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## CZECH REPUBLIC 2008

### 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.

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 institute of living minimum, stipulated by special legislation and representing a cornerstone in determining the claim on 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 (assistance in material need), provides assistance to persons or families that do not have sufficient income and their overall social and property relations prevent them from exploiting what the society accepts to be basic living requirements. At the same time, those persons are objectively unable to increase their income through one's own work, through the due application of entitlement and claims or through the sale or other disposal of one's own assets and thereby improving their situation through their own actions.

Living and Subsistence Minimums exist as a criterion for Allowance for Living in the system of assistance in material need. Amounts of living minimum are different for single person, first adult in household, another adult in household and for children (three categories according to age) and ensure sustenance and other basic personal needs of the household members. The subsistence minimum, in addition to living minimum, ensures personal needs on surviving level (it contains sustenance and about 40 % of other basic personal needs in living minimum). Housing needs are solved separately, through housing allowance in the state social support system and supplement for housing in the system of assistance in material need.

In general, unemployed persons can receive unemployment benefits for a maximum period of 6 months.

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The tax unit is an individual, since 2005 married couples with children are taxed either separately or jointly (using the income splitting method). When a flat rate of income tax (15 %) was introduced on 1<sup>st</sup> January 2008, this option became irrelevant. Deductible items for spouse under given income and tax credits for dependent children are administered.

### **1.1. Average worker wage (AW)**

In the first semester of 2008, the average wage(AW) in the national economy increased by 8,8 per cent compared to the first semester of 2007. The 2008 AW earning level 272651<sup>1</sup> CZK.

## **2. Unemployment insurance**

### **2.1 Conditions for receipt**

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.

A job seeker has a right to unemployment benefit if he/she has: a) been employed for a period of at least 12 months during the period of 3 years prior to inclusion into the register of job seekers; b) applied for the unemployment benefit at respective Labour Office while being registered as a job seeker; c) is not a recipient of an retirement pension on the day on which the unemployment benefit is due to be approved. The Labour Office shall decide whether to provide unemployment benefit.

There are activities considered by law as a substitute period of employment while assessing the entitlement to unemployment benefit:

a) preparation of disabled persons for work (a part of work rehabilitation process – Section 72 of Act on Employment),

b) drawing a full invalidity pension,

e) personal care of a child under the age of 4,

f) personal care of a natural person who is, under the terms of a special legal regulation, deemed to be a person dependent on the assistance of another natural person classified as grade II (moderate dependence), grade III (severe dependence) or grade IV (total dependence) 3a), provided he permanently resides with the job seeker and they both contribute to their common needs; these conditions shall not be required if this person is deemed to be a “close person” for the purposes of pension insurance,

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

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g) long-term voluntary service exceeding an average of at least 20 hours in a calendar week on the basis of a volunteer contract from the posting organization which was accredited by the Ministry of the Interior,

No more than 6 months may be counted as substitute employment to fulfil the requirement of 12 month employment during last 3 years in order to receive the benefit.

*Retraining allowance:*

A job seeker who attends a retraining / vocational training course offered by a Labour Office and is not the recipient of an old-age pension at the same time has the right to receive a retraining allowance.

(2) The Labour Office decides to award a retraining allowance.

(3) A retraining allowance is provided for the entire period of the retraining course, unless the recipient receives the sick leave allowances.

### *2.1.1 Employment conditions*

Since 1 October 2004, when the new Employment Act came into force, the entitlement to unemployment benefits has been based on the period of contributions on employment policy, which is a mandatory contribution deducted from monthly salary (1,6 % from salary expenses).

### *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 months of supporting period, of last earned income net of tax and social security contributions; however, the maximum of the benefits can be up to an amount equals 0,58 times of the average wage in national economy within the first three quarters of the calendar year preceding the calendar year in which the application for unemployment benefits was submitted. The maximum rate of retraining allowance shall be set at 0.65 times the average national wage for the first to the third quarter of the calendar year preceding the calendar year in which the job seeker commenced the retraining.

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**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 8000 since 1st January 2007.

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

Not taxable.

**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
- c) 12 months for job seekers over 55 years

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.

A job seeker who has exhausted the entire period of support in the past 3 years before being included in the register of job seekers again, has the right to receive unemployment benefit for the whole support period if he/she, after exhausting this period, started to work or entered into gainful activity involving the obligation to pay premiums for pension insurance and Government employment policy contributions for a period of at least 6 months.

This period of 6 months shall not be required in cases when the job seeker terminated the employment or gainful activity for health reasons or for reasons set forth in a special legal regulation ( f.e. termination of employment due to the staff changes) or because the employer breached a fundamental obligation arising from legal regulations, a collective agreement or agreed working conditions. At the same time, the condition concerning the entire period of previous employment must be complied with – see 2.1.2.

**2.5** *Treatment of particular groups*

**2.5.1** *Young persons*

No special treatment as regards providing of unemployment benefits.

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2.5.2 *Older workers*

See section 2.4

2.5.3 *Others if applicable*

Disabled people are entitled for retraining allowance, providing they attend a retraining course as a part of work rehabilitation (according to Act on Employment), regardless they are registered or not as jobseekers.

