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Basic Tax Consequences of the New Labour Code



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1. Introduction

- ❖ New Labour Code (“LC”) effective as of 1 January 2007.
- ❖ Abolishment of the Travelling Expenses Reimbursements Act – provisions included in the LC.
- ❖ Corresponding amendments and changes in the Income Taxes Act (“ITA”) and in the Social Security and Health Insurance (“SSHI”) legislation.

2. General principles

General taxation and SSHI principle

- ❖ Generally, employment benefits provided to the employees are either:
 - ⊙ Tax deductible for the employer, but subject to the personal income tax and SSHI for the employees,
 - ⊙ Tax non-deductible for the employer (provided from profit after taxation), but tax exempt and free of SSHI for the employees.

2. General principles

General corporate tax deductibility principle – Part 1

❖ Expenses incurred on

- working and social conditions,
- health care facilities and
- increased rest time for employees

resulting from

- collective agreement,
- internal regulation,
- employment/other contract,

are corporate tax deductible unless their tax deductibility is regulated by special provisions of the ITA.

2. General principles

General corporate tax deductibility principle – Part 2

- ❖ Subject to special provisions are e.g.: travelling expenses reimbursements, temporary accommodation, pension and life insurance, transport of employees etc.

2. General principles

General SSHI principles

- ❖ Subject to SSHI is the sum of the employment income
 - ⊙ which is subject to the personal income tax,
 - ⊙ is not tax exempt,
 - ⊙ was accounted to the employee by his/her employer in relation with his/her employment.
- „accounted“** = recorded in the employer's bookkeeping as an expense (cost) or cash outflows and provided to the employee.

3. Travelling expenses reimbursements

- ❖ Provision of travelling expenses reimbursements included in the LC (both state officers and business employees).
- ❖ Travelling expenses reimbursements up to limits applicable to state officers – „minimum standard“.
- ❖ Business employers may agree with their employees provision of higher/other travelling expenses reimbursements than the “minimum standard”.

3. Travelling expenses reimbursements

1. Tax treatment for the employer

- ❖ Travelling expenses reimbursements in the meaning of the LC are tax deductible, regardless of whether provided within the „minimum standard“ or not.
- ❖ Other non/monetary benefits (not travelling expenses reimbursements in the meaning of the LC) – general principles.

3. Travelling expenses reimbursements

2. Tax treatment for the employee

- ❖ Travelling expenses reimbursements provided to the employees:
 - ⊙ within „minimum standard“ are tax exempt and not subject to the SSHI,
 - ⊙ above „minimum standard“ are subject to tax and SSHI.
- ❖ Other non/monetary benefits (not travelling expenses reimbursement in the meaning of the LC) – general principles.

4. Selected special employment benefits

Temporary Accommodation

1. Tax treatment for the employer

- ❖ Temporary accommodation (except for accommodation in a family house or a flat) up to CZK 3,500/month – corporate tax deductible,
- ❖ Temporary accommodation in a family house (flat) – potentially tax deductible if agreed in the employment contract, internal regulation, collective agreement (no limits).

4. Selected special employment benefits

Temporary Accommodation

2. Tax treatment for the employee

- ❖ **Temporary** accommodation provided by the employer in a non-monetary form – tax exempt and free of SSHI.
- ❖ Inconsistency of temporary accommodation and tax residence status.

4. Selected special employment benefits

Company car for business and private use

1. Tax treatment for the employer

- ❖ Not influencing the tax deductibility of expenses related to the service of the car, tax depreciation etc.
- ❖ Employee's private fuel – potentially tax deductible if agreed in the employment contract/internal regulation etc.

4. Selected special employment benefits

Company car for business and private use

2. Tax treatment for the employee

- ❖ Taxable income of 1% from the purchase price per month (at least CZK 1,000).
- ❖ Not subject to SSHI contributions (not accounted income).
- ❖ Private fuel subject to tax and SSHI.

4. Selected special employment benefits

Pension and life insurance

1. Tax treatment for the employer

- ❖ Contributions to pension and life insurance in compliance with Sec. 24(2)(zj) and (zo) of the ITA
 - ⊙ up to the limits stipulated – corporate tax deductible.
 - ⊙ exceeding limits stipulated – corporate tax non-deductible.
- ❖ Contributions to pension and life insurance different from those stated above – potentially tax deductible if stipulated in employment contract/internal regulation etc.

4. Selected special employment benefits

Pension and life insurance

2. Tax treatment for the employee

- ❖ Employer's pension and life insurance contributions under the conditions stated in Sec. (6)(9)(u) and (w) up to the limits stipulated by these articles - tax exempt and free of SSHI,
- ❖ Contributions other than those stated above or exceeding the respective limits are subject to tax and SSHI.

4. Selected special employment benefits

Transport of employees

1. Tax treatment for the employer

- ❖ Tax deductibility of expenses on transport to/from employee's workplace provided by employer's own/leased means of transport/carrier's means, **means of transport** being motor vehicles for 10 or more persons.
- ❖ Other motor vehicles (i.e. for less than 10 persons) – related expenses potentially tax deductible if stated in the employment contract/internal regulation etc.

4. Selected special employment benefits

Transport of employees

2. Tax treatment for the employee

- ❖ Transport to/from the workplace provided by employer (regardless of type of the motor vehicle) is subject to tax.
- ❖ Unclear interpretation as regards SSHI
MF (informal): it is not possible to account for the respective income =>no SSHI.



**Thank you for your
attention.**



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