inclusive for the earnings cleared up to April 2019, and up to sum of CZK 3,000 inclusive for the earnings cleared from May and beyond (the current decisive income according to the social security).

When the taxpayer signs the taxpayer declaration, his income is not taxed using withholding tax. The employee may not sign the tax declaration in parallel with two and more employers. Should the employee have his income taxed using the 15% withholding tax with a different employer at the same time, he may request annual tax clearance from his last employer of the calendar year.

Newly from 2014, the employee may also include income taxed using the withholding tax in his tax return and include the withheld tax in his total tax liability.

Pay attention, also below are the cases considered to be a concurrence of incomes:

- Within 31.01.2020 the employee obtained compensation for the loss of income in 2019 directly from the insurance company.
These compensations are usually paid in the event of industrial accidents as the difference between the average income and sickness pay, the payer being either Kooperativa or Česká pojišťovna. If the employee obtained such compensation directly from the employer, he does not have to file the tax return.
- The employee obtained compensation in any amount for participation in an election committee in the amount exceeding the sum of CZK 2,500 monthly / of CZK 3,000 monthly.

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- The employee is paid the emoluments, e.g. the employee holds office in the bodies of the municipalities as a reward (member of the municipal council, mayor) in the amount exceeding the sum of CZK 2,500 monthly / of CZK 3,000 monthly.
- The employee obtained compensation or an income from dependant activities taxed using advance tax and a taxpayer declaration has not been signed.

2. If the employee worked abroad in the respective year as an employee, though it was not a case of concurrent employments, he has to file a tax return. The Act on Income Tax (Section 38g par. 2) does not demand the filing of a tax return only provided that the employee had excluded his income from abroad from taxation in the respective year and he did not have any other domestic income. This item concerns only the employees who were considered the **Czech tax residents** while being employed abroad.

3. The employee was not concurrently employed anywhere else, but he worked successively for two and more employers and did not sign a taxpayer declaration with one of them (this is not applicable for the income taxed by the withholding tax). **Signing the taxpayer declaration with all employers is an essential requirement.**

4. An employee, to whom any outstanding wages from previous employers were paid up in 2019 for the years 2005-2018 (except income for 2019 received by 31/1/2019), though they were cleared in previous years.

5. Besides income from dependant activities (employment), the employee has other income pursuant to sec. 7 to 10 of the Income Tax Act exceeding CZK 6.000 for the respective calendar year, which is not exempted from income tax and is not taxed using a special tax rate (withholding tax). This could be for instance non-exempt income from the sale of real estates, from casual activities, from entrepreneurship, from capital assets (e.g. from the sale of interests and securities) etc.

Also the following amounts are regarded as income

- amounts claimed during the last 10 years as non-taxable tax bases under additional pension insurance contracts with the state contribution/pension insurance/additional pension saving, provided that the contract was terminated prematurely (i.e. the contract that ceased to exist without any claim to the pension or one-time (flat) settlement and at the same time severance money or another performance connected with termination of the contract was paid). Contributions to supplementary pension insurance with a state contribution, applied as deductible items, are taxed additionally from the tax base for 10 years backwards. For example, if the taxpayer cancels the insurance policy in 2019, he will additionally tax the insurance premiums claimed in the period 2009 and 2018 (deductions of premiums in the previous years are preserved without any additional taxation). According to transitional provisions to the amendment of the Income Tax Act it is valid that contributions for the additional pension insurance with the state contribution raised before 01.01. 2006 are not subject to retrospective tax assessment. It is therefore necessary to analyze the cases, when the employee terminated the contract in question, whether or not he is obliged to file the tax return and to tax the income in conformity with §10 of the Income Tax Act.
- amounts claimed during the last 10 years as non-taxable tax bases under life insurance contracts, provided that the saved funds were drawn prematurely or provided that the contract was terminated prematurely. It is therefore necessary to analyze the cases, when an employee terminated the life insurance contract, whether or not he is obliged

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to file the tax return and to tax the income in conformity with §10 of the Income Tax Act.