**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 0,65 times of the average wage in national economy within the first three quarters of the calendar year preceding the calendar year in which he/she has started the retraining. (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 8000 since 1<sup>st</sup> January 2007.

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

Not taxable.

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### **3.4**      *Benefit duration*

The benefit during retraining is provided for the whole period of retraining. Any time when the job seeker undergoes the retraining, she/he is granted the retraining benefit.

### **3.5**      *Treatment of particular groups*

#### **3.5.1**    *Young persons*

No special treatment as regards retraining benefits.

#### **3.5.2**    *Older workers*

No special treatment as regards retraining benefits.

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

Social assistance includes social services and cash benefits (benefits in material need, benefits for people with disabilities, care allowance). The Act on Assistance in Material Need<sup>2</sup> lays down the situations of inadequate means of subsistence or housing, and defines emergencies; such situations are known as cases of material need. Those are basically situations where a person or jointly assessed persons do not have sufficient income and their overall social and financial situation prevents them from exploiting basic living standard. At the same time, these persons are objectively unable to increase their income. The Act on Assistance in Material Need also deals with certain special circumstances in life that can only be resolved by immediate assistance.

Payment rates, durations or aspects of means testing of social assistance benefits do not depend on the age of the claimant or his/her family member.

##### 4.1 *Conditions for receipt*

Benefits of assistance in material need are means-tested. Means (property, income etc.) of all household members - jointly assessed persons are taken into account.

Allowance for living is provided to a person or a family in case of insufficient income to ensure basic needs (except for needs related to housing) and these persons are not able to increase it due to objective reasons. Persons in material need are entitled to an allowance for living if their income or the income of the jointly assessed persons is lower than the amount of living.

Supplement for housing is provided to a person or a family in case of insufficient income to cover reasonable housing costs. A precondition of an entitlement to a supplement for housing is the existence of an entitlement to allowance for living and an entitlement to a housing allowance from the system of state social support. A supplement for housing may be granted (with consideration for the overall social and financial status) to persons who have not been granted the above- mentioned benefits.

Extraordinary immediate assistance is provided in adverse or exceptional situations where persons are not in material need but it would be advisable to provide them with assistance per saltum.

To become eligible to benefits in material need the conditions are: residence, impossibility to increase one's own income by using own efforts, in particular by gainful activities, through due application of entitlements and claims, through the sale or other disposal of the persons' property to remedy his or her present situation. In case of unemployment, the unemployed person has to be registered with the public employment service as a job seeker, be active in job search and accept an offered job or participation in an active employment policy programmes (unless having a serious reason to refuse it) and upon request take up short-term employment or 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, dependent children, parents caring for children, careers of care-dependent person, and persons who are temporary

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<sup>2</sup> Act no.111/2006 Coll., On Assistance in Material Need, as amended.

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sick, meeting other prescribed conditions. In case of family with children, proper compulsory school attendance of children is demanded.

Assistance in material need benefits can be received at the same time as other benefit (unemployment benefits, family benefits, and social assistance benefits for disabled or care allowance).

Benefits are designed to motivate people to find work and take on any job, and even a part-time or lower paid job. The system gives (financially) preferential treatment to those recipients of benefits in material need who are active job seekers or who are working: incomes from gainful activities are calculated for in part only (70 % in the case of income from employment, 80 % in the case of sickness insurance and unemployment benefits). On the other hand, recipients who do not collaborate e.g. in job-search receive lower benefits.

### **Care allowance**

The care allowance (hereafter the “allowance”) is provided to persons dependent on another person’s assistance for the purposes of self-care due to their long-term unfavourable health condition and for ensuring self-sufficiency to the extent stipulated in the dependence degree (children under one year of age are not entitled to the allowance).

There are 4 degrees of dependence:

- a) Degree I (slight dependence);
- b) Degree II (medium-heavy dependence);
- c) Degree III (heavy dependence);
- d) Degree IV (total dependence).

When considering self-care for the purposes of determining the degree of dependence, the ability to manage the following acts is evaluated (examples): food preparation, body washing, getting up from a bed, changing positions, sitting, standing and walking abilities, dressing, orientation in the natural environment etc.

When considering self-sufficiency for the purposes of determining the dependence degree the ability to manage the following acts is be evaluated (examples):

verbal, written and non-verbal communication, orientation in respect to other persons and time, and orientation outside natural environment, disposing of money and other valuables, arranging for personal matters, time planning, life planning etc.

The allowance provided to persons below 18 years of age in a calendar month is:

- a) CZK 3,000, in the case of grade I (slight dependence),
- b) CZK 5,000, in the case of grade II (medium-heavy dependence),
- c) CZK 9,000, in the case of grade III (heavy dependence),
- d) CZK 11,000, in the case of grade IV (total dependence).

The allowance provided to persons over 18 years of age in a calendar month is:

- a) CZK 2,000, in the case of grade I (slight dependence),

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- b) CZK 4,000, in the case of grade II (medium-heavy dependence),
- c) CZK 8,000, in the case of grade III (heavy dependence),
- d) CZK 11,000, in the case of grade IV (total dependence).

