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## CZECH REPUBLIC 2003

### 1. Overview of the system

Unemployed persons can receive unemployment benefits for a maximum period of 6 months. The social assistance system is the last system called upon to solve situations of social distress. Minimum living standard (MLS) exists as a last-resort financial assistance. 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). Family benefits are both universal and family income related. Housing contribution exists in a form of contribution towards household costs which constitutes a part of minimum living standard (MLS) and in a form of a housing benefit which is one of the income related family benefits. The tax unit is the individual, partners are taxed separately, deductible items for dependent child and spouse under given income are administered. In 2003, the average worker earned CZK 196133.

### 2. Unemployment insurance

#### 2.1 *Conditions for receipt*

##### 2.1.1 *Employment conditions*

12 months of job in the last 3 years.

##### 2.1.2 *Contribution conditions*

6 months of contribution in the last 3 years.

#### 2.2 *Calculation of benefit amount*

##### 2.2.1 *Calculation of gross benefit*

It is 50 per cent in the first three months and 40 per cent in the following three months, of last earned income net of tax and social security contributions. The maximum benefits are 2.5 times the minimum living standard (see section 4.2.1).

##### 2.2.2 *Income and earnings disregards*

Any income from work cancels all unemployment benefit entitlements.

#### 2.3 *Tax treatment of benefit*

Not taxable

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**2.4**      *Benefit duration*

It is paid after a 7-day waiting period, once a month (for 6 months).

**2.5**      *Treatment of particular groups*

**2.5.1**    *Young persons*

Young people who meet eligibility requirements (see section 2.1.1 – the time spent studying is considered as working time) are entitled to unemployment benefits. The amount of benefit is related to the minimum living standard (see below).

**2.5.2**    *Older workers*

Benefit is paid until the worker reaches the retirement age and after that the worker may start to receive an old age pension.

**3.**        **Unemployment assistance**

**3.1**      *Conditions for receipt and benefit amount*

**3.1.1**    *Acquiring new qualifications (retraining)*

Retraining with the purpose to equip job seekers with new qualifications, and thus improve their chances of finding new employment, may have the form of short-term courses or of relatively long-term schemes where an essential change of qualification is required. Unemployment assistance exists in the form of retraining subsidies. These subsidies are paid directly to education facilities that administer training classes aimed at retraining the unemployed person to quickly return to the workforce. During retraining the amount of unemployment benefit is 60 per cent of previous earnings.

**3.1.2**    *Assistance to disabled persons*

Employers with 25 or more employees have the legal duty to employ an obligatory share of people with disabilities. A Czech Governmental Decree defines this obligatory proportion as 4 per cent of the total number of employees in the case of persons with reduced ability to work. Employers who employ people with disabilities are entitled to income tax relief amounting to CZK 18 000 per year in the case of a person with a reduced ability to work and CZK 60 000 per year in the case of person with a reduced ability to work with severe health affliction, respectively. Labour Offices grant a one-off contribution to employers who create jobs reserved for persons with disabilities in sheltered workshops or other sheltered workplaces. This contribution is available in maximum amount of CZK 100 000 per year per job, plus contribution on operational costs in amount of CZK 40 000 per year per one disabled person as a maximum.

**3.1.3**    *Supporting the creation of new jobs*

Labour Offices use a range of incentives to encourage employers to create socially purposeful jobs and public utility work. In the case of socially purposeful jobs the contribution is granted on the basis of a written agreement, stipulating that for a minimum of the next two years, the new job shall be filled with a job seeker from the Labour Office register. It can be provided in the form of a repayable interest-free loan, bank credit interest subsidy, single-purpose grant to be used for purchasing machines and

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equipment and for the defrayal of other costs incurred in creation such job. It can also be used as a wage subsidy. The maximum amount granted per job is CZK 80 000. Similar conditions apply for grants available to registered job seekers who decide to create new job opportunities by starting their own business. The jobs created through public utility work typically include maintenance of municipal parks and open public spaces, cleaning, construction of municipal infrastructure, or jobs in the area of social care. On the basis of written agreement with municipalities and other employers, Labour Offices may fully subsidise the wages actually paid to the participants, including social and health insurance.

### *3.1.4 Supporting the employment of school leavers and young people*

Financial support granted by Labour Offices to employers makes it easier for the young job seekers to find their first employment and acquire practical skills. Labour Offices conclude written agreement with employers in which the latter pledge to employ school leavers and provide them with work experience, while the Labour Office pledges to contribute towards the costs involved therein. In the case of young people who completed compulsory school attendance at a lower than the final grade, and failed to complete secondary school or vocational training, Labour Offices arrange their induction training to equip them with basic skills needed to execute of specific simpler jobs. For this purpose, too, Labour Offices conclude written agreement with employers. In the case of school leavers and young people under 18 years it is possible to provide the work experience either by retraining or by creating socially purposeful jobs (see above).

## **4. Social assistance**

The social assistance's objective is to prevent social exclusion and deprivation due to poverty. 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 benefits, support provided by persons who are required to provide livelihood or pay alimony, etc.), are secured by social assistance. The main criterion on which social assistance benefits and allowances are based is the existence of social need.