- contributions released by the employer for the life insurance exempt from the tax, provided that the saved funds were drawn prematurely or provided that the contract was terminated prematurely. Under the income subject to taxation we shall understand the sum of contributions in the year of breach of the conditions and terms and for the previous 10 years. Only the contributions granted from 01. 01. 2015 are subject to retrospective tax assessment. In this case the employee is obliged to file the tax return and to tax the contributions in conformity with §10 of the Income Tax Act. These contributions are not included into the limit of CZK 6,000 and the obligation to submit the tax return arises nearly in any case.s
- amounts claimed in previous years as non-taxable tax bases on the grounds of interest from a credit for the purchase of a plot and a construction of a housing requirement did not begin on the plot within 4 years from the conclusion of the credit contract. In such a case, the employee is obligated to file a tax return and to tax the income in conformity with §10 of the Income Tax Act.

6. If the employee carries out business activities as a self-employed person and therefore has income under Section 7 of the Act on Income Tax and he wants to show a tax loss, he is always obligated to file a tax return individually regardless the amount of annual income.

7. An employee – **tax non-resident** can only claim a tax allowance for a taxpayer (himself) and a tax allowance for a student in the annual clearance with the employer. An employee – **tax non-resident**, who wants to claim any other tax deductions or tax privileges for children or non-taxable amounts under Section 15 of the Act on Income Tax (e.g. on the grounds of interest from credits for housing requirements, paid additional pension insurance,...), has to file a tax return. Provided that a person, who is for instance a citizen of Slovakia and is permanently residing there according to his documents, in fact spends most of the year in the Czech Republic and has his family here, then he is not a tax non-resident. It is necessary to assess each case of possible (non) residency of foreign nationals individually.

8. If the employee receives regular pension together with an employment income, there is one case, when the employee has to file his tax return by himself:
the total sum of the pension for a calendar year exceeds 36 times the amount of the minimum wage (it is the amount of CZK 480.600 for the year 2019). The pension is exempt from the income tax only up to this amount.

It concerns all kinds of regularly paid pensions (e.g. the old-age pension, the disability pension, the orphan's annuity, the widow's pension...).

9. In the case that the tax is increased by a solidarity increase of tax to the employee, then the employee must file a tax return for natural person income tax personally and he cannot ask the employers for annual tax clearance. The solidarity increase of tax on income from employment occurs in the case that the sum of gross income from dependent activities included in the partial tax base under Section 6 and under partial tax base under Section 7 (income from independent activities, previously entrepreneurship) exceeds CZK 1.569.552 per tax period (this value is valid for the year 2019).

Documents that have to be enclosed to the annual tax clearance, to claim some items deductible from the tax base and tax allowances:

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1. **If an employee successively worked for several employers during the year, it is necessary that he presents the "Statement of Taxable Income for the year 2019" from all of his previous employers.**
2. **Should students claim a tax allowance for a student and they would claim in for a part of the year or they would start working after completing their studies, it is necessary to present a confirmation of the duration of their studies for this period too.**
 - a. E.g. a student completed his studies in June 2019 and started working in August 2019. He could not claim a tax allowance for a student from August 2019, but he can claim a student tax allowance in the annual clearance for the months January – June 2018, provided that he presents a confirmation of his studies for these months.
 - b. E.g. a student studied and worked during the entire year but for some reason, the student did not claim any tax allowance until September 2019, because he might have not known about it and therefore did not present any confirmation of his studies. He can claim a tax privilege for the months January – August 2019 in the annual clearance, provided that he presents a confirmation of his studies for these months.

The student's tax allowance can be applied even after reaching the age of 26, but only for the full-time doctoral study up to the age of 28. Upon reaching the age of 26 or 28, the entitlement to the tax allowance ceases to exist.

Example: On 1.6. 2019 the student in the master programme celebrates the 26th birthday, i.e. he is no longer entitled to the tax allowance for June 2019. On 1.9.2019 the student in the full-time doctoral study will celebrate 28th birthday, i.e. he is no longer entitled to the tax allowance for September 2019.

