
CZECH REPUBLIC 2006

1. Overview of the tax-benefit system

Czech citizens are secured (protected) by three social security systems, i.e. by the social insurance, state social support and social assistance.

The social insurance system addresses such social circumstances as one may get prepared for in advance by depositing certain funds that will serve to solve future social situations. The system includes the unemployment insurance, sickness insurance and pension insurance. Social insurance is funded through contributions made by the employees and employers and by contributions from the state. The system is further complemented with the health insurance and accident insurance.

The state, through the state social support, contributes mainly to the families with dependent children who have encountered a recognised social situation, which the family is unable to manage using its own efforts and means. The system applies the solidarity principle between the high-income families and low-income families, as well as between the childless families and those with children. The state social support benefit concept has been based on the minimum subsistence level category, stipulated by special legislation and representing a cornerstone in determining the benefit and its amount. At assessing claims for the benefits, the family property is not tested, while the income is reviewed in case of certain benefits. The income is currently subject to examination for the purpose of claims for the child allowance, social allowance and housing allowance. The income is not examined for the purposes of the parental benefit, foster care benefits, birth grant and funeral grant.

The state, through the social assistance, provides assistance to the citizens whose subsistence needs are not sufficiently covered with the income from a gainful occupation, pension or sickness insurance benefits, or, with other income, as well as to the citizens who need such assistance due to the condition of their health or their age, or who are unable to overcome a difficult life situation or adverse circumstances without help by the state.

Unemployed persons can receive unemployment benefits for a maximum period of 6 months.

Minimum subsistence level/Minimum living standard (MLS) exists as a criterion for social benefits. The amount is determined as a sum of an amount designed to meet household needs (differentiated according to the number of persons) and amounts for personal needs (according to composition of the family).

The tax unit is the individual, since 2005 married couples with children are taxed either separately or jointly (using the income splitting method). Deductible items for spouse under given income and tax credits for dependent children are administered.

1.1. Average worker wage (AW)

In 2006, the average wage (AW) in the national economy shall increase (according to assumption of the Ministry of Labour and Social Affairs of the Czech Republic) by 5.7 per cent.
The 2006 AW earnings level is CZK 234 796¹.

2. Unemployment insurance

2.1 Conditions for receipt

2.1.1 Employment conditions

From 1.10. 2004 (the new Employment Act came into force): the entitlement to unemployment benefits is based on a period of contributions

2.1.2 Contribution conditions

12 months of job in the last 3 years – but it is taken into account only the job (or independent gainful activity) on the basis of which the job seeker paid pension insurance contribution and state employment policy contribution

2.2 Calculation of benefit amount

2.2.1 Calculation of gross benefit

50 % in the first three months and 45 % in the following three months, of last earned income net of tax and social security contributions; however, the maximum of the benefits can be up to an amount equals to 2.5 times the minimum living standard (see section 4.2.1.)

2.2.2 Income and earnings disregards

The job seeker is allowed to earn half of the minimum wage in a month without losing the entitlement to unemployment benefits. The monthly minimum wage has been CZK 7570 since 1st January 2006 and CZK 7955 since 1st July 2006.

2.3 Tax treatment of benefit and interaction with other benefits

Not taxable.

1. AW refers to the Average Wage estimated by the Centre for Tax Policy and Administration (www.oecd.org/ctp). For more information on methodology see Taxing Wages 2005-2006, OECD, 2007, part 5, sections 2 and 3

2.4 *Benefit duration*

The support period is:

- a) 6 months for job seekers under 50 years
- b) 9 months for job seekers between 50 – 55 years, but on condition that the job seeker has paid pension insurance contributions for a period of 25 years at least
- c) 12 months for job seekers over 55 years, but on condition that the job seeker has paid pension insurance contributions for a period of 30 years at least; provided that this job seeker has paid pension insurance contributions for a period of 25 years at least but less than 30 years, the support period is 9 months

Providing of unemployment benefits does not depend on whether the loss of employment was voluntary or not.