## **4.2 Calculation of benefit amount**

### **4.2.1 Calculation of gross benefit**

The amount of the allowance for living is set as the difference between the amount of living of a person/jointly assessed persons and the income of that person/ jointly assessed persons less reasonable housing costs. The amount of living of a person/ jointly assessed persons is determined with regard to income, the opportunities to increase this income, financial status and other circumstances (e.g. costly dietary requirements, the duration of the material need, and an active approach in the search for employment). The amount of living is derived from the living minimum and subsistence minimum and is set on a case-by-case basis based on an evaluation of the person's efforts, opportunities and needs.

The amount of the supplement for housing is calculated in such a manner that the amount by which the income of the relevant person/jointly assessed persons (including any disbursed allowance for living) exceeds the amount of living of that person/jointly assessed persons is deducted from the amount of reasonable housing costs in a given calendar month (reduced by the housing allowance from the system of state social support for the previous calendar month). Reasonable housing costs include rent (up to the limit stipulated by law<sup>3</sup>), services related to housing, energy costs.

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<sup>3</sup> Act no.107/2006 Coll., On One-side Rise in Rent from Apartment, as amended.

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Monthly amounts:

**Living minimum**

|   |           |
|---|-----------|
| single:   | CZK 3,126 |
| first person in household:                              | CZK 2,880 |
| second and other persons who are not a dependant child: | CZK 2,600 |
| dependant child   |           |
| • under 6 years:  | CZK 1,600 |
| • 6 - 15 years:   | CZK 1,960 |
| • 15 - 26 years:  | CZK 2,250 |

**Subsistence minimum:** CZK 2,020

The necessary costs of housing are not included in the sums of living minimum and subsistence minimum since 01.01.2007.

Examples of living minimum for:

Single person household:

CZK 3,126 (€ 109)

One adult with one child aged 7 years:

$2,880 + 1,960 = \text{CZK } 4,840$  (€ 168)

Two adults and two children aged 5 and 11 years:

$2,880 + 2,600 + 1,600 + 1,960 = \text{CZK } 9,040$  (€ 315).

Subsistence minimum (instead of living minimum) is used for calculation of allowance for living for adult person as a "sanction" for indolent person being out of work for more than 6 months.

*4.2.1.1 Irregular additional payments*

Extraordinary immediate assistance is provided to persons who find themselves in situations that have to be resolved immediately. The Act<sup>4</sup> addresses five situations that justify these additional benefits:

- Where persons, due to a lack of funds, suffer from a serious threat to their health. The benefit tops up a person's income so that it is level with the existence minimum (or the subsistence minimum in cases of dependent children).
- Where persons are victims of a serious extraordinary event (a natural disaster, storms and gales, ecological disaster, fire, etc.) The maximum amount of the benefit is fifteen times the individual's subsistence minimum, i.e. up to 46,890 CZK.

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<sup>4</sup> Act no.111/2006 Coll., On Assistance in Material Need, as amended.

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- Where persons do not have sufficient resources to cover essential one-off expenditure connected, in particular, with the payment of an administrative fee for duplicate copies of personal documents or in cases of monetary loss. The maximum amount of the benefit is the amount of this one-off expenditure.
- Where persons do not have sufficient resources to acquire or repair basic furniture or durables or to cover justified costs relating to the education or special interests of dependent children. The amount of the benefit may be a maximum of the specific expense, but the sum of benefits granted must not exceed ten times the individual's subsistence minimum in one calendar year, i.e. to an amount of 31,260 CZK.
- Where persons are at risk of social exclusion. This concerns, for example, the situation of persons who have been released from custody or from prison, who have left an orphanage or foster care on reaching adulthood, or who have completed treatment for an addiction. A benefit of up to 1,000 CZK may be granted. The benefit may be awarded repeatedly, but the sum of benefits granted in one calendar year may not exceed four times the individual's subsistence minimum, i.e. the amount of 12,504 CZK.

#### 4.2.1.2 *Obligations of family members*

Assistance in material need is based on a concept of jointly assessed persons. Relevant work-availability or job-search requirements must be met by all members of the household, provided they are not old age and invalidity pensioners, persons over 65, dependent children, students, parents caring for children, careers of care-dependent person, persons who are temporary sick etc. If the person considered as capable of work does not comply with prescribed conditions of employment activity the amount of allowance of living (calculated for the entire household) is reduced.

The entitlement to unemployment benefits relates strictly to a job seeker himself/herself – it means that this entitlement can be affected only if the job seeker himself/herself does not comply with the legal job search or work-availability conditions; non compliance on the side of his family members can affect only the personal entitlements of those members but not the entitlement of the job seeker himself/herself.

In general, assistance in material need is based on a concept of jointly assessed persons and benefits of assistance in material need are designed to motivate people to work. The system gives (financially) preferential treatment to those recipients of benefits in material need who are active job seekers or who are working. Recipients who do not collaborate e.g. in job-search receive lower benefits.