3. **Private life insurance (it is possible to deduct the maximum of CZK 24.000 per annum):**
 - a copy of the private life insurance contract, unless already presented in previous years.
 - a statement of the insurance company confirming payment of the insurance premium for the respective year.
 - amendment to the contract and/or confirmation of the company, which the life insurance has been made with, that premature payment of contribution had not been agreed in the contract.
4. **Additional pension insurance with state contribution, supplementary pension insurance, pension insurance (it is possible to deduct the maximum of CZK 24.000 per annum):**
 - a copy of the contracts on additional pension insurance with state contribution, supplementary pension insurance or pension insurance, unless already presented in previous years.
 - a statement of the insurance company confirming payment of the contributions for the respective year.
 - it is possible to deduct the amount of contributions paid, which are reduced by the amount of CZK 12,000 for additional pension insurance with state contribution or for supplementary pension insurance. it is possible to deduct the sum of parts of the monthly paid contributions, which in case of the additional pension insurance with the

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state contribution and the complementary pension insurance exceed in individual months the amount, from which the maximum state contribution is assigned. The maximum state contribution belongs to the monthly contribution of CZK 1,000.

5. Donations:

- confirmation of the donee regarding the amount and purpose of the donation

It is necessary to prove provided donations by a document, from which the donee, value, purpose and subject of the donee is obvious and so is the donation date.

The minimum donation total amount has to be at least CZK 1.000 or exceed 2% of the tax base. The maximum of 15% of the tax base can be deducted. Only a donation for strictly determined purposes stated in Section 15 par. 1 of the Act on Income Tax (usually charity, healthcare, environmental, social, humanitarian, religious, sports and cultural purposes, healthcare aids for disabled persons, for the police, fire prevention, education, churches etc.) can be deducted from a tax base. Also free blood taking or donation of organs by a living donor is considered to be a donation. The value of one blood-taking is evaluated by the sum of CZK 3.000. The value of a donation of organs by a living donor is evaluated by the sum of CZK 20.000. Hematopoietic cell collection value is vealued by the sum of CZK 20,000.

Certificate of the health facility confirming the realized blood taking is quite enough. .

Donation as a deductible item granted from joint assets of the spouses can be raised either by both spouses proportionately or only by one of them.

6. Tax allowance for a wife/husband (Up to CZK 24.840 per annum can be deducted):

- a copy of the document proving the identity of the wife/husband (usually the copy of a valid ID card)

This allowance can be claimed only for a wife (husband) living with the taxpayer in one household, unless she (he) has own income exceeding CZK 68.000 per tax period. The following is not included in own income of the wife (husband)

- state social support benefits (e.g. family benefit),
- benefits for foster care except remuneration to foster parent
- benefits to handicapped persons,
- benefits in the case of financial distress,
- attendance allowance,
- social services,
- state contributions to additional pension insurance with state contribution,
- state contribution to supplementary pension insurance
- state contributions according to Act on Saving for Building Purposes and on State Support of Savings for Building Purposes,
- scholarships granted to persons continuously preparing for their future occupation
- income for the reason of caring for a close person or other person entitled to an attendance allowance under the Act on Social Services, which is exempted from income tax.

Spouses with joint property of spouses do not include the income of the other spouse or that regarded as income of the other spouse for income tax purposes in own income of the wife (husband).

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For instance financial contribution during maternity, sickness pays, unemployment benefits (any kind of pension from the pension insurance, e.g. disability, old-age, widow's insurance) are included in the amount of CZK 68.000, but family benefit is not included. Further, e.g. income from the sale of real estates, winnings, employer's contributions for additional pension insurance or life insurance, meal allowances (including meal vouchers), inheritance, rental income, tax bonus, boiler subsidy, non-cash employee income in the form of transport ensured free of charge by the employer, etc. are included, as are other incomes, whether they are subject to income tax or they are exempted therefrom or not, or whether they are subject to withholding tax or not. The limit also does not include income from the rental or sale of a real estate in the common property of the spouses, which is considered as income of the other spouse for the purposes of the income tax and which is taxed only by one of the spouses.