The unemployment benefit is not provided if the job seeker refuses without serious personal or family reasons to take up a suitable job or start agreed retraining.

2.5 *Treatment of particular groups*

2.5.1 *Young persons*

No special treatment.

2.5.2 *Older workers*

See section 2.4

2.5.3 *Others if applicable*

3. Unemployment assistance

3.1 *Conditions for receipt*

3.1.1 *Employment conditions*

None.

3.1.2 *Contribution conditions*

None.

3.2 *Calculation of benefit amount*

3.2.1 *Calculation of gross benefit*

During the period of retraining the job seeker engaged in retraining receives 60 % of last earned income net of tax and social security contributions; however, the maximum of the benefits can be up to an amount equals to 2.8 times the minimum living standard (see section 4.2.1.)

3.2.2 *Income and earnings disregards*

The job seeker is allowed to earn half of the minimum wage in a month without losing the entitlement to the benefit during retraining (“retraining benefit”). The monthly minimum wage has been CZK 7570 since 1st January 2006 and CZK 7955 since 1st July 2006.

3.3 *Tax treatment of benefit and interaction with other benefits*

Not taxable.

3.4 *Benefit duration*

The benefit during retraining is provided for the whole period of retraining.

3.5 *Treatment of particular groups*

3.5.1 Young persons

No special treatment.

3.5.2 Older workers

No special treatment.

3.5.3 Others if applicable

The disabled person is entitled to the retraining benefit during the period of his/her vocational training, even if he/she is not registered as a job seeker

4. Social assistance

The social assistance's objective is to prevent social exclusion and deprivation due to poverty and other problems. Citizens, whose needs are not adequately met by income from gainful activity and from benefits provided by the pension and sickness insurance systems, and possibly by other income (state social support allowances and grants, support provided by persons who are required to provide livelihood or pay alimony, etc.), are secured by social assistance benefits.

The notion of social assistance benefits is understood to include the social assistance benefits provided due to a low income, as stipulated by the Social Neediness Act², that are known to the public under the popular, yet misleading, label of “minimum subsistence level benefits”; closely related or other person care allowance; and a whole series of social assistance benefits provided to the senior (elderly) or severely handicapped citizens. Further included are the benefits designated for citizens who have temporarily encountered extremely difficult circumstances or who live under such circumstances; and social assistance benefits responding to certain special needs of families with dependent children. Social assistance benefits may be analysed according to numerous aspects: by relevant legal regulation stipulating their provision; by differentiating whether they represent obligatory or facultative performance; by target group (families with children, senior citizens; severely handicapped etc.); or by type of need to which the benefits respond (need of individual transport, special aids etc.).

4.1 *Conditions for receipt*

The social assistance benefits in case of neediness are means-tested.

To become eligible to social assistance benefits the conditions are: permanent residence, impossibility to obtain an increased income by using own efforts, in particular by gainful activities and impossibility to use the persons' property to remedy his or her present situation. In case of unemployment, the unemployed has to be registered with the public employment service and upon request participate in public works organized by municipalities. Effort to obtain income through working is not required from old age and invalidity pensioners, persons over 65, parents caring for children meeting other prescribed conditions. In case of family with children, proper compulsory school attendance of children is demanded.

4.2 *Calculation of benefit amount*

4.2.1 *Calculation of gross benefit*

Calculation of benefit depends on income, minimum living standard (MLS) and expenditures (connected e.g. with housing). People with necessity of a special diet or with special privileges due to their handicap have higher MLS.

² Act no. 482/1991 Coll., On Social Neediness, as amended.

Minimum living standard (MLS)

Since 1st January 2006 (in CZK)

Amounts needed to insure sustenance and other basic personal needs		Amounts needed to assure household	
For dependent children			
To the age of 6 years	1750	Individuals	2020
From 6 to 10 years	1950	2 members	2630
From 10 to 15 years	2310	3 or 4 members	3260
From 15 to 26 years	2530	5 and more	3660
For other persons	2400		

The MLS of the family is a sum of amounts needed to insure sustenance and other basic personal needs of each family member plus amount needed to assure household according to number of members.