Unemployed persons have to be registered with the public employment service as a job seeker, be active in job search and accept an offered job (and even a part-time or lower paid job) or participation in an active employment policy programmes and upon request take up short-term employment or participate in public works organized by municipalities. Provided that persons do not fulfil these conditions, they are not deemed to be persons in material need. Relevant work-availability or job-search conditions are not required from old age and disability pensioners, persons over 65, dependent children, parents caring for children (when receiving maternity benefit or parental allowance), careers of care-dependent person, persons who are temporary sick, etc.

With a certain simplification: if the family member considered as capable of work does not comply with prescribed conditions of employment activity she/he is not treated as a person in material need. When calculating allowance for living for the entire family, income (possible income) of this person is included in income of the family decisive for benefit's entitlement but as she/he is not deemed to be a person in material need her/his amount of living is not taking into account and the total amount of allowance for living is reduced by the amount of living of the family member not complying with job search or work-ability conditions.

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**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. Benefits in material need and social assistance benefits for disabled can be received at the same time as in-work earnings and any other benefit.

**4.4** *Benefit duration*

Benefits of assistance in material need are provided as long as the given conditions are fulfilled. Persons can apply or re-apply for benefits always when they have not sufficient resources for living and the office has to accept and to judge their application.

**4.5** *Treatment of particular groups*

In general, benefits in material need have no special treatment as regards particular groups. But for certain persons (see section 4.1) less strict conditions are applicable.

**4.5.1** *Young persons*

In the case of dependent children, the living minimum must be used as a base for calculation of benefit amount.

**4.5.2** *Older workers*

None.

**4.5.3** *Other if applicable*

I In the system of social assistance benefit for disabled, there are more than 10 benefits personalized for care-dependent and disabled people. Social assistance benefits for severely handicapped persons assist in addressing the need of transport, adjusted housing, special compensatory aids.

## 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. The actual costs of housing paid in the previous calendar quarter are taken into account. Property owners or tenants registered as permanently resident in that property are entitled to a housing allowance if 30 % (in Prague 35 %) of household income is insufficient to cover housing costs and at the same time that 30 % (in Prague 35 %) of household income is lower than the relevant prescriptive costs.

### 5.2 Calculation of benefit amount

#### 5.2.1 Calculation of gross benefit

The amount of housing benefit for a calendar month is calculated as the difference between the prescriptive housing costs and the household's decisive income multiplied by a coefficient of 0.30 (0.35 in Prague). Actual housing cost will be used for the calculation of housing benefits, in case actual costs of housing are lower than prescriptive housing costs.

Prescriptive housing costs are differentiated according to type of housing (tenement, cooperative, private), size of municipality (6 categories), number of persons in a household. Amounts of prescriptive housing costs are set by law<sup>5</sup> and they are valid for one calendar year.

| <b>Prescriptive housing costs for rental units in CZK</b> |                             |                                 |                                    |                                    |                                |
|---|-----------------------------|---------------------------------|------------------------------------|------------------------------------|--------------------------------|
| <b>Valid from January 1, 2008 to December 31, 2008</b>    |                             |                                 |                                    |                                    |                                |
| <b>Number of persons in household</b>                     | <b>Size of municipality</b> |                                 |                                    |                                    |                                |
|   | <b>Prague</b>               | <b>over 100 000 inhabitants</b> | <b>50 000 - 99 999 inhabitants</b> | <b>10 000 - 49 999 inhabitants</b> | <b>under 9 999 inhabitants</b> |
| <b>1</b>  | 4182                        | 3383                            | 3155                               | 2895                               | 2747                           |
| <b>2</b>  | 6091                        | 4998                            | 4686                               | 4331                               | 4128                           |
| <b>3</b>  | 8401                        | 6971                            | 6563                               | 6099                               | 5834                           |
| <b>4+</b>   | 10549                       | 8824                            | 8332                               | 7772                               | 7453                           |

<sup>5</sup> Act no. 117/1995 Coll., On State Social Support, as amended.

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| <b>Prescriptive housing costs for cooperative and private units in CZK</b> |                             |                                 |                                    |                                    |                                |
|--|-----------------------------|---------------------------------|------------------------------------|------------------------------------|--------------------------------|
| <b>Valid from January 1, 2008 to December 31, 2008</b>                     |                             |                                 |                                    |                                    |                                |
| <b>Number of persons in household</b>                                      | <b>Size of municipality</b> |                                 |                                    |                                    |                                |
|  | <b>Prague</b>               | <b>over 100 000 inhabitants</b> | <b>50 000 - 99 999 inhabitants</b> | <b>10 000 - 49 999 inhabitants</b> | <b>under 9 999 inhabitants</b> |
| <b>1</b>   | 2653                        | 2653                            | 2653                               | 2653                               | 2653                           |
| <b>2</b>   | 4055                        | 4055                            | 4055                               | 4055                               | 4055                           |
| <b>3</b>   | 5763                        | 5763                            | 5763                               | 5763                               | 5763                           |
| <b>4+</b>  | 7385                        | 7385                            | 7385                               | 7385                               | 7385                           |

Decisive 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 housing allowance calculation, the decisive income includes parental allowance and child allowance. If the decisive income is lower than the living minimum of the family, the living minimum of the family is used for the calculation.