If the parents do not live together, the court will modify the extent of their obligation to provide maintenance or approve their agreement on the amount of alimony. This alimony is intended only for the child and is not included in the income of any spouse. The sums received in excess of this way determined alimony are not included in the income of any spouse.

7. Contributions to unions (up to 1.5% of taxable income from dependent activities can be deducted, excluding income taxed using withholding tax, but the maximum amount is CZK 3.000 per annum):

- a statement of the union confirming payment of contributions for the respective year

8. Interest from credit for housing requirements

- copy of the credit contract, unless already presented in previous years. The debtor (co-debtor), bank, contract number, purpose of the credit and signatures of the debtor (co-debtor) and the bank have to be obvious from the contract
- a statement of the building and loan association or bank confirming the amount of the interest from the credit for housing requirements paid in the respective year.
- it is necessary to enclose copies of the following documents according to the type of the housing requirement (e.g. for the construction of a new family house or for the purchase of a house or for the adjustments or maintenance of a house or the payment of a member's investment to acquire a lease title etc.)
 - building permit,
 - extract from the list of ownership – extract from internet cannot be affixed,
 - lease contract, if it is a rented flat,
 - confirmation by the legal entity (e.g. cooperation or limited liability company), that the taxpayer is a member or partner thereof in cases, where the credit is used to pay a member's investment or a payment for the transfer of membership rights to acquire a lease title
 - a document proving permanent residence (ID card), if the credit is granted for dwelling needs pursuant to § 15 (3) (e) of the Income Tax Act and the debtor is not owner of the real estate (e.g. a flat being used).

The basic conditions to claim deduction are:

- the employee has to be a party to a credit contract as a debtor or co-debtor or a person acceding to a liability,
- he uses the housing requirement for own permanent residence or for the permanent residence of the other spouse, children, parents or grandparents of both spouses (or for

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the fulfilment of obligations determined for the use of building by the Construction Act),

- in the case of a purchase or construction of a housing requirement or the purchase of a plot, on which a construction of a housing requirement will be commenced, the employee has to be registered in the land register as the owner thereof during the entire tax period. In the year, in which ownership is obtained, the taxpayer has to become the owner of the flat as of 31 December of the respective year at the latest.
- in case of sale of a housing requirement (residential need), interest on the credit may be claimed only if the taxpayer owned the housing requirement on 31.12. of the relevant year. Date of change of the ownership is usually governed by the legal effect of the investment, which is marked in the extract from the land register. If the ownership change occurs at any time during the year from 1.1. till 31.12., the condition of ownership will never be met on 31.10. of the relevant year and the right to deduct interest on the credit for the housing requirement will not arise.

This topic is wide, so if the employee intends to claim a deduction of this interest from a credit for housing requirements, please contact us, we will deal with each case individually and we will inform the employee about the necessary documents to be enclosed according to the presented copy of the credit contract and confirmation of the interest paid.

9. Exam fees

- Receipt for the amount paid for the examination verifying the results of further education
- Professional qualification certificate – the certificate issued on the prescribed form. It is enough to submit a copy of this document, when submitting, the accepting person confirms conformity and identity of this document.

Payments for examinations verifying results of additional education under the Act on Verification and Acknowledgment of Results of Additional Education can be deducted from the tax base unless paid by the employee or claimed as a tax expenditure by the taxpayer with income according to Section 7 of the Act on Income Tax (income from entrepreneurship), but up to the maximum of CZK 10.000. If a taxpayer is a disabled person, up to CZK 13.000 can be deducted for the tax period and up to CZK 15.000 for a person with a severe disability.

These must be examinations for specific approved qualifications within the National Qualifications Framework. Only authorized persons provide the examinations under the above mentioned Act. Authorized persons may be e.g. schools or training centres, various companies (legal entities), as well as natural persons who have received authorization from the authorizing body (the relevant ministry), but also natural persons - entrepreneurs. Not all professional qualifications have been approved yet. For example, passing state language examination in a foreign language, obtaining a certificate for passing a language examination, obtaining various certificates in accounting cannot be automatically considered as examinations verifying results of further education, unless carried out in accordance with the National Qualifications Framework.