4.2.2 *Income and earnings disregards*

See above-mentioned conditions for receipt.

4.3 *Tax treatment of benefit and interaction with other benefits*

Not taxable. Social assistance benefits can be received at the same time as in-work earnings and any other benefit.

4.4 *Benefit duration*

As long as the conditions are fulfilled.

4.5 *Treatment of particular groups*

Social assistance benefits in case of neediness have no special treatment of particular groups. But within social assistance benefit system, there are about 30 benefits for children, disabled and elderly people. See above-mentioned description of social assistance benefit system.

5. Housing benefits

5.1 Conditions for receipt

Housing allowance is a recurrent, income-tested benefit; income in the previous calendar quarter is tested. The housing allowance is designed to assist low-income families and individuals to cover expenditure connected with housing. The allowance does not cover the whole housing costs; it only makes a contribution to the coverage of housing costs. Housing benefits are granted irrespective of the type of housing, i.e. regardless of whether it is a municipal or co-operative flat, privately owned flat or privately owned house. The actual cost of housing is also irrelevant. The amount of allowances is differentiated - the lower the income, the higher the allowances. The owner or tenant of an apartment who is registered for permanent residence in the apartment is entitled to housing allowance if the relevant income of all persons registered for permanent residence in the apartment does not exceed a multiple of 1.6 times the family's MSL.

5.2 Calculation of benefit amount

5.2.1 Calculation of gross benefit

The amount of housing benefit for a calendar month is computed as the difference between the family's household amount (see section 4.2.1) and a quotient, in which the numerator is the family's household amount multiplied by the family's relevant income, and the denominator is the amount of the family's MLS (see section 4.2.1) multiplied by a coefficient of 1.60.

$$HA = MSLH - \frac{MSLH \times I}{MSLF \times K}$$

HA Housing allowance.

MSLH Minimum subsistence level for household costs (four levels based on the number of persons in the household).

I Decisive family income = net income from dependent activity (employment), income from business activity and other independent gainful activity (self-employment), income from lease and other incomes defined under income tax legislation, after the deduction of contributions to health and social insurance and income tax; and also pensions, sickness benefits, unemployment benefits including similar incomes from abroad. For the purpose of the housing allowance calculation, the decisive income includes parental allowance and child allowance.

If the decisive family income is lower than the minimum subsistence level of the family, the minimum subsistence level of the family is used for the calculation.

MSLF Minimum subsistence level of the family (the sum of amounts needed to ensure the sustenance and other basic personal needs of each family member plus the amount needed to cover household costs based on the number of members).

K Coefficient is 1.6.

Housing allowance belongs to state social support, it is not a part of social assistance. When calculating social assistance benefit according to Act on Social Neediness, housing allowance (as well as other state social support benefits) is considered as a decisive income.

Amount of housing benefits according to family income

In multiples of the minimum living standard of the family and numbers of jointly considered persons (in CZK)

Since 1st January 2006

Number of jointly considered persons	Amount of benefits/ family income in previous quarter		
	1.0 MLS	1.2 MLS	1.4 MLS
1	758	505	253
2	987	658	329
3 or 4	1223	815	408
5 and more	1373	915	458

5.2.2 *Income and earnings disregards*

5.3 *Tax treatment of benefit and interaction with other benefits*

Not taxable. Housing allowance can be received at the same time as in-work earnings and any other benefit.

5.4 *Treatment of particular groups*

5.4.1 *Young persons*

None.

5.4.2 *Older workers*

None.

5.4.3 *Others if applicable*

None.

6. Family benefits

Family benefits (State social support system) consist of:

- i) The benefits related to family income³ (child allowance (in section 6), social allowance (in section 9), housing benefit (in section 5)).
- ii) The benefits provided irrespective of income (parental allowance (in section 7.2), foster care allowances, birth grant, funeral grant).