Distinction can be made between lump sum and regularly provided benefits. Lump sum benefits are designed to cover the citizen's needs in emergency and similar situations. Recurrent payments are provided to supplement an insufficient income or to cover increased living costs caused by disabilities or illness and, by their nature, are not time limited and are provided as long as the contingency and the need to supplement income exists.

### *4.1 Conditions for receipt*

The grants and allowances 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. Effort to obtain additional income through working is not required from old age and invalidity pensioners, persons over 65, parents caring for children meeting other prescribed conditions, and in similar cases.

4.2 *Calculation of benefit amount*

4.2.1 *Calculation of gross benefit*

It is necessary to distinguish between the benefits to supplement income to reach the minimum living standard (MLS) and benefits designed to remedy individual problems and impact of various health handicaps. The minimum living standard (MLS) can be exceeded in specific circumstances where the need of increased expenditure can be clearly demonstrated, for example special diet, housing costs of severely disabled persons, etc. When awarding special benefits for people with disabilities (for example subsidy for purchase of a car) the means test is done and the person's property is assessed.

**Minimum living standard (MLS)**

Since 1<sup>st</sup> October 2001 (in CZK)

Amounts needed to insure sustenance and other basic personal needs		Amounts needed to assure household	
For dependent children		Individuals	1 780
To the age of 6 years	1 690	2 members	2 320
From 6 to 10 years	1 890	3 or 4 members	2 880
From 10 to 15 years	2 230	5 and more	3 230
From 15 to 26 years	2 450		
For other persons	2 320		

The individual amount is tallied per individual; the household's amount is increased on a sliding scale (see above).

4.2.2 *Income and earnings disregards*

See above-mentioned conditions for receipt.

4.3 *Tax treatment of benefit*

Not taxable.

4.4 *Benefit duration*

As long as the conditions are fulfilled.

4.5 *Treatment of particular groups*

Those who cannot qualify for work due to old age, illness, parenting responsibilities, school enrolment, maternity; unemployed; to families with children, lone parents, old and disabled persons, unprivileged and socially excluded persons, persons endangered with social pathology, persons caring for family members who need permanent personal care, and persons who find themselves in serious difficulties due to emergency events, etc.

## 5. Housing benefits

### 5.1 Conditions for receipt and benefit amount

The benefit is designed to assist low-income families and individuals in covering expenditure connected with housing. The benefit is differentiated in accordance with the income situation of the family and the number of persons in the household. Entitlement to housing benefits belongs to the owner or tenant of a flat, who is registered as a permanent resident, if the family income does not exceed the amount of the family minimum living standard multiplied by a coefficient of 1.60. Housing benefits are provided irrespective of the type of housing, *i.e.* whether it is a community or co-operative flat, privately owned flat or privately owned house. Also irrelevant is the actual cost of housing.

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.

$$\text{Housing benefit} = \text{Family's household amount} - \frac{\text{Family's household amount} \times \text{relevant family income}}{\text{Minimum living standard of the family} \times 1.60}$$

#### 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)

Number of jointly considered persons	Amount of benefits/ family income in previous quarter		
	1.0 MLS	1.1 MLS	1.2 MLS
1	668	556	445
2	870	725	580
3 or 4	1 080	900	720
5 and more	1 212	1 009	808

### 5.2 Tax treatment of benefit

Not taxable.

## 6. Family benefits

Family benefits (State social support system) consist of:

- i) The benefits related to family income<sup>1</sup> (child allowance, social allowance, housing benefit, transportation benefit).

<sup>1</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

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- ii) The benefits provided irrespective of income (parental allowance, 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 (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)**

Dependent child	Increased rate	Basic rate	Reduced rate
under 6 years	541	474	237
6-10 years	605	530	265
10-15 years	714	625	313
15-26 years	784	686	343

#### 6.2.2 *Income and earnings disregards*

See above.

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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**

Not taxable.

**6.4 Treatment of particular groups**

None.

**7. Child-care benefits**

The *parental allowance* is designed to assist parents who personally provide full-time regular care for a small child, have no gainful income of their own, or their capacity to earn such income is greatly reduced.

**7.1 Conditions for receipt**

A parent is entitled to parental allowance when they personally provide 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 the case of child suffering from a long-term incapacity or severe long-term incapacity.

Parental allowance is also provided to parent who has a low income from gainful activity. The limit placed on such income is that the parent's net income from gainful activity does not exceed 1.5 times the MLS amount for personal needs of the parent concerned. Also other conditions have to be met (except certain situations concerning disabled children, a child must not be placed in a crèche or the kindergarten for more than 5 days in a month, etc.).

**7.2 Calculation of benefit amount**

**7.2.1 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 1.10.

**7.2.2 Income and earnings disregards**

See above.

**7.3 Tax treatment of benefit**

Not taxable.

**7.4 Treatment of particular groups**

None.

