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## CZECH REPUBLIC 2005

### 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, maintenance allowance, 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.

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**1.1. Average wage (AW)**

In 2005, the average wage (AW) earned CZK 219050.<sup>1</sup>

**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 7 185 Czech crowns since 1st January 2005.

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

Not taxable.

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1. 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 2004-2005, OECD, 2005, part 5, sections 2 and 3.

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**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*

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**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 7 185 Czech crowns since 1st January 2005.

**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.

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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 Act<sup>2</sup>, 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.

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

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### Minimum living standard (MLS)

Since 1<sup>st</sup> January 2005 (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	1 720	Individuals	1 940
From 6 to 10 years	1 920	2 members	2 530
From 10 to 15 years	2 270	3 or 4 members	3 140
From 15 to 26 years	2 490	5 and more	3 520
For other persons	2 360		

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.

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**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 1<sup>st</sup> January 2005

Number of jointly considered persons	Amount of benefits/ family income in previous quarter		
	1.0 MLS	1.2 MLS	1.4 MLS
1	728	485	243
2	949	633	317
	1 178		
3 or 4		785	393
	1 320		
5 and more		880	440

#### 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 income<sup>3</sup> (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), maintenance benefit, 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 1<sup>st</sup> January 2005

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<sup>3</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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Dependent child	Increased rate	Basic rate	Reduced rate
under 6 years	551	482	241
6-10 years	615	538	269
10-15 years	727	636	318
15-26 years	797	698	349

**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 15<sup>th</sup> January until 15<sup>th</sup> February of the calendar year during which the child should begin compulsory school attendance.

### 7.2 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

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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 year 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 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. The fee for calendar month shall be paid by 15<sup>th</sup> 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.

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**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 into a pre-school care facility for maximally 5 calendar days per month (every commenced day is counted even though that were only 1 or 2 hours).

Parental allowance is also provided to parent who has income from gainful activity. But together with a condition that a child must not be placed in a crèche or the kindergarten for more than 5 days in a month the other condition have to be met: care of a child have to be ensured by another adult person during the gainful activity of a parent .

**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 2 360 Czech crowns per month for adult people since 1 January 2005. The parental allowance in 2005 has been 2.360 Czech crowns x 1,54, i. e. 3 634 Czech crowns. In comparison to the minimum wage which has been 7 185 Czech crowns since 1 January 2005, it is just a half.

**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.

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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, 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.

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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 1<sup>st</sup> January 2005

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	645	430	215
6 - 10 years	720	480	240
10 - 15 years	852	568	284
15 - 26 years	934	623	312

### 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

Tax allowances	Amounts (in CZK per year)
Basic	38 040
Marital status	21 720 if married or living in a common household with a partner who earns no more
Social security contributions	All
Partial invalidity pension	7 140
Full invalidity pension	14 280
Handicapped people	50 040
Students	11 400 till 26 years of age

10.1.1.2 Standard tax credits

*Credit for children:* Since 2005, taxpayers are eligible to a tax credit for each child. One spouse may claim a non-wastable tax credit of CZK 6000 per child (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 – 109 200	15	0
109 201 – 218 400	20	16 380
218 401 – 331 200	25	38 220
331 201 +	32	66 420

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**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.<sup>4</sup>

**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

There are maximum assessment bases MSSAB (maximum threshold for contributions to apply) that apply to social security contributions: CZK 543 420, CZK 517 140 (for health) and CZK 271 710 (for sickness).

**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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<sup>4</sup> This is the option in the model since joint taxation will be always more advantageous.

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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.

## 12. Policy developments

### 12.1 Policy changes introduced in the last year (2005)

To increase the flexibility of labour market the changes were aimed at the legislation field of his functioning. It concerns the Amendment to the Labour Code (with effect from 1<sup>st</sup> March 2004) and the new Act on Employment (with effect from 1<sup>st</sup> October 2004). The main changes in particular refer to the creation of conditions for the successful functioning of the private labour agencies established on the profit basis. Such a measure enables to hire the workers. In the Amendment to the Labour Code the option of the repeated fixed-term contracts was reduced with the aim of increasing the protection of workers. The aim of the other measures is especially to tighten the conditions for the providing of unemployment benefits. In these cases the higher cooperation of unemployed persons with the labour offices will be required.

The new Employment Act brings the following changes:

- School leavers will only receive unemployment benefit after working for 1 year;
- Unemployed people being on the dole will be permitted to earn up to fifty per cent of the minimum wage (at present CZK 3,350);
- For job seekers the conditions are made more stringent for being struck off job centre records;
- Employers will be able to draw an allowance for transport and on job training;
- Job centres will be able to order a medical examination of job seekers who refuse a job offer,
- Protection of children is included in conformity with the requirements of Council Directive of 22<sup>nd</sup> June 1994 No 94/33/EC on protection of young people at work;
- Citizens aged 50-55 will be able to receive unemployment benefit for up to 9 months, senior citizens for up to 12 months;
- Until now unemployed people received in the first three months unemployment benefit in the amount of half their salary in their last job and 40% in the next three months. Under the new Act unemployment benefit will be increased from the 4<sup>th</sup> month to 45%.

In July 2005, the Government approved drafts of three pieces of new legislation related to social benefits: Act on Minimum Subsistence Level, Act on Assistance in Material Need and Act on Social Services. A set of these draft act was submitted to the Parliament, date of implementation was stipulated on 1<sup>st</sup> July 2006.

In mid 2005, the National Action Plan on Social Inclusion for 2004-2006 was evaluated.

### 12.2 Policy changes announced

As of 1<sup>st</sup> January 2006, minimum subsistence level will be valorised. In consequence of this valorisation, all benefits using minimum subsistence level as a calculation base has been increased.