6.1 Conditions for receipt

Each child under 15 years old (until the end of compulsory education), or under 26 years old (if in full-time education, vocational training or disabled) is entitled to the *child allowance*. The family has to meet certain income criteria. Income of the family must be under 3.0 MLS. (for MLS amounts see tables in the social assistance section).

6.2 Calculation of benefit amount

6.2.1 Calculation of gross benefit

Child allowance is the basic long-term allowance provided to a dependent child (15/26 years old – see above) with the objective to contribute to the coverage of costs incurred in his upbringing and sustenance. Child allowance is provided at three levels depending on last year's family income.

A dependent child is entitled to child allowance:

- At the increased rate, *i.e.* the child personal needs amount multiplied by a coefficient of 0.32, if the decisive family income does not exceed the family minimum living standard multiplied by a coefficient of 1.10.
- At the basic rate, *i.e.* the child personal needs amount multiplied by a coefficient of 0.28, if the decisive family income exceeds the family minimum living standard multiplied by a coefficient of 1.10 but does not exceed the family minimum living standard multiplied by a coefficient of 1.80.
- At the reduced rate, *i.e.* the child personal needs amount multiplied by a coefficient of 0.14, if the decisive family income exceeds the family minimum living standard multiplied by a coefficient of 1.80 but does not exceed the family minimum living standard multiplied by a coefficient of 3.00.

Amount of child allowance according to family income and age (in CZK per month)

Since 1st January 2006

³ Income which is taken into account for decisions on entitlement to State social support allowances includes income from dependent activity (employment), income from business activity and other independent gainful activity (self-employment), income derived from property, etc., and also sickness and unemployment benefits and pensions, including similar income from abroad. The bulk of the income, which is taken into account for the purpose of these allowances, is defined by the income text legislation. Taken into account is net income after deduction of expenses incurred in generating and maintaining that income, and after deduction of income tax, social insurance contributions, contributions towards the State employment policy and towards health insurance.

Dependent child	Increased rate	Basic rate	Reduced rate
under 6 years	560	490	245
6-10 years	624	546	273
10-15 years	740	647	324
15-26 years	810	709	355

6.2.2 *Income and earnings disregards*

See above.

6.3 *Tax treatment of benefit and interaction with other benefits*

Not taxable. Child allowance can be received at the same time as any other benefit or in-work income.

6.4 *Treatment of particular groups*

6.4.1 *Young persons*

None.

6.4.2 *Older workers*

None.

6.4.3 *Others if applicable*

None.

7. Childcare for pre-school children

Pre-school care facilities are divided into public (state) and private. Among public facilities there are crèches for children up to 3 years of age and kindergartens for children from 3 to 6 years of age. There are special kindergartens for physically and mentally handicapped children. Their founders are state, region, municipality or associations of municipalities. Components of private facilities are running business “securing childcare for children up to 3 years of age” and “parent centers” (citizen associations or public benefit associations) that are attended by small children with their parents. The highest percentage of children is in the last year of kindergarten which is, in fact, preparation for basic school.

Participation rate in pre-primary education

	2000/2001	2001/2002	2002/2003	2003/2004
Age group	%	%	%	%
3-5	85.8	85.6	87.5	88.7
under 3 years of age	20.8	22.4	24.5	*26.0
6 years old	23.0	22.3	22.5	24.0

Source: Institute for Information on Education (data for school year 2004/2005 will be published in summer 2005)

- „Category under 3 years of age“ – Out of 26% of children who attend daily care facilities for children under 3 years of age 1% of these children attend special care facilities for children under 3 years of age, 25% of children between 2 – 3 years of age attend daily care facilities for children over 3 years which are not specialized in such small children. In the 90s there was in the Czech Republic a wholesale close down of care facilities for children under 3 years of age: from 1.043 of such facilities in 1990 to 60 facilities in 2003. Those facilities were closed down without an adequate compensation. This measure was accompanied by support of domestic care for small children by their parent. The reason was interest in child health protection. The capacity of childcare facilities for small children is insufficient in the Czech Republic at the present time.