Housing allowance belongs to state social support, it is not a part of assistance in material need. But: a precondition of an entitlement to a supplement for housing from assistance in material need is the existence of an entitlement to a housing allowance from the system of state social support.

#### *5.2.2 Income and earnings disregards*

See above.

#### *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.

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## 6. Family benefits

Family benefits (State social support system) consist of:

- i) The benefits related to family income<sup>6</sup> (child allowance (in section 6), social allowance (in section 9)).
- 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 (until the end of compulsory education), or under 26 years (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 2.4 living minimum (for amounts of living minimum 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 the age of the child.

**Amount of child allowance according to the child's age (in CZK per month)**  
Since 1<sup>st</sup> January 2008

| Age of the Dependent Child | Monthly Amount of Child Allowance |
|----------------------------|-----------------------------------|
| under 6 years              | 500                               |
| 6-15 years                 | 610                               |
| 15-26 years                | 700                               |

#### 6.2.1.1 Irregular additional payments

None.

#### 6.2.2 Income and earnings disregards

See above.

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<sup>6</sup> 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.

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**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, regions, municipalities or associations of municipalities. Components of private facilities are running business “securing childcare for children up to 3 years of age” and “securing childcare for children under 3 years of age and “parent centres” (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.

- According to Ministry of Industry and Trade, there were 182 licences for securing childcare for children under 3 years of age registered on 30<sup>th</sup> June 2008.

### Participation rate in pre-primary education

|                      | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 3–5                  | 87,0%   | 87,4%   | 88,7%   | 89,9%   | 90,1%   | 89,2%   | 86,6%   | 86,9%   | 86,3%   |
| under 3 years of age | 17,3%   | 21,3%   | 23,3%   | 25,1%   | 25,3%   | 26,5%   | 25,4%   | 23,0%   | 23,0%   |
| over 5 years of age  | 22,7%   | 24,3%   | 25,1%   | 24,7%   | 24,9%   | 23,7%   | 23,2%   | 22,7%   | 22,1%   |

Source: Institute for Information on Education

- „Category under 3 years of age“ –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 1990s, there was a wholesale close down of care facilities for children under 3 years of age in the Czech Republic: from 1.043 of such facilities in 1990 to 49 facilities in 2007. 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 requests so. The statutory representative of a child shall be obliged to register the child for compulsory school attendance from 15<sup>th</sup> January until 15<sup>th</sup> February of the calendar year during which the child should begin compulsory school attendance.

### 7.1 Out-of-pocket childcare fees paid by parents

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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 and could be within the range from CZK 300 to CZK 2000 per month. The founder has also the right to decide on reducing monthly payments for specific groups of parents – like unemployed, students and lone parents. In case of private crèche the fee could be within the range from 660 CZK per month to 5000 CZK per month .

Regulation No. 14/2005 Coll. of the Ministry of Education, Youth and Sports on 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 might be reduced to 2/3 of the daily rate for a statutory representative whose child attends the kindergarten up to 4 hours per day on the grounds of reception of parental allowance by the parent.

The fee for calendar month shall be paid by 15<sup>th</sup> day of the following calendar month provided there is no other agreement between the statutory representative and the head of the kindergarten.

The fee paid for kindergarten differs in dependence on size of the town or village:

- Above 2000 inhabitants: 260 – 420 CZK monthly
- Less than 2000 inhabitants: 200 CZK monthly

The founder has also the right to decide on reducing monthly payments for socially deprived parents – approximately one half of kindergartens, where fees are usually paid, do not collect money for kindergarten services for certain groups of parents. 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 CZK per hour (except Prague) and 130 – 150 CZK per hour in Prague.

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

Costs expended on running the kindergarten founded by an enterprise under the Education law as a service for its employees, are tax deductible (Act No. 193/2008 Coll., section 24, para. 2, letter j). In case the employer pays to employees regular wage or salary and in addition pecuniary consideration as a reimbursement for kindergarten expenditures (the kindergarten must be provided by other subject), this allowance is tax deductible only if this privilege is founded in employment contract, collective agreement or internal rules of procedure.

Considering non-monetary gains as a reimbursement for kindergarten expenditures, employees are exempt from income tax (Act. No 193/2008 Coll, section 6, para. 9, letter d), only when the employer pays them from fund for social and cultural needs, from social fund, from after-tax profit or they are part of non-taxable expenditures.

## 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 the child who is the youngest child in the family.

Except certain situations concerning disabled children or disabled parents, while receiving parental allowance it is possible to place the child into a pre-school care facility for a limited period only. 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 attends a pre-school institution for less than four hours a day or for a maximum of 5 calendar days a month. (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*

Parental Allowance is provided at three rates that are set at fixed monthly amounts according to duration of drawing – **increased rate** (11,400 CZK), **basic rate** (7,600 CZK) and **reduced rate** (3,800 CZK). A parent may elect to draw Parental Allowance for a period of up to **two, three or four years** of the child. By selecting the period of support, the parent also selects the amount of the Parental Allowance, as follows:

- **faster draw-down**– after maternity benefit or similar benefit for man (hereinafter referred to as MB) at the increased rate (11,400 CZK) until the child is 24 months old; only parents who are entitled to MB of at least 380 CZK per calendar day may request this form of draw down;

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- **standard draw-down** – after MB at the basic rate (7,600 CZK) until the child is 36 months old; only parents who are entitled to MB may request this form of draw down;
- **slower draw-down** – after MB or from the birth of the child (if the parent is not entitled to MB) at the basic rate (7,600 CZK) until the child is 21 months old and at the reduced rate (3,800 CZK) until the child is 48 months old.