The list of approved qualifications, including information on any authorized persons, can be found on the website <http://www.narodni-kvalifikace.cz/>.

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Answers to frequently asked questions concerning national qualification standards can be found here: <http://www.narodni-kvalifikace.cz/caste-dotazy>.

10. Tax allowance for placing a child in care facilities for preschool children (i.e. nursery school fee)

- confirmation of the pre-school facility about the amount of expenses incurred for placement of a dependent child of the taxpayer; the confirmation must contain
 - a. name of the dependent child of the taxpayer,
 - b. the total sum of expenses the taxpayer has paid for the child during the relevant tax period,
 - c. date of incorporation of this facility into the school register or into the record of providers or date of existence of his trade licence

The taxpayer shall request the confirmation from the administrator of the pre-school facility or nursery school and then submit it to the employer. The allowance does not apply to food, hobbies or other supporting activities for the children paid besides the basic fee for the placement of a child. Also, allowance cannot be applied to the amount, which the employer contributes to employee in the form of non-monetary contribution for pre-school or nursery school. In case of the contribution valid for more children placed in the same pre-school facility, the sums must be broken down for each child separately.

Tax allowance can be applied under the following conditions:

- for each dependent child, usually at the age of 3-6 years, the allowance can be applied up to the level of the minimum salary valid on 1 January of the respective year, for 2019, the amount of the allowance is CZK 13.350 / year
- a dependent child lives with the taxpayer in a joint household,
- if several taxpayers take care of the dependent child in one joint household, only one of them may apply for the allowance for the placement of the child in the respective tax period,
- allowance can be applied for a dependent child of the taxpayer, unless it is a grandchild or a grandchild of the other spouse. The allowance on behalf of a grandchild or grandchild of a spouse can be applied only if they are in care, which replaces parental care.
- the following situation is a special case: the dependent child is a member of two joint households in case of alternate parental care for a child. The child is one part of the year in one household with one of the parents and the other part of the year in the second household with the other parent and each of the parents pays the pre-school tuition fees for the relevant part of the year. It means that each parent can deduct the pre-school tuition fees that he/she has paid for the time period when the child stayed in his/her household, but max CZK 13.350 per year.

Note:

1) According to Section 123 par. 2 of the Education Act, education in the final year of nursery school established by the state, region, municipality or association of municipalities is provided to the child for free for a maximum of 12 months. Therefore, any payment to the state in the last year of nursery school before entering elementary school is not considered to be payment for education, in which case you cannot apply the tax allowance, the so - called nursery school fee.

However, this does not apply to children in the last year of nursery school and the nursery school fee can be deducted from tax provided that:

- Children who received postponement of school attendance therefor complete the "last" year of nursery school twice and are not entitled to education free of charge,

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- children in private nursery schools in which tuition is paid even in the year of enrolment into elementary school, because the mentioned provision of the Education Act applies only to state nursery schools.

2) Since 01.01. 2016 definition of the pre-school facility for purposes of the pre-school tuition fee as the tax allowance has been restricted. Under the preschool facility we shall understand:

a) nursery school under the Education Act

b) or a similar facility abroad,

c) facility of the child care service in a children's group,

d) facility for the preschool child care operated on the basis of the trade licence, provided that character of such care is comparable with the care granted under item a) or c) above.

3) Since 1. 1. 2018 the tax allowance for the relevant tax period may include only the sums settled as the pre-school fee for placing the child in the pre-school facility from January till December of the relevant tax period, but not the sums, though settled in the relevant year, but concerning the school fee of the next or previous year.

Example: the pre-school fee paid in December 2019 for January 2020 cannot be included into the tax allowance for the year 2019.

List of schools and school facilities: <http://rejskol.msmt.cz/>

Survey of children's groups: <http://evidence.mpsv.cz/eEDS/index.php>