

2023 Recovery Tax Package in Terms of Individuals and their Employers

On 11 May, the government introduced the long-awaited and discussed tax package, which should help the Czech Republic cope with the growing deficit of the state budget in the coming years. The so-called Recovery Package contains a total of 58 measures. We have selected for you a comparison of those that will affect almost all of us, namely personal income tax and social security payments.

Current *	Proposed *
23% tax rate on employee income exceeding 4x the average wage (approx. 161,000 CZK/month, 1,936,000 CZK/year)	23% tax rate on employee income exceeding 3x the average wage (approx. 121,000 CZK/month, 1,452,000 CZK/year)
Spousal tax deduction if his/her income does not exceed 68,000 CZK/year – 24,840 CZK	Spousal tax deduction if his/her income does not exceed 68,000 CZK/year and only if he/she is caring for a child under 3 years of age – 24,840 CZK
Annual student discount – 4,020 CZK	Abolition of student discount
Annual discount for child placement (kindergarten fees) – 17,300 CZK for the year 2023	Abolition of the discount for child placement (kindergarten fees)
Non-monetary employee benefits exempt from tax (vouchers/points for leisure activities in sports, culture, recreation and purchase of medical equipment)	Abolition of exemption for non-monetary employee benefits
Sick leave insurance payment is not mandatory for employees	Sick leave insurance payment is mandatory for employees at a rate of 0.6%
Income from raffles and gambling exempt from tax up to 1 mil. CZK	Income from raffles and gambling exempt from tax up to 50,000 CZK
Tax base deductible item – payment for exams verifying further education results – max up to 10,000 CZK	Abolition of deduction for payment for exams verifying further education results from the tax base
Tax base deductible item – union membership fee – max up to 3,000 CZK	Abolition of deduction of union membership fees from the tax base
The minimum pension insurance payment is based on an assessment base at the level of 25% of the average wage (the minimum deposit valid for 2023 is 2,944 CZK/month).	The minimum pension insurance payment is based on an assessment base at the level of 40% of the average wage (when we go from the current average wage, it is about 4,713

	CZK/month). The increase should be gradual over three years.
Self-employed persons pay social insurance from the assessment base at the level of 50% of the tax base.	Self-employed persons pay social insurance from the assessment base at the level of 55% of the tax base.

* The table lists individual changes concerning individuals, compared to the situation before the proposed changes.

New Conditions for Payments from Work Agreements

A relatively unobtrusive change, but significant for many employers, are the work agreements. For popular “Agreements”, two limits for the creation of insurance contributions for employees working on the basis of a work agreement are introduced in the proposal.

- The first limit applies to a work agreement with one employer – earnings up to 25% of the average wage, i.e., up to 10,088 CZK;
- The second limit applies to work agreements with multiple employers at the same time - earnings up to **40% of the average wage**, i.e., up to 16,141 CZK.

We have calculated the amounts based on the average wage in 2022 (at 40,353 CZK). If one of the above limits is exceeded by an employee working under a work agreement, the insurance will also be deducted from the paid amount.

Employers will have a new recording obligation in connection with work agreements. They will have to report all agreements to the Czech Social Security Administration. How the insurance of agreements will look in practice and how the established limits will be monitored among employers is a question now.

The biggest public discussion so far is sparked by the intention to “abolish employee benefits”. What does the abolition of exemption mean? We’ll explain it with a simple example. Let’s say an employee receives 1,000 CZK per month into the benefit program. With this money, they can pay for entry to a sports



facility or a cinema ticket, or they can make a purchase at the pharmacy. These 1,000 CZK are exempt from income tax and related insurance, which means that the employee receives the money “net”. If the employer added the same amount to the employee's salary, the employee would receive only 740 CZK on their account after all deductions and discounts.

All proposed changes are so far the first presentation of intentions. The government has not yet incorporated these changes into the current amendment. We will be monitoring the situation for you and will keep you informed about the developments.

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