In the case of **disabled children**, a parent is entitled to Parental Allowance at the basic rate (7,600 CZK) until the child is 7 years of age, from the day on which the child is diagnosed as a child suffering from a long-term disability or a severe long-term disability, regardless of the form of draw-down that had been previously selected (prior to the diagnosis of the child's state of health).

#### 7.2.2.2 *Income and earnings disregards*

The parent's income is not tested while receiving parental allowance.

#### 7.2.3 *Tax treatment of benefit and interaction with other benefits*

Not taxable. Parental allowance can be received at the same time as in-work earning (see above), unemployment benefits, benefits of assistance in material need or benefits for disabled.

#### 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.

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**8. Employment-conditional benefits**

None.

**9. Lone-parent benefits**

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

In the Czech Republic, there is no social benefit acting as a substitute for alimony/maintenance in cases when the absent parent does not pay any child support.

From the point of view of the social-legal protection of children: parents are provided with, or arrange for them to have, counselling while exercising the rights of the child to maintenance, at their request. Social-legal protection authorities may file court petitions for the performance of maintenance obligations.

Alimony/maintenance payments from the absent parent are taken into account for decisions on entitlement both to family benefits and social assistance. Received alimony/maintenance payments are included in the decisive income of the lone parent family for income-tested state social support benefits/family benefits (child allowance, social allowance, housing allowance) as well as for means-tested social assistance benefits /benefits of assistance in material need (allowance for living, supplement for housing). This method of income calculation has not been changed since the OECD tax-benefit models are available; the same approach was used also in the former system of social assistance.

**9.1 Conditions for receipt 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 decisive family income is less than 2.0times the family's living minimum. 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. A higher level of social allowance is also paid to families in cases of multiple births (up to the three years of child's age) and to families whose child is studying secondary school or university. The social allowance eligibility is independent on parent's working activity.

**9.2 Calculation of benefit amount**

**9.2.1 Calculation of gross benefit**

The amount of social allowance for a calendar month is computed as the difference between the living minimum for the child (or the children) and a fraction, in which the numerator is the amount of living minimum for child/children multiplied by the family's relevant income (if relevant family income is lower than living minimum of the family, living minimum of the family is used), and the denominator is the amount of the family's living minimum (for living minimum see section 4.2.1) multiplied by a coefficient of 2.0

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$$SA = CMLS - \frac{CMLS \times I}{FMLS \times K}$$

SA Social allowance.

CMLS Child (children) living minimum (three 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 living minimum of the family, the living minimum of the family is used for the calculation.

FMLS Living minimum of the family (sum of living minimum amounts of each family member).

K Coefficient is 2.0

Special situations reflected by the coefficient K:

- If the child has a long-term severe health handicap, CMLS is multiplied by a coefficient of 3.0.
- If the child has a long-term health handicap, CMLS is multiplied by a coefficient of 2.67.
- If the child has long-term ill health, CMLS is multiplied by a coefficient of 1.34.
- If there are children under 3 years born at the same time, CMLS is multiplied by a coefficient of 1.22.
- If the child studies at secondary school or at university, CMLS is multiplied by a coefficient of 1.20.
- If both parents have a long-term severe health handicap, are multiplied by a coefficient of 1.35.
- If a lone parent has a long-term severe health handicap, CMLS and FMLS are multiplied by a coefficient of 1.3.
- If one of the parents has a long-term severe health handicap, CMLS and FMLS are multiplied by a coefficient of 1.05.
- In cases of a lone parent (without a health handicap), CMLS and FMLS are multiplied by a coefficient of 1.17.

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

Since 1<sup>st</sup> January 2008

| Age of dependent child: | Amount of social allowance according to family income in previous quarter |                    |                    |
|-------------------------|---|--------------------|--------------------|
|                         | 1,0 living minimum  | 1.6 living minimum | 2.0 living minimum |
| Less than 6 years       | 800   | 320                | 0                  |
| 6 - 15 years            | 980   | 392                | 0                  |
| 15 - 26 years           | 1125  | 450                | 0                  |

**9.2.1.1 Irregular additional payment**

None.

**9.2.2 Income and earnings disregards**

See above.

**9.3 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.

**9.4 Benefit duration**

As long as given conditions are met.

**9.5 Treatment of particular groups**

See above.