According to the Education Act No. 561/2004 Coll. §36 compulsory school attendance shall start at the beginning of the school year following the date when a child reaches six (6) years of age, unless he/she is permitted postponement. A child who reaches six years of age at the period between the beginning of a relevant school year and the end of the calendar year may be admitted to compulsory school attendance in the school year concerned if such a child is physically as well as mentally adequately mature and if his/her statutory representative so requests. The statutory representative of a child shall be obliged to register the child for compulsory school attendance from 15th January until 15th February of the calendar year during which the child should begin compulsory school attendance.

7.2 Out-of-pocket childcare fees paid by parents

The founder (town, municipality) sets and covers from its budget the amount of non-investment costs associated with child’s stay in a crèche according to the Act No. 48/1997 Coll. about public health

insurance. The amounts depend on decisions of the founders. The founder has also the right to decide on reducing monthly payments for specific groups of parents – like unemployed, students and lone parents.

The cost of daily care for children with permanent stay in the given district is about 1500 Czech crowns per month, for children who do not live in the given district it is about 5000 Czech crowns per month.

In case of private crèche the fee depends on the period that a child spends there daily and weekly. The amount is about 50 – 60 Czech crowns per hour or 250 Czech crowns per whole day.

Regulation No. 14/2005 Coll. of the Ministry of Education, Youth and Sports about pre-school education, which has been valid since 2005, sets that pre-school education of a child in kindergarten is composed of basic fee adjusted in the relevant calendar year by possible fee reduction. The basic fee is set on accepting the child to the kindergarten and by 1 September of the relevant calendar year.

According to this Regulation the basic fee shall be set in such a way as not to exceed 50% of the real average non-investment costs per child per month in the past calendar year with the exception of expenses on salaries, reimbursements for salaries, or wages and reimbursements for wages, bonuses for work readiness, bonuses for work done on the basis of contract for work out of employment and compensation, social security insurance and state employment policy contribution and health insurance, contributions to funds of cultural and social needs and other expenses emerging from industrial relations, on necessary increase in costs associated with education of disabled children, on school equipment and also expenses on further education of pedagogical staff, on activities that are directly connected to school development and education quality, which are provided from the state budget. The basic fee shall be set for the period from 1 September to 31 August of the following calendar year for all children in the relevant kindergarten at the same amount. Exempt from the fee is a statutory representative of a child who receives social allowance and personal entity who personally takes care of the child and receives foster care allowances and proves this fact to the head of the kindergarten.

The basic fee for the relevant calendar month might be proportionally reduced for a statutory representative of a child who did not attend the kindergarten not a single day of the relevant month and for a statutory representative of a child under 3 years of age whose kindergarten attendance is limited to the maximum of 5 calendar days in a calendar month on grounds of reception of parental allowance by the parent. The reduction shall not be higher than half of the basic fee. Since February 2006, the basic fee for the relevant calendar month might be also proportionally reduced for a statutory representative of a child from 3 years of age whose kindergarten attendance is limited to 4 hours maximum per day, all without reduction on grounds of reception of parental allowance by a parent. The fee for calendar month shall be paid by 15th day of the relevant calendar month provided there is no other agreement between the statutory representative and the head of the kindergarten.

Care in parent centres is provided either free of charge (if it is provided on volunteer basis by particular mothers) or for a symbolic fee (about 25 Czech crowns for one morning). About 20% of these centres work on commercial basis.

Private agencies providing childcare are usually used by high income and career-oriented families. Such kind of child care costs 70 – 150 Czech crowns per hour according to the total care time, selection of agency, place where the childcare takes place and the number of children.

Childcare fees are not tax deductible and their amount is not taken into regard in the social assistance system.

7.2 Child-care benefits

The parental allowance.

7.2.1 Conditions for receipt

The parent is entitled to the parental allowance if he/she personally provides full-time and regular care for at least one child up to the age of 4 years, or up to the age of 7 years in case the child suffers from a long-term incapacity or severe long-term incapacity.