**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.

The *social allowance* is designed to assist low-income families in covering expenditure needed to meet their children's needs. For entitlement to social allowance two conditions must be met: taking care of at least one dependent child; and family income not exceeding 1.60 times the family minimum living standard amount during the previous calendar quarter. There is a marked differentiation in the amount of social allowance. The allowance is gradually reduced with increasing family income. Specific family situations have a bearing on the amount of social allowance and can, at the same time, extend the numbers of beneficiaries. This applies to care for a disabled child, where parents are disabled or where single parents are concerned.

The amount of social benefit 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.

$$\text{Social benefit} = \text{MLS for child} - \frac{(\text{MLS for child} \times \text{relevant family income})}{(\text{MLS of the family} \times 1.60)}$$

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

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	634	423	212
6 - 10 years	709	472	237
10 - 15 years	836	557	279
15 - 26 years	919	613	307

As regards disabled children or single parents or disabled parents, a supplement is provided by increasing the MLS amount for the child or for the parent which are used in the calculation of benefit. When determining the amount, the relevant MLS amount for personal needs of the dependent child is multiplied by a certain coefficient (e.g.: 2,7 – child has a long term serious health handicap; 1.40 – a single parent has a severe long-term incapacity, 1.05 – the claimant is a single parent).

### 9.1 Tax treatment of benefit

Not taxable.

**10. Tax system**

**10.1 Income tax rate schedule**

**10.1.1 Tax allowances and credits**

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 than 38 040
Dependent child	25 560 per child under 18 (or under 26 if in full-time education or disabled)
Social security contributions	All
Partial invalidity pension recipient	7 140
Full invalidity pension recipient	14 280
Handicapped people	50 040
Students	11 400 till 26 years of age

**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

**10.2 Treatment of family income**

The tax unit is the individual.

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**10.3 Social security contribution schedule**

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

**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 (2003)**

In the year 2003 the final work carried on the measures concerning the structural problems, within the public finance reform several measures were adopted. The age of retirement has been gradually extended and the options for early retirement were limited (Act No. 425/2003 Coll., amending Act No. 155/1965 Coll., on pension insurance, Act No. 589/1992 Coll., on social security and state employment policy premiums, Act No. 582/1991 Coll. on organization and provision of social security). These measures should influence the growth of employment rate of older workers. The same objective has been followed by the measure which enable the working pensioners to add to their pensions on the unrestricted basis either in the employment or in business. Apart from the mentioned positive impact on the employment rate of older workers the income part of pension system will increase, but it is not possible to exclude the definite negative impacts on the growth of unemployment and of social transfers. Date of implementation of these measures is stipulated on 1st January 2004.

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.

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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%.

The Government also approved the Act amending Act No. 117/1995 Coll., on state social support with the date of implementation since 1<sup>st</sup> January 2004. The main changes refer to parental allowance - on 1<sup>st</sup> January 2004 the earnings limit was abolished, allowing an unlimited gainful activity and preserving entitlement to benefit (until 31<sup>st</sup> December 2003 the condition for entitlement to parental allowance was the income from a gainful activity up to 1.5 times the subsistence level for parents' personal necessities, e.g. up to CZK 3,480, or CZK 3,675 if a parent was a person up to the age of 26 without means) and on 1<sup>st</sup> May 2004 the parental allowance went up from CZK 2,552 (1.1 times the subsistence level for personal necessities) to CZK 3,753 (1.54 multiple), this increase was adopted as part of compensations meant to alleviate the impact of the changes made under the Value Added Tax Act. After 1<sup>st</sup> April 2004 labour offices are the competent institutions for the state social support (family benefits) - previously, municipalities had been the competent institutions.

The Government approved Act (reference No. of legislation 421/2003, amending Act No. 54/1956 Coll., on sickness insurance of employees, as amended, Act No. 88/1968 Coll., on prolongation of maternity leave, maternity benefits and child allowances, as amended, Act No. 32/1957 Coll., on sickness care in the armed forces, as amended. Changes adopted (with the date of implementation on 1<sup>st</sup> January 2004):

- The decisive period for calculating the daily assessment base is 12 calendar months before the calendar month in which entitlement arises to sickness benefit. Until now the decisive period was the calendar quarter preceded by the calendar quarter in which benefit entitlement arose.
- For the first 14 calendar days of the sick leave, quarantine or the need to take care of a member of the family, only 90% of the daily assessment base is counted in up to CZK 480 (first reduction limit). The reduction limits of CZK 480 and 690 will not be changed until 31 December 2005.
- Reduction in sickness benefit for the first 3 calendar days of the sick leave from 50% to 25% and in quarantine from 69% to 25% of the daily assessment base.

The Government further approved the National Action Plan on Employment for the year 2003 (the Resolution of the Government No. 545 on 5<sup>th</sup> June, 2003) and the Joint Memorandum on Social Inclusion (the Resolution of the Government No. 1241 on 10<sup>th</sup> December 2003).

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**12.2**     *Policy changes announced*

As the main change announced in the year 2003 is the preparation of the draft of the new Labour Code (with the expected effect at the latest from 30<sup>th</sup> June 2006),

Note: The main policy changes has been announced during the year 2004 and also the important documents were approved by the Government (the National Action Plan on Employment, the National Action Plan on Social Inclusion, both for the years 2004 – 2006).