

## MERCIFUL SUMMER III

In 2023, a debt-eliminating initiative called Merciful Summer (*Milostivé léto*) is coming up for the third time, following Merciful Summer I and II. It allows debtors to advantageously get rid of their social insurance and tax debts. For this purpose, two new laws have been approved, effective from July 1, 2023. The first of these is the Law on Extraordinary Forgiveness and Cancellation of Certain Tax Debts (*Zákon o mimořádném odpuštění a zániku některých daňových dluhů*; Law No. 182/2023 Coll.), and the second is the Law on Extraordinary Forgiveness of Penalties from Insurance on Social Security and Contribution to State Employment Policy and Enforcement Costs (*Zákon o mimořádném odpuštění penále z pojistného na sociální zabezpečení a příspěvku na státní politiku zaměstnanosti a a exekučních nákladů*; Law No. 181/2023 Coll.).

The conditions for tax and social insurance debts to be forgiven are essentially the same – if debtors pay the original tax debt and/or overdue insurance and meet other conditions of the initiative between **July 1 and November 30, 2023**, their penalties, interest, and other debt accessories will be forgiven. Merciful Summer III applies to accessories related to:

- tax arrears
- social insurance and contributions to state employment policy
- debts to courts and the Prison Service of the Czech Republic (so-called judicial debts)
- other debts enforced by local governments, if they join the Merciful Summer III (for example, local dog fees)

### Tax-Merciful Summer

If a debtor has tax liabilities from the past, these have likely increased due to interests, penalties, fines, or possibly costs of executory proceedings. As part of the Merciful Summer III, the state will forgive these accessories if certain conditions are met.

Debt forgiveness applies to accessories to tax arrears that are collected by revenue services, customs offices, and the Ministry of Finance. The only exception is customs-related accessories, which Merciful Summer does not apply to. Both accessories to already distrained debts and those to receivables that have not yet

been distrained can be forgiven – they just need to have been assessed already. All individuals, including entrepreneurs, can use the Merciful Summer III.

The conditions for forgiveness of accessories include:

- the tax arrearage existed before September 30, 2022
- the receivable is not being enforced by a judicial executor
- the original debt will be paid within the legal deadline

In the case of existing tax liability debts and the forgiveness of accessories, an official request must subsequently be submitted. The request must be submitted to the corresponding revenue service that registers the arrears or enforces them. Requests can be submitted as follows:

- via a data box
- via e-mail with a recognized electronic signature
- via email with an electronic copy of a document containing a scanned handwritten signature
- in paper form (as a registered letter)
- verbally on record at a revenue service

Tax liability arrears can be paid in two ways:

1. In a lump sum by November 30, 2023 (the payment must be credited to the tax administrator's account on this day),
2. In case of a debt exceeding CZK 5,000, the debt can be paid either in a lump sum (also by November 30, 2023) or in 12 instalments, in which case the use of instalments must be mentioned in the request of accessories

If the debtor does not request instalment payments, the first of the mentioned methods applies. Debtors are not informed about the approval of their request. They are only informed if their debt cannot be paid in instalments. Similarly, it is not possible to pay the debt in instalments if it is a tax advance, arrears for which deferment or instalments have already been allowed, or if the tax shortfall is already in tax execution (which means you can request forgiveness of accessories, but not in instalments, while you cannot ask for forgiveness for accessories in case of judicial execution). If a debtor decides

to repay the tax debt in instalments, it is necessary to strictly follow the rules regarding the amount of instalments and the due date, otherwise their right to remission of accessories will lapse.

Merciful Summer III also includes automatic forgiveness of trivial tax shortfalls or tax accessories. This means that if the tax shortfall or related accessories do not exceed 200 CZK (30 CZK for property tax) and at the same time, the total of tax shortfalls for one tax administrator does not exceed 1,000 CZK, the state will automatically forgive the debt and there is no need to submit a request. However, in these cases, it also applies that only debts for which the shortfall arose before September 30, 2022, and that are not collected by a judicial executor, will cease to exist. The automatic forgiveness of insignificant debts also applies to legal persons.

### Insurance-Merciful Summer

Just as with tax debts and accessories, social insurance debts can also be forgiven thanks to Merciful Summer, according to the second above-mentioned law. The possibility of forgiving accessories applies to both debts that are already in execution and debts that are not yet in execution. In addition to timely payment of the insurance owed, the debt must have arisen before September 30, 2022, and is not being enforced by a judicial executor. The Czech Social Security Administration recommends that potential debtors find out the amount of the debt through the *ePortál* application, which can be accessed using the Citizen's Identity or a functional data box. An alternative option is a personal visit to the corresponding District Social Security Administration branch.

The process of forgiving social insurance debts is somewhat easier. If the insurance owed was fully paid by June 30, 2023, and only the accessories remain to be paid, the state will automatically forgive the accessories. But if the insurance debt still existed as of June 30, 2023, you can apply for the remission of accessories electronically in the ČSSZ *ePortál* application (using Citizen's Identity or a functional data box from July 10, 2023) or, in exceptional cases, personally at the corresponding District Social Security Administration branch.

Social insurance arrears can be paid in two ways, which do not differ much from those mentioned in the case of the Tax-Merciful Summer. These are the following processes:

- if the insurance debt does not exceed 5,000 CZK, it must be paid in one go, by November 30, 2023 (on this day, it must be credited to the District Social Security Administration's account)
- in the case of a larger debt, it is possible to pay the debt either in one go (also by November 30, 2023) or in instalments specified by law
- if the debt is lower or equal to 50,000 CZK, it is repaid in 12 instalments at the end of each month starting December 31, 2023, and ending November 30, 2024
- if the debt exceeds 50,000 CZK, it is to be repaid in 60 instalments, always at the end of each month, starting December 31, 2023, and ending on November 30, 2028.

Even in this case, it is necessary to note that the intention to repay the debt in instalments must be announced in advance in the request for the use of the remission of accessory and subsequently adhere to the exact calculated amount of the instalment and due date. If any of these conditions are violated, the debtor loses their right to forgiveness of the unpaid accessory without compensation.

### Other Areas Merciful Summer III Applies to

Merciful Summer III can also be applied to judicial claims, i.e. payments administered by courts or the Prison Service of the Czech Republic, specifically:

- monetary punishments according to the criminal code
- procedural fines according to the Law on Public Prosecutor's Office (*zákon o státním zastupitelství*)
- costs of pre-trial detention execution
- costs related to the pre-trial detention execution and damage compensation according to the Law on Pre-Trial Detention Execution (*zákon o výkonu trestu*)
- costs of execution of the sentence



Since there are no interests on late payments when it comes to judicial claims, Merciful Summer III can be used in cases where the debt is under execution (after the original debt has been repaid, the state forgives execution costs) or if the debt is less than 200 CZK (forgiveness occurs automatically). Just like in the previous instances, a prerequisite for the forgiveness of accessories is the existence of the debt before September 30, 2022, the payment of the debt within the statutory period and confirmation that the debt is not being claimed by a court executor.

In addition to the already mentioned participants in Tax-Merciful Summer, according to the law, territorial self-governing units, i.e., municipalities and regions including the Capital City of Prague can also join the initiative. The possibility of forgiveness also applies to debts from local fees (for dogs, waste collection, etc.) or levies for violation of budget discipline if the corresponding municipal council decides and issues a relevant resolution by September 30, 2023. However, in this case, it always depends on the specific self-governing unit and its approach to the opportunities of the Merciful Summer.

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