Except certain situations concerning disabled children or disabled parents, while receiving parental allowance it is possible to place the child up to 3 years of age into a pre-school care facility for a limited period. Effective 1st January 2006 the condition of personal all day care is considered fulfilled if a child under three years of age attends a crèche or any other institution for less than five calendar days a month and if a child over three years of age regularly attend a pre-school institution for less than four hours a day. (Every commenced day is counted even though those were only 1 or 2 hours.)

Parental allowance is also provided to parent who has income from gainful activity. But together with a condition of limited placement of a child in a crèche or a kindergarten the other condition has to be met: during the gainful activity of a parent, care of a child has to be ensured by another adult person.

7.2.2 Calculation of benefit amount

7.2.2.1 Calculation of gross benefit

The amount of parental allowance for a calendar month is determined as the entitled parent personal needs' amount of MLS multiplied by a coefficient 1.54.

The minimum living standard has been 2400 Czech crowns per month for adult people since 1st January 2006. The parental allowance in 2006 has been 2400 Czech crowns x 1,54, i. e. 3696 Czech crowns. In comparison to the minimum wage, which has been 7570 Czech crowns since 1st January 2006 and 7955 since 1st July 2006, it is less than a half. Since January 2007 the amount of parental allowance increases, it will be determined as 40% of average monthly wages in the non entrepreneurial domain, i.e. 7852 Czech crowns.

7.2.2.2 Income and earnings disregards

The parent's income is not means tested.

7.2.3 Tax treatment of benefit and interaction with other benefits

None.

7.2.4 Treatment of particular groups

See 7.2.1: parental care for disabled children and care of disabled parents for healthy children are advantaged – longer period for parental allowance in the first case and the possibility of placing the child to a pre-school care facility for 4 hours a day in both cases.

8. Employment-conditional benefits

None.

9. Lone-parent benefits

There is no particular lone parent benefit. Within State social support system, benefits for lone parents are reflected in a social allowance.

Social allowance is a recurrent, income-tested benefit; income from the preceding calendar quarter is tested. The objective of the allowance is to assist families with low income to cover the costs of their children's needs. For an entitlement to social allowance, two conditions must be met: care for at least one dependent child, and family income not exceeding a fixed limit. The benefit is granted to a parent who takes care of a dependent child (children) and if the relevant family income is less than 1.6 times the family's MSL. There is a marked differentiation in the amounts of social allowance. The allowance gradually diminishes as the family income grows. Not only low income but also unfavourable life situations influence the level of benefit. This applies to care for a disabled child; cases of disabled parents or of single parents are reflected as well. The social allowance eligibility is independent on parent's working activity.

The amount of social allowance for a calendar month is computed as the difference between the minimum living standard for the child (or the children) and a fraction, in which the numerator is the amount of MLS for child/children multiplied by the family's relevant income (if relevant family income is lower than MLS of the family, MLS of the family is used), and the denominator is the amount of the family's MLS (for MLS see section 4.2.1) multiplied by a coefficient of 1.60.

$$SA = MSLC - \frac{MSLC \times I}{MSLF \times K}$$

SA Social allowance.

MSLC Minimum subsistence level for a child's (children's) personal needs (four levels based on the child's age).

I Decisive family income = net income from dependent activity (employment), income from business activity and other independent gainful activity (self-employment), income from lease and other incomes defined under income tax legislation, after the deduction of contributions to health and social insurance and income tax; and also pensions, sickness benefits, unemployment benefits including similar incomes from abroad. For the purposes of the social allowance calculation, the decisive income includes parental allowance and child allowance.

If the decisive family income is lower than the minimum subsistence level of the family, the minimum subsistence level of the family is used for the calculation.

MSLF Minimum subsistence level of the family (sum of amounts needed to ensure the sustenance and other basic personal needs of each family member plus the amount needed to cover household costs based on the number of members).

K Coefficient is 1.6.