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**10. Tax system**

**10.1 Income tax rate schedule**

*10.1.1 Tax allowances and credits*

10.1.1.1 Standard allowances

10.1.1.2 Standard tax credits

- Credit of CZK 24 840 per taxpayer, introduced in 2008.
- Credit of CZK 24 840 per spouse (husband or wife) living with a taxpayer in one household provided that the spouse's own income does not exceed CZK 38 040 in the taxable period.
- *Credit for children:* Payable tax credit of CZK 10 680 (irrespective of the child's own income) if the child satisfies one or more of the following criteria:
  - age below 18
  - age below 26 and receiving full-time education
  - age 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*

*10.1.3 The tax schedule*

From January 2008, a progressive system of taxation is replaced by a single rate of 15%.

**10.2 Treatment of family income**

The tax unit is the individual. The possibility of joint taxation, which was introduced in 2005, has been abolished since 2008.

**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 |             |              |
|-------------------------|------------------------------|-------------|--------------|
|                         | Employees                    | Employers   | Total        |
| <b>Health insurance</b> | <b>4.50</b>                  | <b>9.00</b> | <b>13.50</b> |
| <b>Social insurance</b> |                              |             |              |
| Sickness                | 1.10                         | 3.30        | 4.40         |
| Old age pension         | 6.50                         | 21.50       | 28.00        |
| Unemployment            | 0.40                         | 1.20        | 1.60         |

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|              |              |              |              |
|--------------|--------------|--------------|--------------|
| <b>Total</b> | <b>12.50</b> | <b>35.00</b> | <b>47.50</b> |
|--------------|--------------|--------------|--------------|

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The total contribution for employers is 35 per cent of gross earnings.

The contribution consists of the health insurance contribution (9 per cent of gross wages and salaries) and social insurance (26 per cent).

A ceiling on social security contributions of four times the average wage has been introduced. The estimate of the ceiling on social security contributions is CZK 86 239 per month for 2008, i.e.

CZK 1 034 868 per year.

#### **10.4**     *Treatment of particular group*

10.4.1   *Young persons*

10.4.2   *Older workers*

10.4.3   *Others if applicable*

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**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.

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**12. Policy developments**

**12.1 Policy changes introduced during 2008**

Changes in family benefits efficient as of January 1, 2008 were introduced as a part of the first stage of the fiscal reform. The main changes referred to the child allowance where relation between the benefit amount and living minimum was abolished, and to the parental allowance: parents can choose from among getting two, three or four years of allowance. These measures in details are described in the previous parts of the Chapter.

Changes in assistance in material need (minor only) were aimed at enforcement of stimulation function of benefits and précising and tightening up their conditions.

The Government's reform plans, in September 2007 approved by the Parliament, imply restrictions also in the welfare system. The fiscal package proposed following changes to family benefits: child allowance at fixed amount of CZK 500, 610, 700 according to child's age for families with income up to 2.4 times their living minimum; social allowance for families with income up to 2.0 times their living minimum; birth grant at fixed amount of CZK 13000 per child; parental allowance at three rates by duration of drawing set in fixed amount (increased rate of CZK 11400 up to 24 month of child's age, basic rate of CZK 7600 up to 36 month, reduced rate of CZK 3800 from 21 up to 48 month). In system of assistance in material need, stricter conditions for eligibility for benefits are introduced related to long-term unemployed persons not proving sufficient job searching activities. A progressive system of personal income taxation is replaced by a single rate of 15%.

Increase of the tax credits: CZK 7200 (in 2007) to CZK 24 840 (2008); CZK 4200 to CZK 24 840.

The tax base (or partial tax base) shall be income from dependent activity or functional benefits, increased by the social security contribution and compulsory health insurance, which is paid from such income under special rules by employer. Social security contributions paid by employers and employees are an integral part of the tax base, i.e. they are not deductible.

Simplifying and reducing eligibility for child allowances compared with the current state since 1993.

A ceiling on social security contributions of four times the average wage has been introduced. The estimate of the ceiling on social security contributions is CZK 86 239 per month for 2008, i.e. CZK 1 034 868 per year.

## 12.2 *Future policy changes announced in 2008*

As far as **family benefits and benefits of assistance in material need** are concerned, no substantial changes in these systems were announced.

### 2.1

In case of unemployment benefits, there will be a change proposed from 1. 1. 2009: The unemployment benefits shall not be granted if the job seeker terminated repeatedly, without serious reason, a suitable job arranged via the job centre within the last 6 months before registering.

#### 2.2.1

From 1. 1. 2009: 65 % in the first two months and 50 % in the following two months and 45 % in the remaining months of supporting period, of last earned income net of tax and social security contributions; however, the maximum of the benefits can be up to an amount equals 0,58 times of the average wage in national economy within the first three quarters of the calendar year preceding the calendar year in which the application for unemployment benefits was submitted. The maximum rate of retraining allowance shall be set at 0.65 times the average national wage for the first to the third quarter of the calendar year preceding the calendar year in which the job seeker commenced the retraining.

**In the field of social security contribution schedule**, a new contribution rates of sickness insurance will be valid from 1<sup>st</sup> of January 2009:

- Paid by employers will decrease from 3,3 % to 2,3 % due to the fact that the employers will pay half of the benefits to employees for a maximum of two weeks.
- Paid by employees will decrease from 1,1 % to 1,0%.