Special situations reflected by the coefficient K:

- If the child has a long-term severe health handicap, MSLC is multiplied by a coefficient of 2.7.
- If the child has a long-term health handicap, MSLC is multiplied by a coefficient of 2.4.
- If the child has long-term ill health, MSLC is multiplied by a coefficient of 1.2.
- If there are children under 3 years born at the same time, MSLC is multiplied by a coefficient of 1.1.
- If both parents have a long-term severe health handicap, MSLC and the sum of amounts for the personal needs of each family member in the MSLF calculation are multiplied by a coefficient of 1.4.
- If a lone parent has a long-term severe health handicap, MSLC and the sum of amounts for the personal needs of each family member in the MSLF calculation are multiplied by a coefficient of 1.4.
- If one of the parents has a long-term severe health handicap, MSLC and the sum of amounts for the personal needs of each family member in the MSLF calculation are multiplied by a coefficient of 1.1.
- In cases of a lone parent (without a health handicap), MSLC and the sum of amounts for the personal needs of each family member in the MSLF calculation are multiplied by a coefficient of 1.05.

The amount of social allowance for one child, measured by income, in multiples of the minimum subsistence amount in CZK per month

Since 1st January 2006

Age of dependent child:	Amount of allowance/family income in previous quarter		
	1,0 MLS	1,2 MLS	1,4 MLS
Less than 6 years	657	438	219
6 - 10 years	732	488	244
10 - 15 years	866	578	289
15 - 26 years	949	633	317

9.1 *Tax treatment of benefit and interaction with other benefits*

Not taxable. Social allowance can be received at the same time as in-work earnings and any other benefit.

10. Tax system

10.1 Income tax rate schedule

10.1.1 Tax allowances and credits

10.1.1.1 Standard allowances

- *Basic relief:* Abolished as of 1 January 2006.
- *Marital status relief:* Abolished as of 1 January 2006.
- *Relief for social and health security contributions.* Employees' social security contributions (see Section 2.1) are deductible for income tax purposes.

10.1.1.2 Standard tax credits

- Credit of CZK 7200 for all taxpayers, introduced in 2006. Both partners of a married couple with children are entitled to this credit even if one of them earns no income and the spouses claim the joint taxation.
- Credit of CZK 4200 is given in respect of a spouse living in a common household if that spouse earns no more than CZK 38 040. The principal is eligible to this credit even if they opt for joint taxation, introduced in 2006.
- *Credit for children:* Payable tax credit of CZK 6000 per child, introduced in 2005, (irrespective of the child's own income) if the child satisfies one or more of the following criteria:
 - aged below 18
 - aged below 26 and receiving full-time education
 - aged below 26 and physically or mentally disabled provided that the child is not in receipt of a state disability payment

10.1.2 The definition of taxable income

It is the gross earnings minus the social security contribution and the health insurance contribution and the above tax allowances.

10.1.3 The tax schedule

Taxable income (CZK)	Marginal tax rate (%)	Tax on lower limit (CZK)
0 – 121 200	12	0
121 200 – 218 400	19	14 540
218 401 – 331 200	25	33 012
331 201 +	32	61 212

10.2 Treatment of family income

The tax unit is the individual. Since 2005, spouses with children can be taxed in one of two ways (tax-payer chooses):

- As married individuals filling separately and reporting actual income of each spouse or

- As married couple filling jointly (using the income splitting method) on the combined income of both spouses.⁴

10.3 Social security contribution schedule

Compulsory contributions of 12.5 per cent of gross wages and salaries (with no limit) are paid by all employees into government operated schemes. The total is made up as follows (in %):

Contributions	Percentage of gross earnings
Health insurance	4.50
Social insurance	
Sickness	1.10
Old age pension	6.50
Unemployment	0.40
Total	12.50

10.4 Treatment of particular group

10.4.1 Young persons

10.4.2 Older workers

10.4.3 Others if applicable

⁴ This is the option in the model since joint taxation will be always more advantageous.

11. Part-time work

11.1 *Special benefit rules for part-time work*

None.

11.2 *Special tax and social security contribution rules for part-time work*

None.