**In the field of social insurance and state employment policy contribution schedule**, a new contribution rates are valid from 1<sup>st</sup> of January 2009:

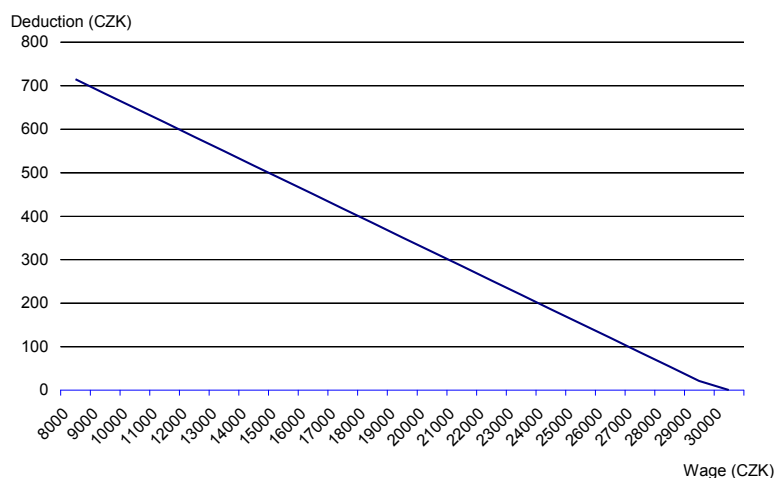
- Paid by employers decreased from 26.0% to 25.0% due to the fact that the employers pay half of the wage compensation to employees for a maximum of two weeks of sick leave.
- Paid by employees decreased from 8.0% to 6.5%.
- Paid by self-employed persons decreased from 29.6% to 29.2%, and in case of self-employed persons enrolled also in sickness insurance (on a voluntary basis) from 34.0% to 30.6%.

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Contributions as of 1<sup>st</sup> January 2009

| Contributions                  | Percentage of gross earnings |              |                    |
|--------------------------------|------------------------------|--------------|--------------------|
|                                | Employees                    | Employers    | Self-employed      |
| <b>Social insurance</b>        |                              |              |                    |
| Sickness                       | -                            | 2.3          | (1.4)              |
| Old age pension                | 6.5                          | 21.5         | 28.0               |
| <b>State employment policy</b> |                              | 1.2          | 1.2                |
| -                              | -                            |              |                    |
| <b>Total</b>                   | <b>6.5</b>                   | <b>25.00</b> | <b>29.2 (30.6)</b> |

One of the measures being discussed in the Parliament in response to the economic crisis is further reduction of social insurance contributions paid by employers. The aim of the measure is to reduce non-wage costs for employers and enable them to keep a maximum of employees, in particular the low-paid, which are usually the most redundant for the employers in times of crisis. The decrease of the social insurance should be degressive, i.e. the amount of the insurance deduction should decrease with increasing wage (see figure below). The social insurance deductions will be probably only temporary.



In addition, measures were adopted in 2009 to ensure sensitive approach of social insurance institutions to contribution payers in cases of contribution debt payment and remission of penalties.

At the end of 2008, the Czech Government adopted the so-called **Pro-Family Package** consisting of a set of measures to increase employment of women-mothers and improve synergies between the family

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policy and the employment policy. The package forms a part of structural reforms of the Government; it had not been prepared specifically to address the crisis (see section 12).

One of the measures aims at supporting part-time employment by reductions of social insurance for employers who employ a disadvantaged person. i.e. person caring for a child (up to 10 years of age) or for a dependant person, person with disability, older person or a student in secondary or tertiary education. The proposed amount of insurance deduction is 1,500 CZK per month for each employed disadvantaged person. The working time should not exceed 80% of the maximum working time. The duration of this measure is planned for 3 years; its effectiveness and financial viability will be reassessed towards the end of the planned duration.

Other measures of the Pro-Family Package contribute indirectly to support of demand for labour. The aim is to create better conditions for employment of women-mothers by development of new childcare services:

- “Mutual parental assistance“ provided by another parent in his/her household (parent caring for his/her own one child can, upon agreement with other parents, take into paid care up to 3 other children below the age of 7 years),
- Childcare provided upon trade license (simplification of hygienic and spatial conditions for those services and definition of qualification requirements for the trade license),
- “Mini-nursery“ as a form of childcare on a non-commercial basis, for a maximum 4 children below the age of 7 years, which can be established by an employer, a non-profit organisation, a municipality or a church, under certain conditions (the costs are paid by the founder, the parents contribute according to an agreement, at the same time tax-deductible expenses are introduced).

General preventive measures necessary to ensure financial sustainability of the **social benefit systems** (family benefits, benefits in material need) have been implemented during last two years of social reforms. These changes consist namely in tightening up the conditions of benefits and strengthening the motivation and activation function of benefits.

From January 2009, a new instrument is introduced in the system of assistance in material need. The public service is, next to short term employment, public works and voluntary service, another type of activity performed outside the mainstream labour market. Its purpose is to maintain and develop working skills and social habits of people who are in material need over a long period of time. Public service is established by municipalities, it lies in activities in favour of the municipality and its citizens.