12. Policy developments

12.1 Policy changes introduced in the last year (2005/2006)

In the year 2005, the Act No. 155/1995 Coll. and Act No. 582/1991 Coll. were amended by the Act No. 24/2006 Coll. – implementation from February 2006. In the pension system the reduction of the partial invalidity pension in the case of earnings/wage was abolished.

In the year 2006, the Act on Sickness Insurance (Act No. 187/2006 Coll. and Act No. 189/2006 Coll.) was approved (implementation from January 2007). This act will replace 50 years old law and it introduces significant changes: wage compensation will be paid by the employer for the first two weeks of sickness. The state (Social Security Administration) will pay the sickness benefit from the fifteenth day of sickness. The employer's sickness contribution rate will decrease from 3.3 % to 1.4 %. The main objective of the new law is to reduce the sickness rate by strengthening employer's direct participation in the payment and by defining better the behaviour during the sickness period. The key principle is to avoid abuse of benefits by employers and employees and to motivate people to more active participation in the labour market.

Since 1st January 2006, minimum subsistence level was valorised. In consequence of this valorisation, all benefits using minimum subsistence level as a calculation base has been increased.

In March 2006 the Parliament approved a set of three new acts related to social benefits with the date of implementation on 1st January 2007. Strengthening the financial incentives for job-search in the welfare system and stricter control on eligibility for social benefits are the principle objectives of new social legislation.

The new Act on Living and Existence Minimum that overrules the Act on Minimum Subsistence Level changes the former concept of two components (amounts needed to ensure sustenance and other basic personal needs and amounts needed to assure household needs) and it introduces only one component for ensuring sustenance and other basic personal needs. Household needs will be solved separately, through housing allowance in the state social support system and supplement for housing in the system of assistance in material need. Amounts of living minimum will be different for single person, first adult in family, another adult in family and for children (three categories according to age). The institute of existence minimum, in addition to living minimum, sets up a motivation strengthening for unemployed and job seekers. The existence minimum ensures personal needs on surviving level (it contains sustenance and about 40% of other basic personal needs in living minimum).

Consequently, all benefits using minimum subsistence level as a base from which benefits' claims and amounts are derived will be re-valuated.

The new Act on Assistance in Material Need creates entirely new solution of assistance in material need, limits long-term dependence on social benefits and consequently prevents social exclusion. It connects assistance furnishing with evaluation of activity directed at increasing income by own endeavour. Fundamentals of the new act are responsibilities of individuals for their own social situation. First of all the new act motivates people to accept a job and even a low paid job. New legal measures give (financially) preferential treatment to those recipients of benefits in material need who are active job seekers or who are working. Incomes from gainful activities will be calculated for material need appraisal in part only. On the other hand, applicants for assistance in material need who will not collaborate e.g. in job-search will receive lower benefits. Act on Assistance in Material Need overrules the Social Neediness Act and all benefits provided by course of that law. Instead of them only three benefits will be used: allowance for living, supplement for housing and extraordinary immediate assistance.

In March 2006, a new Act on Social Services (No. 108/2006 Coll.) has been passed. It will come into force in January 2007. It introduces a new benefit for disabled – allowance for care differentiated according recipient's dependency on assistance of other person.

12.2 *Policy changes announced*

In early 2006 a new Labour Code was passed in the lower Chamber of the Parliament. The proposal of the new Labour Code should bring two fundamental changes to industrial relations, which should improve flexibility of employment – non-mandatory character of new Labour Code and the relation to Civil Code. The new Labour Code, if approved, will bring wider contractual freedom. While the underlying principle of the current labour law legislation in use can be described by the phrase “whatever is not allowed is prohibited”, the new Labour Code coins a new principle, namely: “whatever is not prohibited, is allowed”. This is expected to allow for greater liberalisation in industrial relations. Note: The year 2006 is a year of election for House of Deputies of the Czech Parliament. All political parties standing out for chairs in the lower chamber of the Parliament announce more or less substantial changes of tax and social benefit systems in their election programmes. Preparation, approval and implementation of these changes will be a task of a new Government coming from June election.